Lowland Investment Company plc

MANAGED BY
Henderson
GLOBAL INVESTORS

Annual Report 2016

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.

Investment Policy

The Company's policy is to invest in a broad spread of predominantly UK companies of differing sizes with normally not more than half by value coming from the largest 100 UK companies and the balance from small and medium sized companies.

Strategic Report: Key Data

Net Asset Value Total Return[1]
12.2%

Benchmark Total Return
16.8%

Growth in Dividend
9.8%

Dividend for the year
45.0p

	Year ended 30 September 2016	Year ended 30 September 2015
NAV per share at year end	**1,432p**	1,318p
Share Price at year end	**1,337p**	1,287p
Market Capitalisation	**£361m**	£346m
Dividend per share	**45.0p**	41.0p
Ongoing Charge Including Performance Fee	**0.63%**	0.85%
Ongoing Charge Excluding Performance Fee	**0.63%**	0.60%
Dividend Yield[2]	**3.4%**	3.2%
Gearing at year end	**6.2%**	16.8%
Discount at year end[3]	**(6.6)%**	(2.4)%

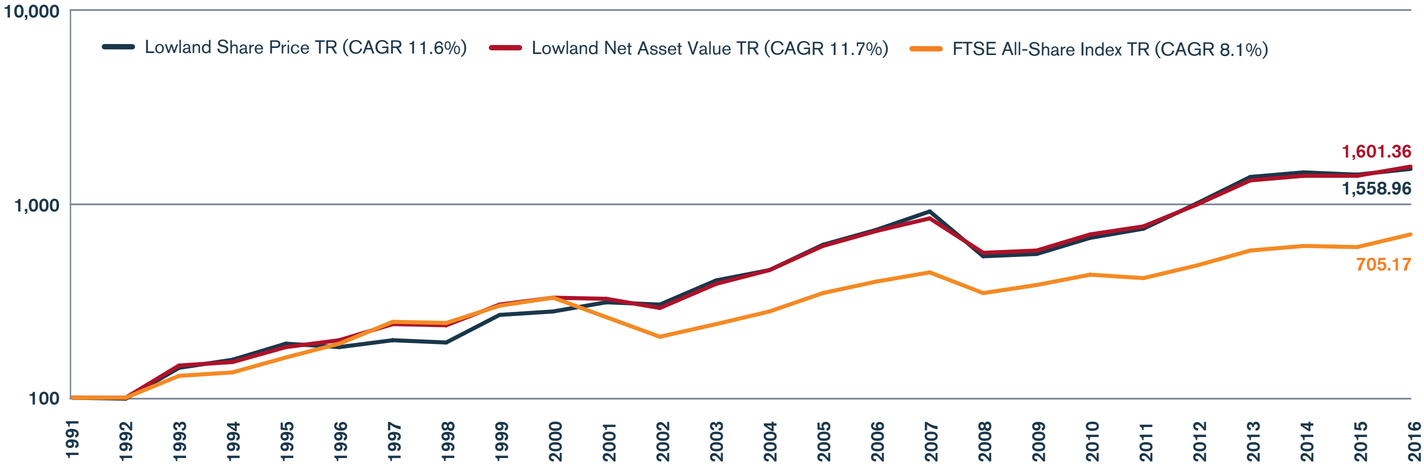
1 Net asset value per share total return (including dividends reinvested)
2 Based on dividends paid in respect of the previous twelve months
3 Calculated using year end audited NAVs including current year revenue

Sources: Morningstar for the AIC, Henderson, Datastream

A glossary of terms is included on pages 24 and 25

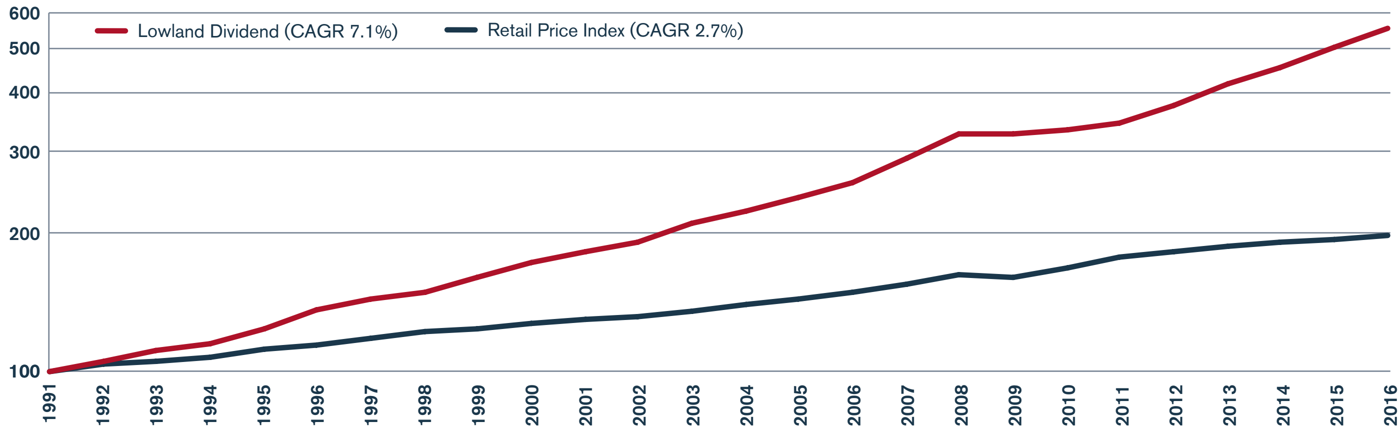
Strategic Report: Historical Performance

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 1991 = 100)
CAGR – Compound Annual Growth Rate
In 1992 the Lowland Share Price and FTSE All-Share Index on a rebased to 100 basis dropped to 98.98 and 99.96 respectively
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 1991 = 100)
Source: Henderson

Historical Record

Year ended 30 September	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
2006	150.3	20.8	222,217	915.7
2007	138.7	27.9	275,868	1,044.3
2008	(344.4)	33.0	178,411	675.4
2009	8.4	22.7	173,633	657.3
2010	139.5	22.5	203,484	770.3
2011	68.3	28.8	214,251	811.0
2012	229.9	31.1	266,401	1,008.4
2013	330.1	36.7	347,202	1,306.9
2014	73.3	39.4	361,856	1,345.6
2015	11.8	46.4	354,563	1,318.4
2016	**156.4**	**47.7**	**386,910**	**1,432.0**

Strategic Report: Chairman's Statement

Performance

The net asset value ('NAV') total return for the year was +12.2%, while the FTSE All-Share Index delivered a total return of +16.8%. It was a year of handsome absolute returns, but our performance was clearly disappointing relative to the index. The main cause of this underperformance is Lowland's exposure to medium and smaller companies in the index. They underperformed large companies as they benefited less from Sterling depreciation.

Total return for the financial year	%
FTSE 100	18.4
FTSE 250	10.2
Numis Smaller Companies	8.6

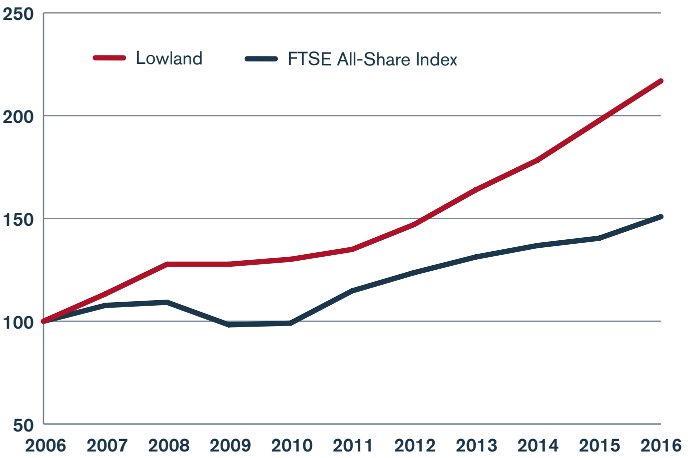
Whilst 2016 was not the best year for medium and smaller companies, it is our exposure to these that has been an important driver of the Company's longer-term outperformance of the benchmark.

Total return to September 2016	5 years %	10 years %	25 years %
NAV	105.6	115.8	1367.9
Share Price	104.9	109.5	1319.9
FTSE All-Share Index	68.9	75.6	605.2

Dividends

The revenue earnings per share for the year are 47.7p, against 46.4p last year. This understates the underlying growth in dividends from the portfolio, because last year we received a materially higher level of special dividends. If we ignore these special dividends, the earnings grew 4.6% which compares favourably with dividend growth from the benchmark of 3.6% over the period. This has allowed us to pay an increased dividend to shareholders. Subject to shareholders approving the final dividend, the total dividend for the year will be 45p, an increase of 9.8% over last year's 41p. We will also be transferring £735,000 to the revenue reserve. Over the past five years dividends have grown at a compound rate of 10%. Over the last ten years, Lowland's dividend growth has substantially outperformed the FTSE All-Share Index dividend growth.

Dividend Growth (rebased to 100)



Source: Henderson and HSBC

Review

We had thought interest rates might rise at the start of the year. In fact they fell from 0.5% to 0.25% in the aftermath of the UK's referendum on the European Union ('EU') in June. The Manager believed that the outcome of the referendum would usher in a period of uncertainty while Britain's new relationship with the EU is established, so we reduced the gearing from 16% to 6%. This was a decision to reduce portfolio risk, to protect shareholders' capital and to have more firepower ready to invest when new opportunities arise.

As it happens, we acted too soon. The market has performed well in the immediate aftermath of the Brexit vote. The economy has beaten expectations. But the prospect of leaving the EU has focused attention on the UK's large current account deficit. The pound's depreciation will assist the necessary correction, but this will inevitably require a period of lower growth in domestic consumption. The valuation of companies totally exposed to the UK has fallen, despite the overall rally in the market. Once the level of disruption to the economy can be gauged, there may be recovery situations in the UK which will be worth investing in.

Gearing

As a Board we have in the past refrained from fixing our borrowings with long-term debt, though it has been a recurring subject of Board discussions during recent years. We have been right to prefer the flexibility of short-term bank borrowing: this has been to the advantage of shareholders while rates have stayed low. However, rates on long-term debt have now fallen to attractive levels; and the combined prospect of higher inflation in the UK and a shift towards fiscal expansion in the US suggests that rates are now turning. We have therefore issued a 20 year long loan note with a coupon of 3.15% for £30m.

Share Issuance

We will issue shares if it helps produce an orderly market in the stock and it enhances the NAV. During the year 126,138 shares were issued at a premium of 3.9%. There were no share buybacks.

Ongoing Charge

The ongoing charge to the Company for the year ended 30 September 2016 as calculated in accordance with the Association of Investment Companies (the 'AIC') methodology is 0.63% (2015: 0.60% excluding the performance fee and 0.85% including the performance fee). There was no performance fee payable this year.

The Board

I am very pleased that Gaynor Coley has agreed to join the Board. She is a qualified Chartered Accountant and chairs the Institute of Chartered Accountants in England and Wales Corporate Responsibility Advisory Group. Gaynor was most recently the Director of Public Programmes for The Royal Botanic Gardens at Kew. Following a successful career in industry both as an internal auditor at Bank of Nova Scotia and also as Finance Director at Horizon Farms and Plymouth University, Gaynor joined The Eden Project in its early days in 1997, taking it to the UK Visitor Attraction of the Year for three successive years. She therefore brings broad, relevant and unusual experience to the Board. She will succeed Robbie Robertson as Chairman of the Audit Committee following the AGM in 2017.

Strategic Report: Chairman's Statement (continued)

As announced with the half-year results, I will be standing down at the Annual General Meeting having served on the Board for 26 years. During this period the dividend has grown from 7.75p in 1990 to 45p this year, an increase of 5.8 times; while the NAV per share has risen from 165p to 1,432p an increase of 8.7 times. I have every confidence that my successor, Robbie Robertson, who has chaired the Audit Committee admirably, will enjoy the same stimulating and supportive relationship with the Manager, which it has been my privilege to have had all these years.

Portfolio Management

James Henderson has been the manager since 1990. He has for the last three years been working with Laura Foll on the portfolio. The Board is delighted that with effect from 1 November 2016 Laura has been formally appointed as Joint Fund Manager. James and Laura will continue to share investment decisions. The investment approach will not be changed but it will be refreshed by Laura's added responsibility for the performance.

Annual General Meeting ('AGM')

The AGM of the Company will be held at the offices of Henderson on Tuesday 24 January 2017 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.

Outlook

Next year, inflation may rise as the lower level of Sterling pushes up the cost of imported goods. If higher inflation becomes established and fiscal policy is loosened, then short-term interest rates will need to rise. After thirty years of falling interest rates, and nearly ten years of 'emergency' rates, stock markets may react badly to a higher rate environment. We certainly expect a period of volatility for all stock markets, exacerbated in the UK by the inevitable drip of Brexit negotiation stories.

The Fund Managers will continue to judge each investment prospect on its own specific merits rather than taking a macroeconomic view. The successful companies will be those that have unique strengths in the quality of their products or the excellence of the service they give. Companies with a competitive advantage will ultimately prosper regardless of the economic backdrop. These will be the companies that are able to grow their dividends in coming years and perform during a period of marked economic uncertainty. They are the core holdings of the Company's portfolio and are listed on pages 14 to 16.

Peter Troughton CBE
Chairman
13 December 2016

Strategic Report: Fund Managers' Report

Investment Background

The Central Banks in the major economies, have created a real dilemma for investors. Their policy has driven down the return on 'risk free assets'. For the policy to work capital needs to flow to riskier assets attracted by their relative return and therefore stimulate activity. However, to use the long gilt yield as a valuation metric would be using an artificially manipulated gauge. The yield on long-dated government bonds probably does not give any insight into the likely levels of future inflation. Therefore companies should not reduce the return hurdles they apply before making long-term investments in the real economy. Too often this year promoters of deals have claimed that an acquisition is good because it will boost a company's earnings as the cost of money is so low. This is dangerous ground. An acquisition by a company needs to make operational sense and the financial disciplines around what is a desirable deal, such as the required return on capital, should not be altered. The longer interest rates stay at very low levels the more investment discipline will become lax. Valuations on UK equities, as reflected in the chart below, moved into more expensive territory during the year. We have reduced gearing as a result of this increased risk.

Performance Attribution

The largest positive contributor to performance this year was **Hill & Smith**, a galvaniser and manufacturer of crash barriers. It has been a long-held position for the Company, initially purchased for £1.01 per share in 2004. In recent years it has been an excellent performer, benefiting from a good management team. They have successfully expanded their presence in the US and maintained a strong balance sheet. In particular they have been a beneficiary of the 'Road Investment Strategy' in the UK which spans to the early 2020s, increasing demand for their crash barriers and road signs. For the overall balance of the portfolio we have sold part of the holding with the intention of reinvesting in good value growing smaller companies.

Hill & Smith Share Price

At the sector level the Company benefited during the year from its relatively low weighting in the banking sector. We continue to be sceptical of the ability of domestic retail banks such as **Lloyds** to grow earnings. Due to their high cost base and desire to protect margins they are steadily losing market share to challenger banks in key areas such as mortgages. Over time this downward pressure on earnings will constrain their ability to pay high dividends and therefore we currently hold no position. Within financials our preference continues to be for insurers (such as **Hiscox**) which generate strong returns across the underwriting cycle and provide diversification for our high weight in the industrials sector.

The largest individual detractor from performance was industrial chain manufacturer **Renold**, which has seen earnings come under pressure as a result of difficult end-markets in agriculture and energy. What we find encouraging (and why we have added to the shares on weakness) is that management have made real progress in taking costs out of the business. This meant that despite the tough environment margins grew year on year. We remain confident that in a more buoyant sales environment they can achieve their target of mid-teens margins which would leave the shares looking attractive at this level.

Renold Share Price

Strategic Report: Fund Managers' Report (continued)

We sold **British American Tobacco** too early. Our investment process is valuation driven and we were concerned by the high valuation.

Investment Activity

A substantial part of the investment process has historically been recovery investing, where we feel the market has become overly negative on a particular company or sector. In the Annual Report last year we wrote about commodity companies. This year our recovery plan included **Standard Chartered** and **Rolls-Royce**. Both were existing positions that we added to following the appointment of new management teams that are rigorously addressing legacy problems. In the case of Standard Chartered, Bill Winters, the Chief Executive Officer, addressed questions over their balance sheet via a rights issue and a dividend cut, and is now focused on returning the business to revenue growth across emerging markets. After recent meetings with management, we are confident they can return the business to a strong growth path that will also lead to substantial dividend payments. In the case of Rolls-Royce it has been profitability rather than sales that have been problematic. The technology and skills in the company already make it one of the world leaders in large aerospace engines, but it has historically been overly complex. The new Chief Executive Officer, Warren East, has instilled a focus on cost and transparency.

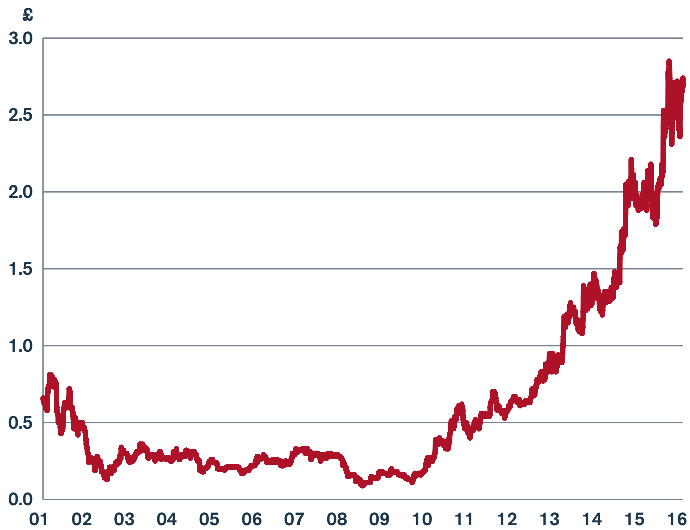
In the smaller companies area we have added a new position, **Numis**, a corporate broker and equity research firm. **Numis**' focus on the UK, specifically small and medium sized companies means it is winning share off larger competitors for both corporate brokerships as well as fund raisings such as IPOs. This leaves it well placed to deliver substantial earnings growth while already paying an attractive dividend yield to shareholders.

For a number of years we have been selectively investing in early-stage companies. These remain a small portion of the overall Company (4% net assets), but provide an attractive level of diversification and have so far added value. A new addition this year was **Atlantis Resources**. Atlantis is aiming to commercialise tidal power, with its first project in offshore Scotland. Tidal power has advantages versus existing renewable energy because it is both predictable and, as the turbines are below the water, not unsightly. Given its early stage of commercial development it is also currently subject to favourable environmental subsidies.

The largest sales during the year were the holdings in miners **Anglo American** and **Glencore.** We aim to be mildly contrarian in style and we had added to these positions when they were trading at substantial discounts to book value in late 2015. While we have a long time horizon in these cases, the share prices moved further and faster than we anticipated and we felt that market expectations were beginning to look stretched. The investment style means that we have a tendency to buy shares early on share price falls and sell shares early when sentiment towards stocks changes. In hindsight we sold our positions in miners too early, and we will continue to review our position. For the time being we feel market expectations are not reflecting the risks that remain.

Additional sales during the year were primarily where we saw companies approaching fair value. Examples of this include tape manufacturer **Scapa**, semiconductor manufacturer **Infineon** and packaging producer **DS Smith.** In many cases we have held these positions for a number of years and have seen them transition from low rated recovery positions towards growth companies. Scapa, for example, was originally purchased in 2001 for 66p per share. At the time it was an industrial tape manufacturer that had legacy asbestos and pension issues. It is now a well-managed health care tape company making excellent margins. We are reducing the holding at around £3 per share. Scapa illustrates well the importance in smaller and medium sized company investing, of both being patient and investing, behind excellent management teams.

Scapa Share Price



Strategic Report: Fund Managers' Report (continued)

The Board

Peter Troughton is retiring from the Board after 26 years. We know it is considered best practice for directors to serve shorter terms. Peter's contribution, however, demonstrates that there is benefit in continuity. That Peter had already served during two periods of real market weakness was of great benefit to the Manager in helping position the portfolio for the recovery after the 2008 crash. We are grateful to him.

Portfolio Management

From 1 November 2016 we have been managing the portfolio as joint managers. We do not intend the investment approach to alter but it will allow us to follow more deeply UK companies. We both know what we are looking for in the individual companies and are mindful of the blend of the overall portfolio.

Outlook

Next year it is likely inflation will rise and output growth will slow. There may be long-term benefits from Brexit for the UK economy. For companies the near term brings planning uncertainty and higher costs of imported goods at a time of slowing economic growth. Either company margins will come under pressure or inflation will rise faster than expected. The benefits to exporters of currency depreciation are not as large as in the past. The companies held in the portfolio are further up the value chain than they were twenty years ago. They sell on service and product superiority rather than just price. This allows them to achieve higher margins but it also means that the depreciation of Sterling is less important. Inflation will become a medium-term problem if wages rise to compensate for inflation and the reduced purchasing power of Sterling outside the UK.

We will be on the lookout for companies whose valuation does not reflect their ability to grow. Some of these will be recovery situations where a business has faced up to its problems and reinvented itself by focusing on its core strengths. Others will be younger companies that are expanding into larger markets for the first time. The success or failure of these companies will not be determined by the economic background but rather by the quality of their product and by the managements' ability to capitalise on it. There will be disappointments but the diversity of the portfolio does offer some protection. We are not investing on the basis of an investment theme, but rather in individual businesses that have some unique strengths. These businesses can be found in many different areas. The successful portfolio blends different end market exposures with choosing the successful operators in these areas. This can be done by paying attention to what the companies are saying and reporting.

James Henderson and Laura Foll
Fund Managers

13 December 2016

USD to GBP

Strategic Report: Fund Managers' Report (continued)

Twenty Largest Holdings at 30 September 2016

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

Rank 2016 (2015)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2015 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2016 £'000
1 (3)	**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 position them well for the future.	4.9	£170bn	10,546	5,359	–	4,232	**20,137**
2 (6)	**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.	3.0	£120bn	9,351	1,301	–	1,819	**12,471**
3 (2)	**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	£3bn	11,694	–	(504)	1,224	**12,414**
4 (1)	**Senior** The company manufactures specialist engineering products for the automotive and aerospace sectors. The share price has recently been weak but the civil aerospace business is set to return to high single digit growth for the foreseeable future with good margins.	2.8	£800m	12,560	–	–	(1,105)	**11,455**
5 (5)	**Phoenix** The company is a UK based specialist closed life and pension fund consolidator. The dividend and asset value are growing and the equity yields over 6%.	2.6	£2bn	9,523	285	–	729	**10,537**
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.	2.4	£20bn	3,526	5,623	–	771	**9,920**
7 (8)	**Scapa**[1] The company manufactures and supplies technical tape and adhesive film to various markets worldwide including the medical, automotive, construction and sports industries. It has been a very successful small company investment growing its sales and margins over many years.	2.2	£400m	8,690	–	(2,863)	3,193	**9,020**
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.	2.1	£35bn	3,484	5,690	–	(292)	**8,882**

Strategic Report: Fund Managers' Report (continued)

Rank 2016 (2015)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2015 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2016 £'000
9 (13)	**GKN** The manufacturer produces automotive components and aerospace parts. The operating margins have improved during a testing period for end markets and further progress is expected.	2.0	£5bn	6,807	–	–	1,329	**8,136**
10 (14)	**Rio Tinto** The miner has interests in aluminium, coal, copper, gold, iron ore, uranium, zinc and diamonds. It operates good quality assets from a relatively low cost base which puts it in a strong position.	1.9	£52bn	6,630	–	–	1,093	**7,723**
11 (7)	**Hill & Smith** The manufacturer produces products for the infrastructure, galvanizing, building and construction industries. The products include traffic barriers, fencing, lighting columns, storage tanks and variable message signs. It has been a successful small company investment over many years.	1.9	£800m	8,974	–	(4,645)	3,342	**7,671**
12 (10)	**Irish Continental**[2] 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.	1.8	£600m	7,237	38	(1,031)	1,282	**7,526**
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.	1.7	£400m	2,136	4,977	–	(74)	**7,039**
14 (20)	**Croda** The company produces a diverse range of products to go into personal care, pharmaceuticals, plastics, nutrition, fire prevention and engineering. The value added nature of their work means strong margins are achieved.	1.6	£4bn	5,418	–	–	1,310	**6,728**
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	£30bn	5,094	–	–	1,489	**6,583**
16 (16)	**Johnson Service**[1] 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	£400m	5,998	540	(1,314)	1,309	**6,533**

Strategic Report: Fund Managers' Report (continued)

Rank 2016 (2015)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2015 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2016 £'000
17 (9)	**BP** A producer and refiner of oil. Following the fall in the oil price they have successfully focused on cost reduction in order to bring down their breakeven cost per barrel of oil produced.	1.6	£86bn	7,348	–	(2,727)	1,904	**6,525**
18 *	**GlaxoSmithKline** Among the world's largest healthcare companies that operates across pharmaceuticals, vaccines and consumer health. Following several years of earnings pressure from drugs going off patent they have now returned to earnings growth driven by success in areas such as HIV.	1.5	£74bn	4,748	–	–	1,413	**6,161**
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.	1.5	£12bn	4,908	751	–	281	**5,940**
20 *	**Novae** The company is a Lloyd's underwriter, writing insurance in areas such as aviation and property. In recent years they have hired specialist underwriters across a range of areas and have successfully grown their premiums while remaining disciplined.	1.4	£500m	5,382	1,221	–	(692)	**5,911**
				140,054	**25,785**	**(13,084)**	**24,557**	**177,312**

At 30 September 2016 these investments totalled £177,312,000 or 43.1% of the portfolio.

* Not in the top 20 largest investments last year
1 AIM stocks
2 Overseas listed stocks (Canada, France, Germany, Ireland and USA)

Historical Record

Year to 30 September	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross revenue (£'000)	8,514	9,726	12,326	8,135	8,410	9,888	10,774	12,457	13,668	15,647	**16,052**
Per ordinary share (pence):											
Net revenue	20.8	27.9	33.0	22.7	22.5	28.8	31.1	36.7	39.4	46.4	**47.7**
Dividend paid (net)[1]	20.8	23.5	26.5	26.5	27.0	28.0	30.5	34.0	37.0	41.0	**45.0**
Net assets attributable to ordinary shares (£'m)	222.2	275.9	178.4	173.6	203.5	214.3	266.4	347.2	361.9	354.6	**386.9**
Net asset value per ordinary share (pence)	915.7	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**
Share price (pence)	895.5	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 Represents the total amount paid in respect of each financial year

Indices 2006 =100	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Asset Value (capital return)	100.0	114.1	73.0	71.0	83.4	87.9	110.8	143.7	147.9	144.8	**155.8**
Ordinary Share Price (capital return)	100.0	121.8	69.8	68.1	78.1	85.2	110.7	148.0	151.3	143.7	**149.3**
Net Dividend	100.0	106.9	115.3	130.6	147.2	147.2	150.0	155.6	169.4	188.9	**216.3**
FTSE All-Share Index (capital return)	100.0	108.7	81.4	86.4	94.0	87.0	98.3	112.9	115.9	109.4	**123.1**
Retail Price Index	100.0	104.0	109.0	107.5	112.2	117.8	120.4	123.6	125.8	126.6	**128.7**

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

Strategic Report: Portfolio Analysis

Sector		United Kingdom %	Overseas %	Total 30 September 2016 %	FTSE All-Share Index 2016 %	Total 30 September 2015 %
Oil & Gas	Oil & Gas Producers	7.2	0.7	7.9	11.2	5.3
	Oil Equipment Services & Distribution	0.9	–	0.9	0.4	0.5
	Alternative Energy	0.5	–	0.5	–	–
		8.6	**0.7**	**9.3**	**11.6**	**5.8**
Basic Materials	Chemicals	6.9	–	6.9	0.7	7.3
	Forestry & Paper	1.0	–	1.0	0.3	2.2
	Industrial Metals & Mining	–	–	–	–	0.1
	Mining	2.7	–	2.7	5.1	4.0
		10.6	**–**	**10.6**	**6.1**	**13.6**
Industrials	Aerospace & Defence	6.7	–	6.7	1.8	6.6
	Construction & Materials	5.0	1.2	6.2	1.3	5.4
	Electronic & Electrical Equipment	1.3	–	1.3	0.4	1.2
	General Industrials	1.4	–	1.4	0.8	3.2
	Industrial Engineering	5.7	0.6	6.3	0.7	7.0
	Industrial Transportation	1.7	–	1.7	0.4	1.5
	Support Services	3.4	–	3.4	5.2	3.5
		25.2	**1.8**	**27.0**	**10.6**	**28.4**
Consumer Goods	Automobiles & Parts	2.0	–	2.0	0.2	1.6
	Beverages	–	–	–	4.7	–
	Food Producers	0.3	0.9	1.2	0.8	1.4
	Household Goods & Home Construction	2.6	–	2.6	3.3	1.6
	Leisure Goods	0.1	–	0.1	–	0.2
	Personal Goods	0.3	–	0.3	2.4	0.2
	Tobacco	–	–	–	5.9	0.5
		5.3	**0.9**	**6.2**	**17.3**	**5.5**
Health Care	Health Care Equipment & Services	1.0	–	1.0	0.9	1.1
	Pharmaceuticals & Biotechnology	3.4	–	3.4	9.0	2.8
		4.4	**–**	**4.4**	**9.9**	**3.9**
Consumer Services	Food & Drug Retailers	1.8	–	1.8	1.3	2.3
	General Retailers	1.8	–	1.8	2.0	2.0
	Media	3.6	–	3.6	3.8	3.1
	Travel & Leisure	1.7	1.8	3.5	4.4	2.9
		8.9	**1.8**	**10.7**	**11.5**	**10.3**
Telecommunications	Fixed Line Telecommunications	0.4	–	0.4	1.6	0.5
	Mobile Telecommunications	1.8	–	1.8	2.8	1.8
		2.2	**–**	**2.2**	**4.4**	**2.3**
Utilities	Electricity	–	–	–	0.8	–
	Gas, Water & Multiutilities	1.8	–	1.8	3.2	2.4
		1.8	**–**	**1.8**	**4.0**	**2.4**
Financials	Banks	6.3	–	6.3	9.4	3.6
	Equity Investment Instruments	0.9	–	0.9	4.0	0.9
	Financial Services	5.5	–	5.5	2.6	6.7
	Life Insurance	7.1	–	7.1	4.1	6.8
	Non-life Insurance	5.3	0.7	6.0	1.1	6.0
	Real Estate	2.0	–	2.0	2.5	3.0
		27.1	**0.7**	**27.8**	**23.7**	**27.0**
Technology	Software & Computer Services	–	–	–	0.8	0.1
	Technology Hardware & Equipment	–	–	–	0.1	0.7
		–	**–**	**–**	**0.9**	**0.8**
	Equities	94.1	5.9	100.0	100.0	100.0
	Total at 30 September 2016	**94.1**	**5.9**	**100.0**	**100.0**	**–**
	Total at 30 September 2015	**92.8**	**7.2**	**–**	**–**	**100.0**

Strategic Report: Investment Portfolio

30 September 2016 Position	Investments	Sector	Market Value £'000	% of Portfolio
1	Royal Dutch Shell	Oil & Gas Producers	20,137	4.9
2	HSBC	Banks	12,471	3.0
3	Hiscox	Non-Life Insurance	12,414	3.0
4	Senior	Aerospace & Defence	11,455	2.8
5	Phoenix	Life Insurance	10,537	2.6
6	Standard Chartered	Banks	9,920	2.4
7	Scapa[1]	Chemicals	9,020	2.2
8	Prudential	Life Insurance	8,882	2.1
9	GKN	Automobiles & Parts	8,136	2.0
10	Rio Tinto	Mining	7,723	1.9
10 largest			**110,695**	**26.9**
11	Hill & Smith	Industrial Engineering	7,671	1.9
12	Irish Continental[2]	Travel & Leisure	7,526	1.8
13	Headlam	Household Goods & Home Construction	7,039	1.7
14	Croda	Chemicals	6,728	1.6
15	Relx	Media	6,583	1.6
16	Johnson Service[1]	Support Services	6,533	1.6
17	BP	Oil & Gas Producers	6,525	1.6
18	GlaxoSmithKline	Pharmaceuticals & Biotechnology	6,161	1.5
19	Rolls-Royce	Aerospace & Defence	5,940	1.5
20	Novae	Non-Life Insurance	5,911	1.4
20 largest			**177,312**	**43.1**
21	DS Smith	General Industrials	5,764	1.4
22	Low & Bonar	Construction & Materials	5,568	1.4
23	Avon Rubber	Aerospace & Defence	5,555	1.4
24	CRH[2]	Construction & Materials	5,124	1.2
25	International Personal Finance	Financial Services	4,976	1.2
26	Carclo	Chemicals	4,800	1.2
27	Elementis	Chemicals	4,794	1.2
28	Conviviality Retail[1]	Food & Drug Retailers	4,607	1.1
29	Vodafone	Mobile Telecommunications	4,586	1.1
30	Castings	Industrial Engineering	4,558	1.1
30 largest			**227,644**	**55.4**
31	National Grid	Gas, Water & Multiutilities	4,368	1.1
32	Consort Medical	Health Care Equipment & Services	4,230	1.0
33	BAE Systems	Aerospace & Defence	4,192	1.0
34	Mondi	Forestry & Paper	4,057	1.0
35	Park[1]	Financial Services	4,001	1.0
36	Marshalls	Construction & Materials	3,936	1.0
37	Balfour Beatty	Construction & Materials	3,932	1.0
38	Renold	Industrial Engineering	3,910	0.9
39	Clarkson	Industrial Transportation	3,906	0.9
40	Cape	Oil Equipment Services & Distribution	3,862	0.9
40 largest			**268,038**	**65.2**

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

Strategic Report: Investment Portfolio (continued)

30 September 2016 Position	Investments	Sector	Market Value £'000	% of Portfolio
41	Marstons	Travel & Leisure	3,848	0.9
42	Provident Financial	Financial Services	3,791	0.9
43	Churchill China[1]	Household Goods & Home Construction	3,784	0.9
44	Barclays	Banks	3,692	0.9
45	Direct Line	Non-Life Insurance	3,648	0.9
46	Greencore[2]	Food Producers	3,580	0.9
47	4D Pharma[1]	Pharmaceuticals & Biotechnology	3,571	0.9
48	Daily Mail & General Trust	Media	3,538	0.9
49	IP Group	Financial Services	3,532	0.9
50	IMI	Industrial Engineering	3,529	0.9
50 largest			**304,551**	**74.2**
51	Aviva	Life Insurance	3,524	0.9
52	St Modwen Properties	Real Estate	3,503	0.9
53	Interserve	Support Services	3,496	0.8
54	BHP Billiton	Mining	3,487	0.8
55	Morgan Advanced Materials	Electronic & Electrical Equipment	3,475	0.8
56	Weir	Industrial Engineering	3,400	0.8
57	Chesnara	Life Insurance	3,376	0.8
58	Stobart	Industrial Transportation	3,335	0.8
59	Herald Investment Trust	Equity Investment Instruments	3,280	0.8
60	McColl's Retail	Food & Drug Retailers	2,864	0.7
60 largest			**338,291**	**82.3**
61	FBD[2]	Non-Life Insurance	2,833	0.7
62	Inmarsat	Mobile Telecommunications	2,820	0.7
63	Standard Life	Life Insurance	2,814	0.7
64	Mucklow	Real Estate	2,791	0.7
65	H&T Group[1]	Financial Services	2,760	0.7
66	Epwin[1]	Construction & Materials	2,695	0.7
67	Quarto	Media	2,689	0.6
68	Shoe Zone[1]	General Retailers	2,636	0.6
69	International Consolidated Airline	Travel & Leisure	2,592	0.6
70	Gibson Energy[2]	Oil & Gas Producers	2,513	0.6
70 largest			**365,434**	**88.9**
71	Findel	General Retailers	2,360	0.6
72	Somero Enterprises[1]	Industrial Engineering	2,250	0.6
73	Pennon	Gas, Water & Multiutilities	2,230	0.6
74	Ibstock	Construction & Materials	2,225	0.6
75	AstraZeneca	Pharmaceuticals & Biotechnology	2,202	0.5
76	Numis[1]	Financial Services	2,190	0.5
77	Shanks	Support Services	2,180	0.5
78	Indus Gas[1]	Oil & Gas Producers	2,143	0.5
79	TT Electronics	Electronic & Electrical Equipment	2,104	0.5
80	Pearson	Media	2,071	0.5
80 largest			**387,389**	**94.3**

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

Strategic Report: Investment Portfolio (continued)

30 September 2016 Position	Investments	Sector	Market Value £'000	% of Portfolio
81	Horizon Discovery[1]	Pharmaceuticals & Biotechnology	1,901	0.5
82	Palace Capital[1]	Real Estate	1,770	0.4
83	Manx Telecom[1]	Fixed Line Telecommunications	1,709	0.4
84	Velocys[1]	Chemicals	1,395	0.4
85	Revolymer[1]	Chemicals	1,354	0.3
86	Oxford Sciences Innovation[3]	Financial Services	1,333	0.3
87	Moss Bros	General Retailers	1,312	0.3
88	Atlantis Resources[1]	Alternative Energy	1,300	0.3
89	Carr's Group	Food Producers	1,278	0.3
90	Carillion	Support Services	1,239	0.3
90 largest			**401,980**	**97.8**
91	Airea[1]	Personal Goods	1,196	0.3
92	Topps Tiles	General Retailers	1,122	0.3
93	Ilika[1]	Alternative Energy	864	0.2
94	Premier Oil	Oil & Gas Producers	856	0.2
95	Eleco[1]	Construction & Materials	820	0.2
96	Wadworth–Ordinary shares[3]	Travel & Leisure	642	0.2
97	Infrastructure India[1]	Equity Investment Instruments	468	0.1
98	Chamberlin & Hill[1]	Industrial Engineering	459	0.1
99	Clarke T	Construction & Materials	417	0.1
100	Modern Water[1]	Gas, Water & Multiutilities	389	0.1
100 largest			**409,213**	**99.6**
101	Augean[1]	Support Services	340	0.1
102	Providence Resources[2]	Oil & Gas Producers	308	0.1
103	Severfield-Rowen	Industrial Engineering	282	0.1
104	Hornby[1]	Leisure Goods	243	0.1
105	Parity[1]	Software & Computer Services	233	–
106	Pro Gbl Insurance Solution[2]	Non-Life Insurance	148	–
107	Wadworth–Preference shares[3]	Travel & Leisure	126	–
108	Endeavour Mining[2]	Mining	102	–
109	Xcite Energy[1]	Oil & Gas Producers	22	–
110	Circle Oil[2]	Oil & Gas Producers	–	–
110 largest			**411,017**	**100.0**
111	Goldenport	Industrial Transportation	–	–
112	CDU	Personal Goods	–	–
113	IPSA[1]	Electricity	–	–
114	Acertec	Industrial Metals & Mining	–	–
Total Investments			**411,017**	**100.0**

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

Strategic Report: Business Model

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 all sizes of companies. It is not hindered by the weightings of an index but rather seeks value in a diversified range of companies. Normally not more than half by value coming from the largest 100 UK companies and the balance from small and medium sized companies.

Dividend

The Company aims to provide shareholders with dividend growth. This will be achieved by investing in shares that usually have a reasonable dividend yield and those with good prospects for future dividend growth.

Gearing

The Company will at times borrow money both short and longer-term in order to enhance performance. The gearing will not exceed 29.99% of equity shareholders' funds other than in exceptional circumstances, nor will equities represent less than 70% of the Company's net asset value.

General

It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts). 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. It has since inception been managed by a representative of Henderson. The Board is independent of the management company.

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 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.

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 Henderson, by BNP Paribas Securities Services. Hannah Blackmore ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

Management Fee

The management fee is 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 excludes the value of any investment in any funds managed by Henderson and any investment in Henderson Group plc.

Performance Fee

The performance fee will be 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, will be 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.

Strategic Report: Corporate Information

Directors

The Directors appointed to the Board and the date of their appointment are:

Peter Troughton CBE

Position: Chairman of the Board and of the Nominations and Management Engagement Committees

Date of appointment: 26 October 1990 (Chairman 18 January 2012)

Peter is a Director of Waverton Investment Management Limited, Waverton Investment Funds PLC and of Waverton Global Investment Funds PLC. He is pro-Chancellor of the University of Bath. He was formerly a Director of WH Smith Group plc and Chief Executive of Rothschild Asset Management.

Duncan Budge

Position: Director

Date of appointment: 14 July 2014

Duncan is Chairman of The Dunedin Enterprise Investment Trust PLC and Artemis Alpha Trust plc. He is a non-executive Director of Lazard World Trust Fund, Menhaden Capital 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. Prior to this he spent six years at Lazard Brothers & Co Limited.

(Susan) Gaynor Coley

Position: Director

Date of appointment: 1 November 2016

Gaynor is the Chief Executive Officer of Nirvana, Pontypool and Chairman of 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. Formerly a Director of The Eden Project, Cornwall and a Director of Public Programmes with Royal Botanic Gardens, Kew.

Kevin Carter

Position: Director

Date of appointment: 1 October 2009

Kevin is Chairman of Murray International Trust Plc, a director of JPMorgan American Investment Trust plc and is also Chairman of the Investment Committee and a trustee Director of the BBC Pension Scheme. He is a trustee Director of Universities Superannuation Scheme Limited and a Director and Chairman of its Investment Committee. He was formerly the Head of European Investment Practice of Watson Wyatt Limited and Chief Executive Officer of Old Mutual Asset Managers.

Robbie Robertson

Position: Director and Chairman of the Audit Committee (Audit Chairman 20 January 2015)

Date of appointment: 1 May 2011

Robbie is a Director of BlackRock Smaller Companies Trust plc and a number of private companies. He was previously Chairman of West China Cement and Chief Executive of Tarmac Group and Anglo American's Industrial Minerals division.

Karl Sternberg

Position: Director

Date of appointment: 1 January 2009

Karl is a Director of Jupiter Fund Management PLC, JPMorgan Elect Trust 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.

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

Rupert Barclay retired as a Director on 20 January 2016.

Strategic Report: Corporate Information (continued)

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
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Depositary and Custodian

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8 Canada Square
London E14 5HQ

Stockbrokers

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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 Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Financial Calendar

Annual results	announced December 2016
Ex dividend date	5 January 2017
Dividend record date	6 January 2017
Annual General Meeting[1]	24 January 2017
Final dividend payable on	31 January 2017
Half year results	announced May 2017

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 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 Henderson's investment expertise.

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

Follow Henderson Investment Trusts on Twitter, YouTube and Facebook

For alternative access to 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 **henderson@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 an investment company as defined in Section 833 of the Companies Act 2006 (the 'Act') is registered in England and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'), is subject to the listing rules of the Financial Conduct Authority and is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HM Revenue & Customs ('HMRC') of its status as an investment trust under Section 1158; the Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

Performance Measurement and Key Performance Indicators ('KPIs')

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

KPI	Action
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 ('NAV')	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.

Borrowing

The Company had two loan facilities in place and which allowed it to borrow as and when appropriate. Up to £85 million was available under these facilities. Since the year end the £25m loan facility with ING has expired and has not been renewed. The maximum amount drawn down in the year under review was £65.8 million (2015: £64.2 million), with borrowing costs for the year totalling £764,000 (2015: £806,000). £26.9 million (2015: £62.3 million) of the facilities were in use at the year end. Actual gearing at 30 September 2016 was 6.2% (2015: 16.8%) of net asset value.

Future Developments

While the future performance of the Company is mainly dependent on the performance of international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and strategy explained on page 17. The Chairman's Statement and Fund Managers' Report provide commentary on the outlook for the Company.

Corporate Responsibility

Responsible Investment

Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical ('SEE') issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ('ESG') issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision; however, an investment may not necessarily be ruled out on social and environmental grounds only.

Strategic Report: Corporate Information (continued)

Voting Policy and the UK Stewardship Code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to Henderson. The Board receives regular reports on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe 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. Depending on the nature of the resolution the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale for doing so are fed back to the investee company prior to voting.

Practical difficulties may prevent Henderson voting in some markets. In particular, various factors, including restrictions on dealing and costs, may inhibit voting in some international markets and must be taken into account.

The Henderson responsible investment policy and further details of Henderson's responsible investment activities can be found on the Henderson website, **www.henderson.com**.

Employees, Social, Community, Human Rights and Environmental Matters

The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues here; Henderson's policies are included in its Annual Report which can be found on the website **www.henderson.com**.

Henderson's corporate responsibility statement is included on the website stated above. In 2012 it was granted CarbonNeutral® Company status which it has committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as Carbon Neutral®.

Continued Appointment of Henderson

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with Henderson are contained on page 17.

In addition to the monitoring of investment performance at each meeting, through the Management Engagement Committee, an annual review of the Company's investment performance over both the short and longer terms, together with the quality of other services provided by Henderson, including company secretarial and accounting is undertaken.

It is the Directors' opinion that the continuing appointment of Henderson on the existing terms is in the interests of the Company and its shareholders as a whole.

Modern Slavery Act 2015

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Board Diversity

As set out on page 18, all of the Company's Directors are male with the exception of Gaynor Coley who joined the Board on 1 November 2016. Their appointment to the Board was based on their skills and experience. The Company has no employees and therefore there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Peter Troughton CBE
Chairman
13 December 2016

Strategic Report: Principal Risks and Uncertainties and Viability Statement

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. In carrying out this assessment, the Board has considered the market uncertainty arising from the result of the UK referendum to leave the European Union. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to mitigate these as far as possible, and whether the Board considers the impact of such risks has changed over the past year, are as follows:

Risk	Controls and Mitigation
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. 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 Henderson confirms adherence to them every month. 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 13 to 16, see note 14.1.1 on page 53 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 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 The Company has the ability under existing covenants to gear up to 29.99% of the equity shareholder's funds other than in exceptional circumstances. 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.

Strategic Report: Principal Risks and Uncertainties and Viability Statement (continued)

Risk	Controls and Mitigation
Operational Risk	
Disruption to, or the failure of, 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. 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 Henderson and its other suppliers, 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 of the Corporation Tax Act 2010. 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 are monitored by 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'). 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 UKLA 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 UKLA Rules. The Board receives internal control reports produced by 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, 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. Also 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.

Where there is current uncertainty in the markets following the UK referendum results to leave the European Union, the Board does not believe that this will have a long-term impact on the viability of the Company and its ability to continue in operation.

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.

For and on behalf of the Board

Peter Troughton CBE
Chairman
13 December 2016

Strategic Report: 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.

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.

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 (i.e. bank loans or overdrafts) the Company has used to invest in the market and is calculated by taking the difference between total investments and equity shareholders' funds dividing this by equity shareholders' funds and multiplying by 100. The Company can use synthetic gearing through derivatives.

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.

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.

Net Asset Value ('NAV') per Ordinary Share

The value of the Company's assets (i.e. investments and cash held) less any liabilities (i.e. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV 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, financing charges and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year as being the best estimate of future costs, excluding 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.

Strategic Report: Glossary (continued)

Premium/Discount

The amount by which the market price per share 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 share

The revenue return per share is the revenue return profit for the year divided by the weighted average number or ordinary shares in issue during the year.

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 19.

Total Return Performance

This is the return on the share price or NAV 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).

Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 October 2015 to 30 September 2016. Lowland Investment Company plc (the 'Company') (registered and domiciled in England & Wales with company registration number 670489) was active throughout the year under review and was not dormant.

Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 29 and 30 provides information on the remuneration and interests of the Directors.

Directors' Conflicts of Interest

The Company's Articles of Association 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 and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continue to operate effectively.

Independence of Directors

In accordance with the AIC Code of Corporate Governance, the board has reviewed the independent state of each individual director and the Board as a whole. In the Board's opinion all directors are considered to be independent of Henderson both in character and judgment.

Related Party Transactions

The Company's current related parties are its Directors and Henderson. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of Directors' remuneration for which there were no outstanding amounts payable at the year end.

In relation to the provision of services by 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 Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in Note 21 on page 59.

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.

At the beginning of the year there were 26,892,427 ordinary shares in issue. During the year, 126,138 new ordinary shares were issued to J.P. Morgan Cazenove at a price of 1,370p for total proceeds (net of commission) of £1,728,000. The number of ordinary shares in issue on 30 September 2016 was 27,018,565, with the same number of voting rights. As at 13 December 2016 the total voting rights were unchanged.

The Company will seek authority from its shareholders at the 2017 AGM to renew the authorisation to allot new shares, to disapply pre-emption rights and to buy-back shares for cancellation or to be held in Treasury. At the AGM held in January 2016 the Directors were granted authority to buy-back 4,050,082 shares. At 30 September 2016 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 2017 AGM.

Fund Manager's Interests

James Henderson, Fund Manager, has a beneficial interest in 92,490 (2015: 92,490) and a non-beneficial interest in 577,565 (2015: 299,565) ordinary shares of the Company.

Holdings in the Company's Shares

There were no declarations of interests in the voting rights of the Company as at 30 September 2016 in accordance with the Disclosure, Guidance and Transparency Rules.

No changes have been notified in the period 1 October 2016 to 13 December 2016.

At 30 September 2016, 9.58% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products run by Halifax Share Dealing Limited which is part of the Lloyds Banking Group. 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.

Report of the Directors (continued)

Annual General Meeting ('AGM')

The AGM will be held on Tuesday 24 January 2017 at 12.30 p.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.

Corporate Governance

The Corporate Governance Statement on pages 31 to 34 forms part of the Report of the Directors.

Other Information

Information on recommended dividends, future developments and financial risks are detailed in the Strategic Report.

Directors' Statement as to Disclosure of Information to Auditors

Each of the Directors who were members of the Board at the date of approval of this Annual Report confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's auditors are unaware and he/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 auditors are aware of that information.

Global Greenhouse Gas Emissions

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations for the year to 30 September 2016 (2015: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Listing Rule 9.8.4

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, other than in accordance with Listing Rule 9.84(7), the information of which is detailed on page 26 under share capital.

For and on behalf of the Board

Henderson Secretarial Services Limited
Corporate Secretary
13 December 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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.

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.

Statement under Disclosure Guidance and Transparency Rule 4.1.12

Each of the Directors, who are listed on page 18, 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.

For and on behalf of the Board

Peter Troughton CBE
Chairman
13 December 2016

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

The maintenance and integrity of the website is the responsibility of Henderson; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were 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

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations'). The report also meets the relevant requirements of the Companies Act 2006 (the 'Act') and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by section 439 of the Act, an ordinary resolution to approve the report will be proposed at the Annual General Meeting on 24 January 2017. The Company's remuneration policy was approved by shareholders at the AGM on 22 January 2014 in accordance with section 439A of the Act. No changes to policy are currently proposed and it will expire at the AGM in January 2017.

The Company's auditors are required to report on certain information contained within this report; where information set out below has been audited it is indicated as such.

All Directors are non-executive and the Company has no Chief Executive Officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

The Board as a whole considers the Directors' remuneration. The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors review annually the fees paid to the Boards of Directors of other comparable investment trust companies).

Remuneration Policy

Directors are remunerated in the form of fees, payable quarterly in arrears to the Directors personally. In accordance with the Company's Articles of Association the aggregate remuneration of the Directors may not exceed £250,000 per annum. Subject to this overall limit, the Board's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs, and the responsibilities borne by the Directors, and should be sufficient to promote the long-term success of the Company. They should be comparable to that of other investment trusts of a similar size and with a similar capital structure and investment objective. All Directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in any change to the rate; any feedback from shareholders would be taken into account when setting remuneration levels.

In respect of the year under review no feedback has been received from shareholders in relation to remuneration. Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

No Director has a service contract with the Company. Directors' appointments may be terminated at any time by written notice with no compensation payable.

There are no long-term income schemes, share option schemes or pension arrangements provided by the Company and no performance fees are paid to Directors.

This remuneration policy has been in place since 1 October 2012 and was approved by shareholders at the AGM in January 2014 and will be due for renewal at the AGM in 2017. The Board may amend the level of remuneration paid to individual Directors within the parameters of the remuneration policy.

Annual Statement

As Chairman, Peter Troughton reports that Directors fees were increased on 1 October 2015 and also on 1 October 2016, being the start of the Company's financial year. These increases were made after consideration of the fees paid to other investment trusts in the sector of an equivalent size and also in relation to the fees paid to other Henderson managed investment trusts. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors.

There have been no major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the year under review.

Annual Report on Remuneration

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 are shown in the table below.

	Ordinary shares of 25p	
	30 September 2016	1 October 2015
Beneficial:		
Peter Troughton[1]	22,260	19,557
Rupert Barclay[2]	–	11,000
Duncan Budge	5,000	5,000
Kevin Carter	8,000	8,000
Robbie Robertson	44,225	34,225
Karl Sternberg	7,010	5,760
Non Beneficial:		
Robbie Robertson	12,000	12,000

1 Peter Troughton has purchased a further 103 shares in the Company since the year end
2 Rupert Barclay retired from the Company on 20 January 2016

(Susan) Gaynor Coley was appointed as a Director on 1 November 2016 and is not shown in the table above. She does not have an interest in the ordinary shares of the Company.

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

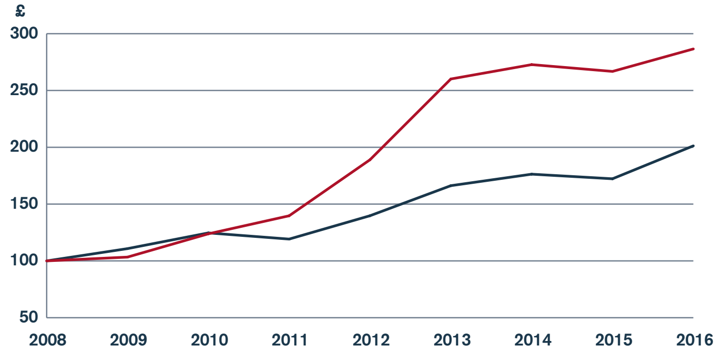
Directors' Remuneration Report (continued)

Performance

The graph opposite compares the mid-market price of the Company's ordinary shares over the eight year period ended 30 September 2016 with the return from the FTSE All-Share Index Total Return over the same period.

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)



Source: Datastream

Directors' Fees and Expenses (audited)

The fees and expenses paid to the Directors who served during the years ended 30 September 2016 and 30 September 2015 were as follows:

	Year ended 30 September 2016 Total salary and fees £	Year ended 30 September 2015 Total salary and fees £	Year ended 30 September 2016 Taxable benefits £	Year ended 30 September 2015 Taxable benefits £	Year ended 30 September 2016 Total £	Year ended 30 September 2015 Total £
Peter Troughton[1]	36,000	35,000	–	–	36,000	35,000
Robbie Robertson[2]	26,000	24,083	611	356	26,611	24,439
Karl Sternberg	23,000	22,000	130	–	23,130	22,000
Kevin Carter	23,000	22,000	–	–	23,000	22,000
Duncan Budge	23,000	22,000	–	–	23,000	22,000
Rupert Barclay[3]	7,014	22,917	–	–	7,014	22,917
Total	**138,014**	**148,000**	**741**	**356**	**138,755**	**148,356**

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 and highest paid Director
2 Chairman of the Audit Committee
3 Retired from the Board on 20 January 2016

(Susan) Gaynor Coley was appointed a Director on 1 November 2016.

The fees paid to the Directors during the year were: Chairman: £36,000, Audit Committee Chairman: £26,000 and Directors: £23,000. With effect from 1 October 2016 the fees were increased to: Chairman: £37,500, Audit Committee Chairman: £29,000, Director: £24,000. No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties specified by any of them.

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 to shareholders by way of dividends. There were no significant distributions, payments or other uses of the Company's net return or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2016 £	2015 £	Change £
Total remuneration paid to Directors	138,755	148,356	(9,601)
Ordinary dividend paid during the year	11,605,369	10,488,047	1,117,322

Statement of Voting at Annual General Meeting ('AGM')

At the 2016 AGM 5,400,880 votes (98.7%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 43,629 (0.8%) were against, 28,018 (0.5%) were discretionary and 39,932 were withheld.

In relation to the approval of the remuneration policy 7,499,451 (97.1%) were for, 166,985 (2.2%) were against, 53,086 (0.7%) were discretionary and 87,873 were withheld. The percentage of votes excludes votes withheld.

For and on behalf of the Board

Peter Troughton CBE
Chairman
13 December 2016

Corporate Governance Statement

This Corporate Governance Statement forms part of the Report of the Directors.

Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council ('FRC') are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2015 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, Boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

The Board has noted that the FRC and the AIC have issued revised Codes which the Company will be required to report against next year.

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 Directors believe that the Company has complied with the recommendations of the AIC Code that are applicable to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report and thereby the provisions of the UK Code except as set out below.

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 UK Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. In addition, all of the Company's day-to-day management and administrative functions are outsourced to third parties. The Company has no executive Directors, employees or internal operations.

All the Directors are non-executive, and as there is a Chairman and a Chairman of the Audit Committee amongst them, the appointment of a Senior Independent Director would be superfluous.

Directors

Directors' terms of appointment and retirement

The Board has set, and each Director has agreed to adopt, generic terms and conditions of appointment of non-executive Directors of the Company, a copy of which is available for inspection at the Company's registered office during normal business hours and at the Company's AGM.

The Directors' biographies, set out on page 18, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors. The Board believes that retaining Directors with sufficient experience of both the Company and the markets is of great benefit to shareholders.

The Board may appoint Directors to the Board without shareholder approval. Any Director so appointed must stand for appointment by the shareholders at the next AGM in accordance with the Articles of Association.

The AIC Code requires all Directors to retire at intervals of not more than three years; the Company's Articles of Association also provide that one-third (but not more than one-third) of Directors must seek re-appointment at each AGM. Peter Troughton will be retiring at the 2017 AGM and is not seeking re-election. Robbie Robertson will retire by rotation at the AGM and has confirmed that he wishes to seek re-election to the Board and succeed Peter Troughton as Chairman. Gaynor Coley has been appointed to the Board with effect from 1 November 2016 and will therefore stand for election by Shareholders at the AGM. She is to succeed Robbie Robertson as the new Chairman of the Audit Committee.

Any Director who has served more than six years on the Board is subject to rigorous review. In addition the AIC Code also states that any Director who has served for more than nine years is subject to annual re-appointment. The Director who has served more than nine years is Peter Troughton who is due to retire at the AGM and is not seeking re-appointment. Robbie Robertson is to succeed him as Chairman.

The contribution and performance of the Director seeking re-appointment was reviewed by the Nominations Committee at its meeting in September 2016, which recommended to the Board the continuing appointment of the Director.

Under the Articles of Association shareholders may remove a Director before the end of his term by passing a special resolution at a meeting. A special resolution is passed if more than 75% of the votes cast, in person or by proxy, are in favour of the resolution.

Directors' independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in September 2016, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Henderson. The Board believes that length of service does not diminish the contribution from a Director as experience and knowledge of the Company is a positive factor and should not impact a Director's independence. Further, the Board is conscious of the need to maintain continuity, particularly given the cyclical nature of the Company's markets. It believes that retaining some Directors with experience of past cycles, of both the Company and the markets, is of great benefit to shareholders. This view is supported by the AIC Code. The Board has determined that all Directors are independent in character and judgement and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders.

Corporate Governance Statement (continued)

There were no contracts in existence during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No Director has a contract of service with the Company and there are no agreements between the Company and its Directors concerning compensation for loss of office.

Directors' professional development
When a new Director is appointed he or she is offered an induction seminar which is held by Henderson at the request of the Chairman. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors are also able to attend external training facilities and industry seminars at the expense of the Company. Each individual Director's training requirements are considered as part of the annual performance evaluation process.

Directors' insurance and indemnification
Directors' and officers' liability insurance cover was in place in respect of the Directors throughout the financial year and remains in place at the date of this report. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for 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 judgment is given in their favour by the Court. No indemnity was giving during the year or up to the date of this report.

The Board

Board composition
The Board currently consists of six non-executive Directors and the biographies of those holding office at the date of this report are included on page 18. Those details demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors. All Directors with the exception of Gaynor Coley, who joined on 1 November 2016 and Rupert Barclay who retired on 20 January 2016 served throughout the year and all are resident in the UK.

Responsibilities of the Board and its Committees
The Board, which is chaired by Peter Troughton who is an independent non-executive Director, meets formally at least six times a year, with additional Board or Committee meetings arranged when required. The Directors have regular contact with the Fund Managers and representatives of the Corporate Secretary between formal meetings. The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings including strategy, management and structure, financial reporting and other communications, Board membership and other appointments, internal control and corporate governance.

The Board is responsible for the approval of annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects. The Directors confirm that they are satisfied that the Annual Report for the year ended 30 September 2016, 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.

At each meeting the Directors follow a formal agenda, which includes a review of the Company's net asset value ('NAV'), share price, discount/premium, financial position, gearing levels, peer group performance, investment performance, asset allocation and transactions and any other relevant business matters to ensure that control is maintained over the affairs of the Company. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which Henderson has discretion to act and regularly reviews investment strategy. It has adopted 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.

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

The Board has also constituted an Insider Committee which meets when required to assist the Board in discharging its responsibilities under the Market Abuse Regulations which came into force on 3 July 2016.

A separate remuneration committee has not been established as the Board consists of only non-executive Directors. The whole Board is responsible for setting Directors' fees in line with the remuneration policy set out on page 29, which is subject to periodic shareholder approval.

Audit Committee
The Report of the Audit Committee, which forms part of this Corporate Governance Statement, can be found on pages 35 and 36.

Nominations Committee
All Directors are members of the Nominations Committee, which is chaired by the Chairman of the Board (who would not chair the Committee when the Chairman's successor was being considered). The Committee is responsible for reviewing Board succession planning and tenure policy, the performance of the Board as a whole and the Board Committees and the recommendation to the Board on the appointment of new Directors through an established formal procedure.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience, gender and diversity existing on the Board. The Nominations Committee considers diversity as part of the annual performance evaluation and it is considered that there is a range of backgrounds, and each Director brings different qualities to the Board and its discussions.

Given the small size of the Board, it is not considered appropriate for the Company to have set targets in relation to gender diversity; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment. The Nominations Committee will recommend when the recruitment of additional non-executive Directors is required. Once a decision is made to recruit additional

Corporate Governance Statement (continued)

Directors to the Board, a formal job description is drawn up. The Company may use external agencies as and when the requirement to recruit an additional Board member becomes necessary. All appointments to the Board are based on merit and the skills needed to fill any gaps. An external agency was used in the recruitment of Gaynor Coley.

The Committee also reviews and recommends to the Board the Directors seeking re-appointment. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his contribution.

The Committee met in September 2016 to consider the appointment of a new Director and to carry out its annual review of the Board, its composition and size and its Committees. The results of the performance evaluation are detailed later on this page.

Management Engagement Committee

All Directors are members of the Management Engagement Committee, which is chaired by the Chairman of the Board.

The Committee is responsible for reviewing the management contract on a regular basis, ensuring that the terms are fair and reasonable and that its continuance, given the Company's performance over both short and longer terms, is in the best interests of the Company and its shareholders and also for reviewing the performance and cost effectiveness of the Company's other service providers.

The Committee met in September 2016 to carry out its annual review of Henderson, the results of which are detailed on page 34.

Board attendance

The table below sets out the number of scheduled Board and Committee meetings held during the year under review and the number of meetings attended by each Director with the exception of Gaynor Coley who joined the Board on 1 November 2016.

	Board	AC	MEC	NC	IC
Number of meetings	**6**	**2**	**1**	**2**	**–**
Peter Troughton	6	N/A	1	2	–
Rupert Barclay[1]	2	1	–	–	N/A
Duncan Budge	6	2	1	2	–
Kevin Carter	6	2	1	2	–
Robbie Robertson	6	2	1	2	–
Karl Sternberg	6	2	1	2	–

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nominations Committee
IC: Insider Committee
1 Retired from the Board on 20 January 2016

The Directors and Committees of the Board also met during the year to undertake business such as the approval of the Company's results and dividends, and ad hoc matters.

Performance evaluation

The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director. This was conducted by the Chairman having a private discussion with each Director and the Audit Committee Chairman speaking to each Director about the performance of the Chairman. It was concluded that each were satisfactory and the Board has a good balance of skills and experience. In particular, it is considered that each of the Directors makes a significant contribution to the affairs of the Company. Peter Troughton will be retiring at the 2017 AGM and the Director seeking re-appointment is Robbie Robertson, who is to succeed Peter Troughton as Chairman. Gaynor Coley is seeking election by shareholders as it is the first Annual General Meeting since her appointment and she is to succeed Robbie Robertson as Chairman of the Audit Committee.

Risk Management and Internal Controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company (see Principal Risk and Uncertainties on pages 22 and 23 in the Strategic Report). The process accords with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC in September 2014, and is subject to regular review by the Board. The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board, assisted by Henderson, has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 September 2016. 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. All business risks faced by the Company are recorded in a risk map which is reviewed periodically.

Henderson has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by Henderson's compliance, internal audit and risk departments on a continuing basis. The Board receives a formal report on a quarterly basis which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of Henderson, and which reports the details of any known internal control failures. The Board receives a report on Henderson's internal controls each year which includes a report from Henderson's service auditors on the control policies and procedures in operation.

The Board confirms that in the event of any significant failings or weakness identified from the annual review of effectiveness of the company's system of internal control, necessary action would be taken to remedy them.

Corporate Governance Statement (continued)

The ongoing process for identifying, evaluating and managing significant risks faced by the Company has been in place throughout the year under review and up to the date of this report. 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. As all of the Company's management functions are delegated to third parties, and the Board monitors the controls in place with support from Henderson's internal audit department, the Board feels that there is currently no need for the Company to have its own internal audit function.

Accountability and Relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 28, and the viability statement on page 23.

The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 24), the day-to-day accounting, company secretarial and administration requirements 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. Further details of the management agreement can be found on page 17.

The Board receives and considers regular reports from Henderson and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the Chairmen of the investment trust companies managed by Henderson which provide a forum to discuss industry matters which would then be reported to the Board.

Henderson takes decisions as to the purchase and sale of individual investments. Henderson also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of Henderson attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and Henderson operate in a supportive, co-operative and open environment.

The Corporate Secretary, Henderson Secretarial Services Limited, is a subsidiary of Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities, particularly when dealing with any conflict or issues between the Company and Henderson. Any correspondence from Shareholders addressed to the Chairman or the Company received at Henderson's office is forwarded to the Chairman of the Company in line with the audited procedures in place. Any correspondence is submitted to the next Board meeting.

Henderson and BNP Paribas Securities Services, which acts for Henderson, have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011, and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Share Capital

Please see the Report of the Directors on page 26.

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 half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the website. Henderson also provides information on the Company and Fund Manager videos on the website, via various social media channels and through its HGi content platform, more details of which are included on page 19.

The Board considers that shareholders should be encouraged to attend and participate in the AGM. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting and the Fund Managers will make a presentation to shareholders. 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 AGM be issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also included 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 address given on page 19 of this report.

General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between Henderson and shareholders are reported to the Board.

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
13 December 2016

Report of the Audit Committee

Composition

The Audit Committee comprises all of the Directors except the Chairman of the Board, and is chaired by Robbie Robertson. The Audit Committee members have a combination of financial, investment and other experience gained throughout their careers and the Board is satisfied that at least one of the Committee's members has recent and relevant financial experience. All members of the Audit Committee are independent. The biographies of the Audit Committee members are shown on page 18.

Meetings

The Audit Committee met twice during the year under review. The Company's auditors are invited to attend meetings as necessary. Representatives of Henderson and BNP Paribas Securities Services may also be invited to attend if deemed necessary by the Committee.

Role and Responsibilities

The role of the Audit Committee is to assist the Board in applying the financial reporting and internal control principles and to maintain an appropriate relationship with the auditors. The responsibilities are set out in formal terms of reference which are regularly reviewed. In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies including consideration of FRS 102, see note 1a) on page 46;
- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, viability, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the minimum level of dividend to be paid by the Company for recommendation to the Board;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services as administrator and Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Henderson's internal audit and risk departments periodically;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy and review of the Company's gifts and hospitality register and was satisfied that the Company was in compliance;
- consideration of the nature and scope of the external audit and the findings therefrom;
- annual consideration of whether there is a need for an internal audit function, in order to make a recommendation to the Board (as described on page 34);
- consideration of the appointment of the external auditors, their effectiveness and their performance and remuneration;
- consideration of the auditors' independence and objectivity and the provision of any non-audit services (as explained further on page 36) and the reporting of the external auditors;
- consideration of the whistleblowing policy that Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action;
- consideration of the management fee and performance fee calculations;
- in assessing whether the report is fair, balanced and understandable, each Director received the disclosures made applying their respective knowledge and expertise. The Internal Controls over financial reporting were also considered, together with feedback from the Company's auditors, the Fund Managers and the Company Secretary;
- consideration of the annual confirmation from the Company's depositary; and
- undertaking an audit tender process.

Annual Report for the Year Ended 30 September 2016

In relation to the Annual Report for the year ended 30 September 2016 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 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, 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 Directors have received quarterly reports of the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation.
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.

Report of the Audit Committee (continued)

Significant issue	How the issue was addressed
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 Henderson and BNP Paribas Securities Services.
Performance fee	The calculation of the performance fee, when payable, to 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 Henderson, BNP Paribas Securities Services and HSBC and its delegates and has access to the relevant personnel of Henderson who have a responsibility for risk management and internal audit.

Policy on Non-Audit Services

The provision of non-audit services by the Company's auditors is considered and approved by the Audit Committee on a case by case basis. The policy set by the Audit Committee, which is kept under review, ensures that consideration is given to the following factors when considering the provision of non-audit services by the auditors:

- the level of non-audit fees paid to the audit firm in relation to the statutory audit fee;
- whether the audit firm is the most suitable supplier of non-audit services;
- the impact on the auditors' independence and objectivity and what safeguards can be put in place to eliminate or reduce any threat in this regard; and
- the cost-effectiveness of the services.

The Board has determined that the auditors will never be considered for the provision of services related to accounting and preparation of the financial statements, internal audit and custody. There were no non-audit services provided during the year.

Auditors' Appointment and Audit Tendering

The Audit Committee discussed in detail the effectiveness and quality of the audit provided by PwC LLP for the financial year ended 30 September 2016. The Committee assessed the performance of PwC LLP through discussions, with the auditor present and privately with the Fund Managers, Company Secretary and Henderson's Financial Reporting Manager, to provide feedback on the audit process. The Committee concluded that it was content that the audit for the year ended 30 September 2016 had been professionally delivered and high standards adhered to.

PwC LLP (or their predecessor) have been the Company's auditors since inception. The Statutory Auditors and Third Country Auditors Regulations came into force on 17 June 2016. These require the Company to rotate its audit firm after a period of 10 years, which may be extended where audit tenders are carried out or where more than one audit firm is appointed to carry out the audit. PwC LLP has been the Company's auditor for more than 10 years. The auditor is required to rotate partners every five years and this is the second year that the current partner has been in place. Under transitional provisions, the Company will be required to put the external audit out to tender for the 2020 financial year end. However, in November 2016 the Audit Committee undertook an audit tender process and recommended to the Board the appointment of Ernst & Young LLP as auditors to the Company in respect of the 2017 year end audit.

The Board subsequently adopted their proposal. A resolution for the appointment of Ernst & Young LLP as the Company's auditor will be put to Shareholders at the 2017 AGM.

Fees paid or payable to the auditors are detailed in note 6 on page 49.

For and on behalf of the Board

Robbie Robertson
Audit Committee Chairman
13 December 2016

Independent Auditors' Report to the members of Lowland Investment Company plc

Report on the financial statements

Our opinion

In our opinion, Lowland Investment Company plc's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 30 September 2016 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 30 September 2016;
- the Income Statement for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview

- Overall materiality: £3.8 million which represents 1% of Net Assets.

- The Company is a standalone Investment Trust Company and engages Henderson Investment Funds Limited (the 'Manager') to manage its assets.
- We conducted our audit of the financial statements using information from BNP Paribas Securities Services (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Valuation and existence of investments.
- Dividend income.

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

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation and existence of investments Refer to page 35 (Report of the Audit Committee), page 46 (Accounting Policies) and page 52 (Notes). The investment portfolio at the year-end principally comprised listed equity investments and totalled £411 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from HSBC Bank plc. No differences were identified by our testing which required reporting to those charged with governance.
Dividend income Refer to page 35 (Report of the Audit Committee), page 47 (Accounting Policies) and page 48 (Notes). We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). This is because incomplete or inaccurate dividend income could have a material impact on the Company's net asset value and dividend cover.	We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We understood and assessed the design and implementation of key controls surrounding dividend income recognition. In addition, we tested dividend receipts by agreeing the dividend rates from investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by investment holdings in the portfolio. Our testing did not identify any unrecorded dividends. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of special dividends to independent third party sources. No differences were identified by our testing which required reporting to those charged with governance.

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

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3.8 million (2015: £3.5 million).
How we determined it	1% of Net Assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £193,000 (2015: £177,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' Statement, set out on page 46, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' Statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

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

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

▪ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
▪ the statement given by the Directors on page 32, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
▪ the section of the Annual Report on pages 35 and 36, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

▪ the Directors' confirmation on page 22 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
▪ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
▪ the Directors' explanation on page 23 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, 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 Company 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.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' Statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' Statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 December 2016

Income Statement

Notes		Year ended 30 September 2016 Revenue return £'000	Year ended 30 September 2016 Capital return £'000	Year ended 30 September 2016 Total £'000	Year ended 30 September 2015 Revenue return £'000	Year ended 30 September 2015 Capital return £'000	Year ended 30 September 2015 Total £'000
2	Gains/(losses) on investments held at fair value through profit or loss	–	29,331	29,331	–	(8,387)	(8,387)
3	Income from investments	15,944	–	15,944	15,542	–	15,542
4	Other interest receivable and similar income	108	–	108	105	–	105
	Gross revenue and capital gains/(losses)	**16,052**	**29,331**	**45,383**	**15,647**	**(8,387)**	**7,260**
5	Management fee	(1,806)	–	(1,806)	(1,819)	–	(1,819)
5	Performance fee	–	–	–	–	(908)	(908)
6	Other expenses	(472)	–	(472)	(484)	–	(484)
	Net return/(loss) on ordinary activities before finance costs and taxation	**13,774**	**29,331**	**43,105**	**13,344**	**(9,295)**	**4,049**
7	Finance costs	(764)	–	(764)	(806)	–	(806)
	Net return/(loss) on ordinary activities before taxation	**13,010**	**29,331**	**42,341**	**12,538**	**(9,295)**	**3,243**
8	Taxation on net return on ordinary activities	(117)	–	(117)	(48)	–	(48)
	Net return/(loss) on ordinary activities after taxation	**12,893**	**29,331**	**42,224**	**12,490**	**(9,295)**	**3,195**
9	Return/(loss) per ordinary share – basic and diluted	47.7p	108.7p	156.4p	46.4p	(34.6)p	11.8p

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 recognised gains or losses other than those disclosed in the Income Statement.

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

Statement of Changes in Equity

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
	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**

Notes	Year ended 30 September 2015	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 2014	6,723	59,923	1,007	284,563	9,640	361,856
	Net (loss)/return on ordinary activities after taxation	–	–	–	(9,295)	12,490	3,195
10	Third interim dividend (9.0p) for the year ended 30 September 2014 paid 31 October 2014	–	–	–	–	(2,421)	(2,421)
10	Final dividend (10.0p) for the year ended 30 September 2014 paid 30 January 2015	–	–	–	–	(2,689)	(2,689)
10	First interim dividend (10.0p) for the year ended 30 September 2015 paid 30 April 2015	–	–	–	–	(2,689)	(2,689)
10	Second interim dividend (10.0p) for the year ended 30 September 2015 paid 31 July 2015	–	–	–	–	(2,689)	(2,689)
	At 30 September 2015	**6,723**	**59,923**	**1,007**	**275,268**	**11,642**	**354,563**

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

Statement of Financial Position

Notes		As at 30 September 2016 £'000	As at 30 September 2015 £'000
	Fixed assets		
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	326,129	328,949
	Listed at market value on AIM	58,403	56,011
	Listed at market value overseas	24,384	26,993
	Unlisted	2,101	2,179
		411,017	**414,132**
	Current assets		
12	Debtors	2,129	3,589
	Cash at bank	2,178	669
		4,307	**4,258**
13	**Creditors: amounts falling due within one year**	(28,414)	(63,827)
	Net current liabilities	(24,107)	(59,569)
	Total assets less current liabilities	386,910	354,563
	Net assets	**386,910**	**354,563**
	Capital and reserves		
15	Called up share capital	6,755	6,723
16	Share premium account	61,619	59,923
17	Capital redemption reserve	1,007	1,007
17	Other capital reserves	304,599	275,268
18	Revenue reserve	12,930	11,642
	Total shareholders' funds	**386,910**	**354,563**
19	**Net asset value per ordinary share – basic and diluted**	**1,432.0p**	**1,318.4p**

The financial statements on pages 42 to 45 were approved and authorised for issue by the Board of Directors on 13 December 2016 and signed on their behalf by:

Peter Troughton CBE
Chairman

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

Statement of Cash Flows

	Year ended 30 September 2016 £'000	(Restated – see note 1a) Year ended 30 September 2015 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	42,341	3,243
Add back: finance costs	764	806
(Less)/add: (gains)/losses on investments held at fair value through profit or loss	(29,331)	8,387
Withholding tax on dividends deducted at source	(136)	(44)
(Increase)/decrease in debtors	(374)	99
Decrease in creditors	(827)	(160)
Net cash inflow from operating activities	**12,437**	**12,331**
Cash flows from investing activities		
Purchase of investments	(67,620)	(68,100)
Sale of investments	102,719	53,569
Net cash inflow/(outflow) from investing activities	**35,099**	**(14,531)**
Cash flows from financing activities		
Equity dividends paid (net of refund of unclaimed distributions and reclaimed distributions)	(11,605)	(10,488)
Proceeds from issue of ordinary shares	1,728	–
Net loans (repaid)/drawndown	(35,418)	12,408
Interest paid	(832)	(809)
Net cash (outflow)/inflow from financing activities	**(46,127)**	**1,111**
Net increase/(decrease) in cash and cash equivalents	1,409	(1,089)
Cash and cash equivalents at start of year	669	1,756
Effect of foreign exchange rates	100	2
Cash and cash equivalents at end of year	**2,178**	**669**
Comprising:		
Cash at bank	2,178	669
	2,178	**669**

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 19.

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 (which is effective for periods commencing on or after 1 January 2015) and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (the 'SORP') issued in November 2014. The date of transition to FRS 102 was 1 October 2014.

The Company has early adopted the amendments to FRS 102 in respect of 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. Following the application of the revised reporting standards there have been no significant changes to the accounting policies compared to those set out in the Company's Annual Report for the year ended 30 September 2015.

There has been no impact on the Company's Income Statement, Statement of Financial Position (previously called the Balance Sheet) or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for periods previously reported. The Cash Flow Statement previously reported has been restated to comply with the new disclosure requirements of the revised reporting standard.

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) Valuation of 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 bid price or the last trade price depending on the convention of the exchange on which the investment is quoted.

Unlisted investments are 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'. Transaction costs incurred on the purchase and disposal of investments are included within the cost or deducted from the proceeds of the investment. 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/(losses) on investments" in the capital return column. Income from fixed interest debt securities and preference shares is recognised using the effective interest rate method in accordance with the SORP. 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.

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.

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, capital reserve arising on revaluation of investments held and revenue reserve may be distributed by way of a dividend.

2 Gains/(losses) on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on the sale of investments based on historical cost	23,452	16,617
Less: revaluation gains recognised in previous years	(14,374)	(12,912)
Gains on investments sold in the year based on carrying value at previous Statement of Financial Position date	**9,078**	**3,705**
Revaluation gains/(losses) on investments held at 30 September	20,153	(12,094)
Exchange gains	100	2
	29,331	**(8,387)**

3 Income from investments

	2016 £'000	2015 £'000
UK dividends:		
Listed investments	12,767	11,814
Unlisted	48	53
Property income dividends	228	210
	13,043	**12,077**
Non UK dividends:		
Overseas dividend income	2,901	3,465
	2,901	**3,465**
	15,944	**15,542**

Notes to the Financial Statements (continued)

4 Other interest receivable and similar income

	2016 £'000	2015 £'000
Stock lending commission	44	61
Income from underwriting	64	44
	108	**105**

At 30 September 2016 the total value of securities on loan by the Company for stock lending purposes was £2,830,000 (2015: £5,024,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2016 was £25,560,000 (2015: £20,742,000). The Company's agent holds collateral comprising FTSE 100 stocks, Gilts and a French government bond with a collateral value of £2,979,000 (2015: £5,821,000) amounting to a minimum of 105% (2015: minimum 116%) of the market value of any securities on loan. Stock lending commission has been shown net of brokerage fees of £37,000 (2015: £66,000).

5 Management and performance fees

	2016			2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	1,806	–	1,806	1,819	–	1,819
Performance fee	–	–	–	–	908	908
Total fee	**1,806**	**–**	**1,806**	**1,819**	**908**	**2,727**

A description of the basis for calculating the management fee and performance fees is given in the Strategic Report on page 17. For the year ended 30 September 2016. No performance fee is payable (2015: £908,000). This is based on the Company's 3 year average NAV total return to 30 September 2016 of 6.4% compared to the FTSE All-Share Index Total Return (plus a 10% hurdle rate) of 7.7%. Total fees, including the basic fee of 0.5% are capped at 0.75% per annum. In the prior year the performance fee was capped at 0.25% of average net chargeable assets for the year.

6 Other administrative expenses

	2016 £'000	2015 £'000
Directors' fees and expenses (see Directors' Remuneration Report on page 30)[1]	139	148
Auditors' remuneration – for audit services	24	21
AIC subscriptions	20	20
Directors' and Officers' liability insurance	9	7
Listing fees (Stock Exchange, newspapers and internet)	40	32
Safe custody and bank charges	21	21
Loan facility fees	26	54
Printing and postage	26	19
Registrar's fees	17	16
Legal fees	–	9
General expenses and marketing expenses payable to Henderson	44	60
Depositary fees	36	36
Other expenses	33	12
Irrecoverable VAT	37	29
	472	**484**

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

7 Finance costs

	2016 £'000	2015 £'000
On bank loans and overdrafts repayable within one year	764	806
	764	**806**

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities

Analysis of tax charge for the year

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas tax suffered	140	–	140	50	–	50
Overseas tax reclaimable	(23)	–	(23)	(2)	–	(2)
Total tax charge for the year	**117**	**–**	**117**	**48**	**–**	**48**

Factors affecting the tax charge for the year

	2016			2015		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	13,010	29,331	42,341	12,538	(9,295)	3,243
Corporation tax at 20% (2015: 20.5%)*	2,602	5,866	8,468	2,570	(1,905)	665
Effects of:						
Non-taxable UK dividends	(2,563)	–	(2,563)	(2,410)	–	(2,410)
Other non-taxable income	(580)	–	(580)	(732)	–	(732)
Overseas tax suffered	117	–	117	48	–	48
Excess expenses/non-trading deficits for the year	547	–	547	758	–	758
Expenses charged to capital	–	–	–	(186)	186	–
Movement between deferred tax accruals	(6)	–	(6)	–	–	–
Non-taxable/deductible capital (losses)/gains	–	(5,866)	(5,866)	–	1,719	1,719
Total tax charge	**117**	**–**	**117**	**48**	**–**	**48**

*The Company's profit for the accounting year is taxed at an effective rate of 20% (2015: 20.5%). The standard rate of corporation tax has been 20% since 1 April 2015.

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 £9,508,000 (2015: £8,967,000) based on a prospective corporation tax rate of 20% (2015: 20%).

The UK Government announced in July 2015 that the corporate tax rate is set to be cut to 19% in 2017 and 18% in 2020. These reductions in the standard rate of corporation tax were substantially enacted on 26 October 2015 and became effective from 18 November 2015. The rate for 2020 was further reduced to 17% in the Finance Act 2016. 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 investment 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 £42,224,000 (2015: £3,195,000) and on 26,992,028 ordinary shares (2015: 26,892,427) 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.

	2016 £'000	2015 £'000
Net revenue return	12,893	12,490
Net capital return/(loss)	29,331	(9,295)
Net total return	**42,224**	**3,195**
Weighted average number of ordinary shares in issue during the year	**26,992,028**	**26,892,427**

	2016 Pence	2015 Pence
Revenue return per ordinary share	47.7	46.4
Capital return/(loss) per ordinary share	108.7	(34.6)
Total return per ordinary share	**156.4**	**11.8**

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	2016 £'000	2015 £'000
Third interim dividend (9.0p) for the year ended 30 September 2014	10 October 2014	31 October 2014	–	2,421
Final dividend (10.0p) for the year ended 30 September 2014	9 January 2015	30 January 2015	–	2,689
First interim dividend (10.0p) for the year ended 30 September 2015	7 April 2015	30 April 2015	–	2,689
Second interim dividend (10.0p) for the year ended 30 September 2015	3 July 2015	31 July 2015	–	2,689
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	–
			11,605	**10,488**

The third interim dividend and the final dividend for the year ended 30 September 2016 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.

	2016 £'000
Revenue available for distribution by way of dividends for the year	12,893
First interim dividend (11.0p) for the year ended 30 September 2016	(2,972)
Second interim dividend (11.0p) for the year ended 30 September 2016	(2,972)
Third interim dividend (11.0p) for the year ended 30 September 2016	(2,972)
Final dividend (12.0p) for the year ended 30 September 2016 (based on 27,018,565 ordinary shares in issue at 13 December 2016)	(3,242)
Revenue surplus	**735**

For Section 1158 purposes the Company's undistributed revenue represents 4.6% of the income from investments.

Notes to the Financial Statements (continued)

11 Investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Valuation at start of year	414,132	410,053
Investment holding gains at start of year	(85,949)	(110,955)
Cost at start of year	**328,183**	**299,098**
Additions at cost	68,520	67,890
Disposals at cost	(77,414)	(38,805)
Cost at end of year	**319,289**	**328,183**
Investment holding gains at end of year	91,728	85,949
Valuation at end of year	**411,017**	**414,132**

Included in the total investments are unlisted investments shown at the Directors fair value of £2,101,000 (2015: £2,179,000).

Purchase transaction costs for the year ended 30 September 2016 were £332,000 (2015: £336,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2016 were £81,000 (2015: £43,000).

The Company has an interest of 3% or more of any class of capital in 18 (2015: 16) investee companies. At 30 September 2016, of the 18 investee companies, the following represented more than 1% of investments.

	2016 Valuation £'000	2016 % of voting rights	2015 Valuation £'000	2015 % of voting rights
Carclo	4,800	5.4	5,177	5.4

12 Debtors

	2016 £'000	2015 £'000
Prepayments and accrued income	2,104	1,730
Sales for future settlement	–	1,853
Taxation recoverable	25	6
	2,129	**3,589**

13 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Unsecured Sterling bank loans	26,897	62,315
Purchases for future settlement	900	–
Other creditors	617	1,512
	28,414	**63,827**

The Company has a three year facility of up to £60m with Scotiabank (Ireland) Limited. The Company also had a £25m loan facility with ING Bank N.V. which expired on 29 October 2016. At 30 September 2016 £12,008,000 and £14,889,000 was drawndown respectively (2015: £24,245,000 and £38,070,000).

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 17. 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 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 Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
  - Charles River Compliance module for investment restrictions monitoring;
  - Arc Logics 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. Henderson assesses the exposure to market price risk when making each investment decision, and monitors the overall level of market price risk on the whole of the investment portfolio on an ongoing basis.

14.1.1 Market price risk

Market price risk (ie, 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 2016 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 Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors 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 14 to 16. 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% (2015: 40%)

	2016		2015	
	If prices go up £'000	If prices go down £'000	If prices go up £'000	If prices go down £'000
Investments at year end	411,017	411,017	414,132	414,132
Impact on income statement:				
Revenue return (0.5% management fee rate)	(822)	822	(828)	828
Capital return	164,407	(164,407)	165,653	(165,653)
Impact on net assets and total return (excluding gearing)	**163,585**	**(163,585)**	**164,825**	**(164,825)**

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. Investments held in currencies other than sterling was £12,975,000 (2015: £19,413,000) representing 3.2% (2015: 4.7%) of the total investments of the Company.

Management of the risk

Henderson monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. 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 (2015: same)
- 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 2016 (2015: 1.4%).

The company had fixed interest rate asset exposure at 30 September 2016 on the holding in Wadworth at £126,000 (2015: £126,000).

Interest rate risk sensitivity

The Company is primarily exposed to interest rate risk through its loan facilities with ING Bank N.V and Scotiabank (Ireland) Limited. The sensitivity is as follows:

- Borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings (net of cash at bank) at the year end were £24,719,000 (2015: £61,646,000) and if that level of borrowings 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 £492,000 (2015: £1,227,000).

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

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 £85,000,000 (2015: £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.

The Board gives guidance to 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:

	2016		2015	
	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	26,923	–	62,409	–
Other creditors	1,491	–	1,418	–
	28,414	**–**	**63,827**	**–**

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 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.

	2016 £'000	2015 £'000
Fixed interest securities	126	126
Cash	2,178	669
Debtors:		
– prepayments and accrued income	2,104	3,583
– taxation recoverable	25	6
	4,433	**4,384**

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).

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

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 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	408,916	–	2,101	411,017
Total	**408,916**	**–**	**2,101**	**411,017**

Financial assets at fair value through profit or loss at 30 September 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	411,953	–	2,179	414,132
Total	**411,953**	**–**	**2,179**	**414,132**

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

The total carrying value of receivables, as stated in note 12, is a reasonable approximation of their fair value as at the year end date. The total carrying value of financial liabilities, as disclosed in note 13, is a reasonable approximation of their fair value at the year end date.

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

	2016 £'000	2015 £'000
Opening balance	2,179	846
Disposal proceeds	–	–
Transfers in	–	1,333
Total loss included in the Income Statement		
– on investments written off	–	–
– on investments held	(78)	–
Closing balance	**2,101**	**2,179**

The Company's holdings in Wadworth were revalued during the year.

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 2016 comprises its equity share capital, reserves and loans that are shown in the Statement of Financial Position at a total of £413,807,000 (2015: £416,878,000).

The Board, with the assistance of 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 2015	26,892,427	26,892,427	6,723
Shares issued in the year	126,138	126,138	32
At 30 September 2016	**27,018,565**	**27,018,565**	**6,755**

During the year, the Company issued 126,138 ordinary shares for total proceeds of £1,728,000 (2015: £nil).

16 Share premium account

	2016 £'000	2015 £'000
At the start of the year	59,923	59,923
Shares issued during the year	1,696	–
At the end of the year	**61,619**	**59,923**

Notes to the Financial Statements (continued)

17 Capital redemption reserve and other capital reserves

	Capital redemption reserve £'000	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	1,007	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	**1,007**	**91,728**	**212,871**	**304,599**

The capital reserve arising on revaluation of investments held at 30 September 2016 includes a gain of £716,000 (2015: £795,000) based on historical book cost, in respect of the revaluation of unlisted investments.

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2014	1,007	110,955	173,608	284,563
Transfer on disposal of investments	–	(12,912)	12,912	–
Net (losses)/gains on investments	–	(12,094)	3,705	(8,389)
Performance fee taken to capital	–	–	(908)	(908)
Exchange differences	–	–	2	2
At 30 September 2015	**1,007**	**85,949**	**189,319**	**275,268**

The capital reserve arising on revaluation of investments held at 30 September 2015 includes a gain of £795,000 (2014: £795,000) based on historical book cost, in respect of the revaluation of unlisted investments.

18 Revenue reserve

	2016 £'000	2015 £'000
At 1 October	11,642	9,640
Net revenue return for the year after tax	12,893	12,490
Net dividends paid (note 10)	(11,605)	(10,488)
At 30 September	**12,930**	**11,642**

19 Net asset value per ordinary share

The net asset value per ordinary share of 1,432.0p (2015: 1,318.4p) is based on the net assets attributable to the ordinary shares of £386,910,000 (2015: £354,563,000) and on 27,018,565 (2015: 26,892,427) shares in issue on 30 September 2016.

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

	2016 £'000	2015 £'000
Total net assets at 1 October	354,563	361,856
Total net return on ordinary activities after taxation	42,224	3,195
Share issue proceeds	1,728	–
Net dividends paid in the year:		
Ordinary shares	(11,605)	(10,488)
Net assets attributable to the ordinary shares at 30 September	**386,910**	**354,563**

Notes to the Financial Statements (continued)

20 Capital commitments and contingent liabilities

Capital commitments

There were no capital commitments as at 30 September 2016 (2015: £nil).

Contingent liabilities

There were contingent liabilities of £2,500,000 in respect of underwriting participations as at 30 September 2016 (2015: £nil). Subsequent to the year end, the Company was not required to take up any shares in respect of these underwriting commitments.

21 Transactions with the Manager

Under the terms of an agreement effective from 22 July 2014, the Company has appointed Henderson to provide investment management, accounting, administrative and secretarial services. 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 17. The total of the management fees paid or payable to Henderson under this agreement in respect of the year ended 30 September 2016 was £1,806,000 (2015: £1,819,000). The amount outstanding at 30 September 2016 was £458,000 (2015: £441,000). The total of the performance fee paid or payable to Henderson under this agreement in respect of the year ended 30 September 2016 was £nil (2015: £908,000). The amount outstanding at 30 September 2016 was £nil (2015: £908,000).

In addition to the above services, 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 2016 was £44,000 (2015: £60,000), of which £20,000 was outstanding at 30 September 2016 (2015: £15,000).

22 Subsequent events

The Company has agreed to issue £30m in senior unsecured fixed rate private placement notes (the 'Notes') at an annualised coupon of 3.15% with a 20 year bullet maturity. The funding date for the Notes will be 5 January 2017 and the Notes will be due for repayment on 5 January 2037. The semi-annual interest payment dates for the Notes will be 5 July and 5 January.

General Shareholder Information

AIFMD Disclosures

In accordance with the Alternative Investment Fund Managers Directive ('AIFMD'), information in relation to the Company's leverage and remuneration of Henderson, 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 Key Investor Information Document ('KIID') which can be found on the Company's website **www.lowlandinvestment.com**.

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 19) 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 is being introduced. The legislation will require 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 2010

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.

Foreign Account Tax Compliance Act ('FATCA')

FATCA is a United States federal law enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the U.S.) to file yearly reports on their non-U.S. financial accounts. As a result of HMRC's change of interpretation on the meaning of shares and securities "regularly traded on an established securities market", investment trusts now need to monitor each year the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company will therefore need to make an annual assessment before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, will need to identify and report U.S. reportable accounts to HMRC, as required.

ISA

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

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.

Lowland Investment Company plc
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