

Lowland Investment Company plc

Annual Report and Financial Statements for the year ended 30 September

2011



Lowland Investment Company plc

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.

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.

Benchmark

The FTSE All-Share Total Return.

Key data

Per ordinary share	30 September 2011	30 September 2010	Change %
Net asset value [#]	811.0p	770.3p	+5.3
Share price [#]	762.5p	699.5p	+9.0
Net revenue return	28.8p	22.5p	+28.0
Total return	68.3p	139.5p	
First interim dividend	10.5p	10.0p	+5.0
Second Interim dividend	17.5p	17.0p	+2.9
Gearing*	14.8%	12.6%	
Total expense ratio**			
– excluding the performance fee	0.69%	0.70%	
– including the performance fee	1.03%	0.70%	

[#] Excluding reinvested income.

* Defined here as investments as a percentage of equity shareholders' funds minus 100.

** Defined here as total management and administrative expenses, as a percentage of the average shareholders' funds at the beginning and end of the year.

Performance

To 30 September 2011	1 year %	5 years %	10 years %
Net asset value total return ⁽¹⁾	8.6	4.3	135.7
Share price total return ⁽¹⁾	12.6	2.3	140.9
Peer group net asset value total return ⁽²⁾	-0.5	-0.7	76.7
FTSE All-Share Index (total return) ⁽³⁾	-4.4	4.0	59.2

Source:

(1) Morningstar for the AIC. Using cum income fair value net asset value for one year and capital net asset value plus income reinvested for 5 and 10 years.

(2) Morningstar for the AIC. The performance of the AIC UK Income & Growth Sector (arithmetic average).

(3) Morningstar for the AIC (gross income reinvested).

Dividend

The second interim dividend, in lieu of a final dividend, of 17.5p per ordinary share will be paid on 21 December 2011 to shareholders on the register of members at the close of business on 2 December 2011. The Company's shares will be quoted ex-dividend on 30 November 2011.

Historical record

30 September	Total return/(loss) per ordinary share in pence	Net revenue return per ordinary share in pence	Dividend in pence	Total net assets in £'000	Net asset value per ordinary share in pence
2011	68.3	28.8	28.00	214,251	811.0
2010	139.5	22.5	27.00	203,484	770.3
2009	8.4	22.7	26.50	173,633	657.3
2008	(344.4)	33.0	26.50	178,411	675.4
2007	138.7	27.9	23.50	275,868	1044.3
2006	150.3	20.8	20.75	222,217	915.7
2005	200.2	18.2	19.25	190,695 [†]	785.8 [†]
2004	89.5	17.3	18.00	126,746 [†]	603.5 [†]
2003	133.0	15.6	17.00	107,721	520.5
2002	(48.7)	15.2	15.50	82,649	405.2
2001	(5.8)	18.2	14.75	91,884	466.5

[†]Restated for changes in accounting policies. Years prior to 2004 have not been restated.

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Chairman's Statement

Performance for the year to 30 September 2011

I am pleased to report that your Company had a satisfactory year, once again outperforming its benchmark index significantly which it has done for the last 11 years except for 2008. James Henderson, our Portfolio Manager, is to be congratulated on this performance. The net asset value total return was a positive 8.6% whereas the FTSE All-Share total return was negative at -4.4%. Analysis of how the outperformance was achieved is shown on page 6 in the Portfolio Manager's report. The net asset value capital return per share rose by 5.3%, the discount to net asset value reduced from 9.2% to 6.0% and the share price rose by 9.0% to 762.5p.

Dividends

The total dividend for the year will be 28.0p (2010: 27.0p), comprising a first interim dividend of 10.5p per share (2010: 10.0p) followed by a second interim dividend of 17.5p per share (2010: 17.0p). This is an increase of 3.7%. The revenue per share for the year was 28.8p, an increase of 28.0% from last year's 22.5p. This means that after two years of using the Revenue Reserve to support our dividend, £221,000, representing 0.8p per share, will be added back to it this year. The Revenue Reserve is built up in years of underlying dividend growth from the companies in the portfolio to provide a buffer so that when companies have to cut their dividends we can maintain or increase the dividend we pay to our shareholders. This has enabled Lowland to maintain or increase its dividend every year for the last 35 years.

Expenses and Fees

The total expense ratio, which is the management fee and other non-interest expenses as a percentage of shareholders' funds excluding the performance fee, was 0.69% (2010: 0.70%), and including the performance fee was 1.03%. A performance fee of £698,000 (wholly charged to capital) was paid in respect of the year to 30 September 2011. This fee, and the basic management fee of 0.5% of net assets, are together capped at a total of 0.75% of net assets.

Investment Review

The recovery in equities, which had been fuelled by economic growth, ended during the summer as macro economic concerns came again to dominate. The possible default of Greece and its ramifications is at the centre of the worries but the slowdown in the USA and possibly China compound them. Meanwhile in

aggregate the companies we invest in have paid down debt, increased dividend cover and are expected to grow their profits. Their action in controlling costs is producing substantial cash generation. This is resulting in good dividend growth from the stocks in the portfolio and is behind our stance of having a reasonable level of gearing to equities.

Board

As mentioned last year, I will be retiring at the conclusion of the 2012 AGM having served as a Director since February 2000 and as Chairman since December 2004. I am pleased that Peter Troughton has agreed to become Chairman. He has been a Director of Lowland for many years and his experience of past cycles of both the Company and the markets over this period will be of benefit to shareholders in the face of uncertain times ahead. His length of service is counterbalanced by the rest of the Board, three of whose four members have been appointed within the last three years. I am proud to be leaving Lowland in the hands of a very strong and experienced Board, as shown on page 12.

Annual General Meeting

The Annual General Meeting will be held at the offices of Henderson Global Investors, 201 Bishopsgate, London on Wednesday 18 January 2011 at 12.30 pm. Full details of the business to be conducted at the meeting are set out in the Notice of the meeting which has been sent to shareholders with this report. As usual our Portfolio Manager, James Henderson, will be making a presentation and all shareholders are most welcome to attend.

Outlook

Dividend growth from the companies in our portfolio has been strong over the past year and the Portfolio Manager expects this to continue. Valuations of equities are low by historic standards and the companies we hold are in the main strong and therefore well positioned for the difficult economic conditions likely to prevail for the foreseeable future. The valuations currently placed on the shares which we hold do not reflect the growth that we expect to be achieved and this makes us positive about the prospects for Lowland.

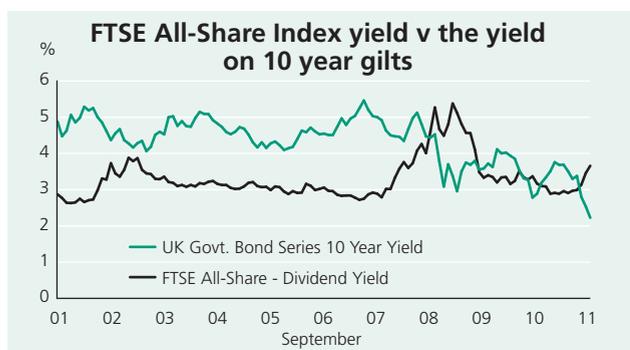
John Hancox
Chairman
21 November 2011

Portfolio Manager's Report

Review

Equity markets fell sharply in the last three months of our financial year, as concerns over the euro crisis increased. This brought to an end the quarter-by-quarter rises that had been recorded since the market began to recover in March 2009. The operating performance of most of our companies has been strong. Margins have increased for the majority of the stocks in the portfolio thanks to cost cutting and efficiency gains. Debt has been reduced; around a third of the companies in the portfolio having net cash. This is a substantial change from the position in 2008. Dividends have already recovered well from the lower levels of 2009; and stronger balance sheets lead us to expect dividend growth to increase by more than 8% next year.

Given the strong position of many of our companies and the positive outlook for dividends, we used the weakness during the summer to increase holdings in such stocks as **DS Smith**, **Elementis** and **Standard Life**. This was partially financed by accepting cash from the takeovers of **Holidaybreak** and **Chaucer**. We also increased our net borrowings during the year, from £28m to £32.2m. The current cost of the borrowing is around 2.4%, while the stocks purchased had an average dividend yield of around 4%.



Source: Henderson Global Investors Limited

Portfolio

On page 7 the stocks that contributed the most to our performance are shown in the top twenty holdings. The appreciation of the share prices of **Carclo** and **Senior**, has been a major contributor to Lowland's performance. They are both in the industrial sector: it is this stock market sector that has been the biggest contributor for Lowland over the last three years. Industrial companies with excellent products, servicing global markets, remain a large exposure for Lowland. These companies are experiencing good profit growth as demand from emerging countries for value-added specialist products grows, especially for companies with a technological edge. I expect to maintain the exposure to industrials because the valuations remain undemanding and I believe that their niche expertise will allow them to cope well with any downturn in the developed economies.



Source: Henderson Global Investors Limited

Some stock positions have become larger than they were when we reported last year, due to their strong performance. It is important not to take profits too early: our policy has been to stick with the winners. The subdued economy means fewer companies will be able to sustain strong growth; those that do will be rewarded with higher ratings. Equally, the tough operating climate will cause many companies to

Portfolio Manager's Report

continued

struggle. I expect to reduce the number of positions in the portfolio to reflect this. I will maintain the discipline of being an income investor. It forces me to focus on cash generation, because it is cash which pays good dividends. I believe that this emphasis helps me to avoid mistakes.

The Economy

Throughout the year the majority of company results have beaten best expectations, with upgrades following for next year. Economists are gloomy about the outlook for the UK. Slow growth is inevitable as the UK economy is rebalanced away from consumption and debt is paid down. This adjustment is necessary and will in time lead to a sounder economy. Meanwhile good UK companies are becoming increasingly profitable and competitive. It is these that the portfolio holds: even during an extended period of low growth there will be good investment opportunities.



Source: Henderson Global Investors Limited

Outlook

The companies held in the portfolio predominantly have management teams that react quickly to changing circumstances, they are generating cash and their profits are growing. The level of debt within the companies is at historically low levels and dividend cover is high. This is a very strong position from which to enter a difficult economic period. The valuations of many of the companies in the portfolio are relatively low.

If the global economy does grow better than expected, then the ingredients are in place for a substantial equity market rally. Companies have focused on reducing their costs, and the sales growth would fuel an operating margin expansion that would lead to better-than-expected profits progression. The stock market investor is discounting very little profits growth. A revision of this view would lead to a much stronger market. If an economic global recession does occur, the strength of the companies will be tested, but we expect our companies to cope successfully. The strength and the discipline of the corporate sector lead me to believe that the worst fears of some commentators are misplaced.

The Chairman

John Hancox is retiring from the Board at the conclusion of the AGM. He has been an exceptional Chairman, bringing insight and calmness during a period of marked volatility in equity markets. I have much appreciated his guidance over the years.

James Henderson
21 November 2011

Portfolio Manager's Report

continued

Estimated Performance Attribution Analysis

(for the year ended 30 September 2011) – total returns compared to the FTSE All-Share Index

Contribution to Portfolio Performance

Equity portfolio

Share investments outside FTSE 100	8.0%
FTSE 100 Share investments	1.6%

Other factors

Gearing	-0.3%
Management fees and finance costs	-0.7%

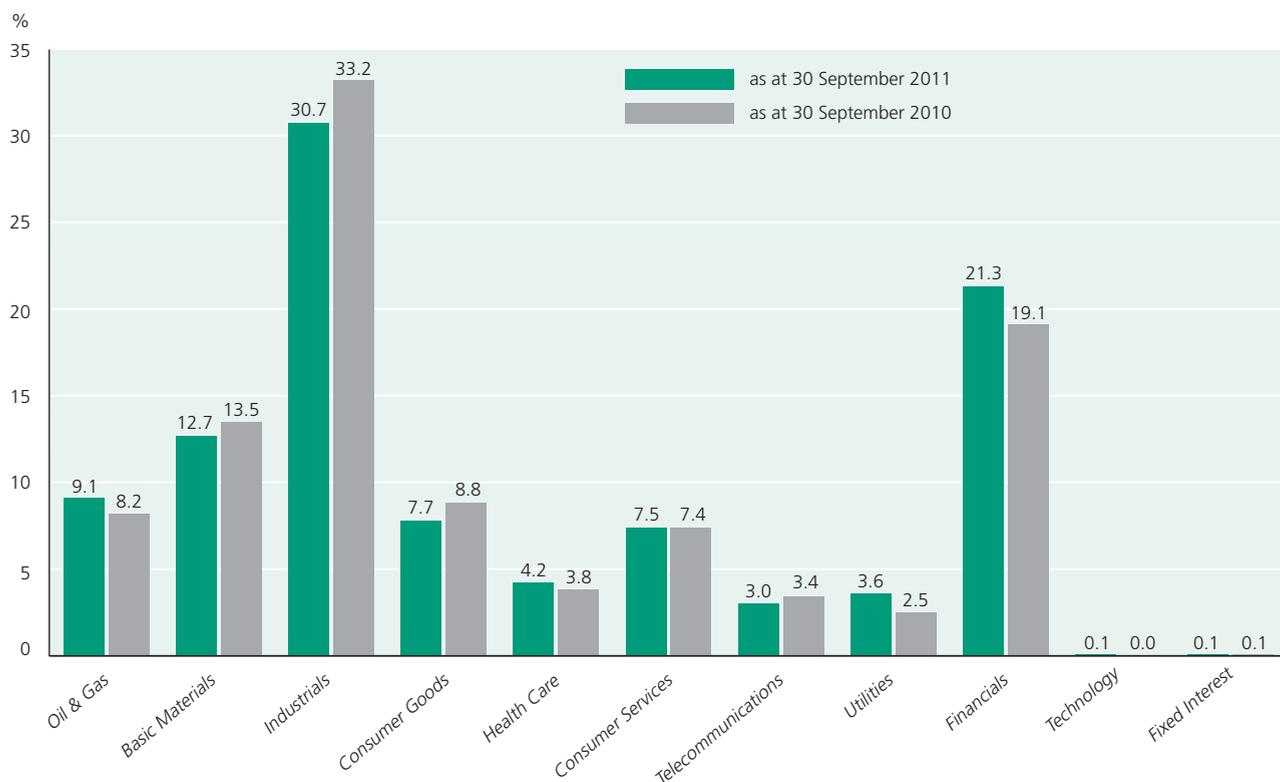
Lowland Net Asset Value Total Return **8.6%**

Benchmark (FTSE All-Share Index) Total Return **-4.4%**

Outperformance **13.0%**

Source: Henderson Global Investors Limited

Portfolio by Sector



Source: Henderson Global Investors Limited

Twenty Largest Holdings

at 30 September 2011

Rank (2011)	Rank (2010)		Valuation 2010 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2011 £'000
1	(4)	Carclo	8,512	–	–	6,711	15,223
2	(1)	Senior	12,501	–	(1,400)	459	11,560
3	(2)	Royal Dutch Shell	9,749	–	–	814	10,563
4	(7)	GlaxoSmithKline	5,645	1,376	–	311	7,332
5	(11)	Hiscox	4,910	1,340	–	235	6,485
6	(16)	Interserve	4,010	319	–	1,969	6,298
7	(9)	Vodafone	5,224	–	–	304	5,528
8	(3)	BP	8,984	–	(3,771)	(162)	5,051
9	(5)	Croda	7,039	–	(2,559)	470	4,950
10	(8)	Meggitt	5,554	347	(2,096)	884	4,689
11	(6)	Aviva	5,984	–	–	(1,403)	4,581
12	(12)	GKN	4,743	–	(461)	291	4,573
13	(*)	RPC	1,696	1,467	(386)	1,267	4,044
14	(*)	Phoenix	–	5,154	–	(1,194)	3,960
15	(*)	Amlin	3,119	2,345	–	(1,555)	3,909
16	(14)	Hill & Smith	4,051	429	–	(607)	3,873
17	(*)	Cape	2,589	517	–	750	3,856
18	(20)	Severn Trent	3,278	–	–	575	3,853
19	(10)	Canfor Pulp	5,126	–	(859)	(463)	3,804
20	(18)	H&T	3,396	–	–	378	3,774
			<u>106,110</u>	<u>13,294</u>	<u>(11,532)</u>	<u>10,034</u>	<u>117,906</u>

These investments total £117,906,000 or 47.9% of the portfolio.

* Not in the top 20 largest investments last year.

Investment Portfolio

at 30 September 2011

Investments	Market Value £'000	% of Portfolio	Investments	Market Value £'000	% of Portfolio
Oil & Gas Producers		7.5	Industrial Transportation		2.5
Royal Dutch Shell	10,563		Stobart	2,304	
BP	5,051		Clarkson	1,841	
*Gibson Energy	2,804		*Goldenport	1,161	
			†Autologic	442	
Oil Equipment, Services & Distribution		1.6	Wincanton	400	
Cape	3,856		‡Baltic Oil Terminals	17	
			Support Services		3.2
Chemicals		10.1	Interserve	6,298	
Carclo	15,223		†Johnson Service	1,444	
Croda	4,950		†Augean	173	
Elementis	2,594		†Begbies Traynor	38	
†Scapa	2,038				
			Automobiles & Parts		1.9
Forestry & Paper		2.1	GKN	4,573	
*Canfor Pulp	3,804				
Mondi	1,421		Beverages		1.4
			Diageo	3,425	
Mining		0.5			
Anglo American	1,115		Food Producers		1.8
*Endeavour Mining	84		Unilever	2,021	
			Dairy Crest	1,667	
Aerospace & Defence		9.5	Carr's Milling Industries	730	
Senior	11,560		†Uniq	127	
Meggitt	4,689				
Avon Rubber	3,082		Household Goods & Home Construction		2.0
Rolls-Royce	2,083		Bellway	1,711	
BAE Systems	1,737		†Churchill China	1,122	
Hampson Industries	263		Redrow	1,120	
			Headlam	1,041	
Construction & Materials		3.0			
Balfour Beatty	2,830		Leisure Goods		0.4
Low & Bonar	2,727		Hornby	844	
Marshalls	1,359		†Harvard	206	
†Eleco	315				
Clarke (T)	262		Personal Goods		0.2
			†Airea	474	
Electronic & Electrical Equipment		2.6			
Oxford Instruments	2,828		Health Care Equipment & Services		0.6
Morgan Crucible	2,694		Consort Medical	1,575	
TT Electronics	779				
			Pharmaceuticals & Biotechnology		3.6
General Industrials		3.2	GlaxoSmithKline	7,332	
RPC	4,044		AstraZeneca	1,434	
Smith (David S)	3,513				
Cosalt	237		General Retailers		1.4
			†Jacques Vert	1,716	
Industrial Engineering		6.7	Findel	1,280	
Hill & Smith	3,873		Topps Tiles	340	
Castings	3,066				
IMI	3,021				
Renold	2,805				
Weir	2,324				
†Chamberlin & Hill	759				
†Metalrax	356				
Severfield-Rowen	214				
†Somero Enterprises	67				

Investment Portfolio continued

at 30 September 2011

Investments	Market Value £'000	% of Portfolio	Investments	Market Value £'000	% of Portfolio
Media		3.6	Financial Services		5.1
Daily Mail & General	3,268		† H&T	3,774	
Pearson	3,132		Provident Financial	3,765	
Reed Elsevier	2,225		International Personal Finance	2,822	
Yell	86		IP Group	2,091	
Quarto	39				
Travel & Leisure		2.5	Life Insurance/Assurance		5.7
Greene King	2,611		Aviva	4,581	
Marston's	2,441		Phoenix	3,960	
#Wadworth	1,125		Standard Life	2,500	
			Chesnara	1,600	
			Legal & General	1,450	
Mobile Telecommunications		3.0	Nonlife Insurance		6.0
Vodafone	5,528		Hiscox	6,485	
Inmarsat Ventures	1,966		Amlin	3,909	
			Novae	1,874	
Electricity		1.4	† Abbey Protection	1,098	
Scottish & Southern Energy	3,237		* FBD	547	
† IPSA	142		† Tawa	541	
			Hardy Underwriting	323	
Gas, Water & Multiutilities		2.2	Real Estate		1.2
Severn Trent	3,853		St Modwen	1,614	
Pennon	1,689		Mucklow	1,310	
			Software & Computer Services		0.1
Banks		1.4	Parity	277	
HSBC	2,112		Fixed Interest		0.1
Lloyds Banking Group	1,395		#Wadworth	156	
Equity Investment Instruments		1.9			
Herald Investment	2,195				
† Infrastructure India	1,400				
Henderson Opportunities Trust	1,088				
			TOTAL PORTFOLIO	246,055	100.0

† AIM stocks

* Overseas quoted stocks

Unquoted investment

\$ Suspended

Portfolio Analysis

at 30 September 2011

		United Kingdom	Overseas	Total 30 Sept 2011	FTSE All-Share 2011	Total 30 Sept 2010
		%	%	%	%	%
Oil & Gas	Oil & Gas Producers	6.4	1.1	7.5	16.8	8.2
	Oil Equipment, Services & Distribution	1.6	–	1.6	0.6	–
		8.0	1.1	9.1	17.4	8.2
Basic Materials	Chemicals	10.1	–	10.1	0.5	8.5
	Forestry & Paper	0.5	1.6	2.1	0.1	2.9
	Industrial Metals & Mining	–	–	–	–	–
	Mining	0.5	–	0.5	10.0	2.1
	11.1	1.6	12.7	10.6	13.5	
Industrials	Aerospace & Defence	9.5	–	9.5	1.8	10.9
	Construction & Materials	3.0	–	3.0	0.2	3.4
	Electronic & Electrical Equipment	2.6	–	2.6	0.4	2.7
	General Industrials	3.2	–	3.2	0.6	1.6
	Industrial Engineering	6.7	–	6.7	0.8	7.6
	Industrial Transportation	2.0	0.5	2.5	0.1	3.5
	Support Services	3.2	–	3.2	3.5	3.5
	30.2	0.5	30.7	7.4	33.2	
Consumer Goods	Automobiles & Parts	1.9	–	1.9	0.2	2.1
	Beverages	1.4	–	1.4	3.7	1.3
	Food Producers	1.8	–	1.8	2.3	1.9
	Household Goods & Home Construction	2.0	–	2.0	2.0	2.3
	Leisure Goods	0.4	–	0.4	–	0.8
	Personal Goods	0.2	–	0.2	0.4	0.2
	Tobacco	–	–	–	4.9	0.2
	7.7	–	7.7	13.5	8.8	
Health Care	Health Care Equipment & Services	0.6	–	0.6	0.4	0.6
	Pharmaceuticals & Biotechnology	3.6	–	3.6	7.7	3.2
	4.2	–	4.2	8.1	3.8	
Consumer Services	Food & Drug Retailers	–	–	–	2.8	0.3
	General Retailers	1.4	–	1.4	1.5	1.3
	Media	3.6	–	3.6	2.8	3.9
	Travel & Leisure	2.5	–	2.5	2.6	1.9
	7.5	–	7.5	9.7	7.4	
Telecommunications	Fixed Line Telecommunications	–	–	–	1.0	–
	Mobile Telecommunications	3.0	–	3.0	5.6	3.4
	3.0	–	3.0	6.6	3.4	
Utilities	Electricity	1.4	–	1.4	0.9	0.7
	Gas, Water & Multiutilities	2.2	–	2.2	3.5	1.8
	3.6	–	3.6	4.4	2.5	
Financials	Banks	1.4	–	1.4	10.0	1.5
	Equity Investment Instruments	1.9	–	1.9	3.1	1.8
	Financial Services	5.1	–	5.1	1.8	3.7
	Life Insurance/Assurance	5.7	–	5.7	2.8	4.0
	Nonlife Insurance	5.8	0.2	6.0	0.9	6.3
	Real Estate	1.2	–	1.2	1.8	1.8
	21.1	0.2	21.3	20.4	19.1	
Technology	Software & Computer Services	0.1	–	0.1	1.2	–
	Technology Hardware & Equipment	–	–	–	0.7	–
	0.1	–	0.1	1.9	–	
	96.5	3.4	99.9	100.0	99.9	
	0.1	–	0.1	–	0.1	
	96.6	3.4	100.0	100.0	–	
	97.7	2.3	–	–	100.0	

Historical Record

Year to 30 September	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross revenue £'000	6,606	5,795	5,810	6,634	7,653	8,514	9,726	12,326	8,135	8,410	9,906
Per ordinary share (pence):											
Net revenue	18.2	15.2	15.6	17.3	18.2	20.8	27.9	33.0	22.7	22.5	28.8
Dividend paid (net)*	14.75	15.50	17.00	18.00	19.25	20.75	23.50	26.50	26.50	27.00	28.00
Imputed tax	1.64	1.72	1.89	2.00	2.14	2.31	2.61	2.94	2.94	3.00	3.11
Total dividend (gross)	16.39	17.22	18.89	20.00	21.39	23.06	26.11	29.44	29.44	30.00	31.11
Net assets attributable to ordinary shares £'m	91.9	82.6	107.7	126.7†	190.7†	222.2	275.9	178.4	173.6	203.5	214.3
Net asset value per ordinary share (pence)	466.5	405.2	520.5	603.5†	785.8†	915.7	1044.3	675.4	657.3	770.3	811.0
Share price (pence)	440.0	415.0	533.0	587.5	775.0	895.5	1091.0	625.0	610.0	699.5	762.5
Indices 2001 =100	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Asset Value Capital Return	100	87	112	129	168	196	224	145	141	165	174
Ordinary Share Price Capital Return	100	94	121	134	176	204	248	142	139	159	173
Net Dividend	100	105	115	122	131	141	159	180	180	183	190
FTSE All-Share Index Capital Return	100	77	87	97	117	130	142	106	113	123	113
Retail Prices Index	100	107	110	113	116	120	125	131	130	136	143

Source: Thomson Financial, Datastream and Henderson Global Investors, capital returns only.

*Represents the total amount paid in respect of each financial year.

† Restated for changes in accounting policies. Years prior to 2004 have not been restated.

Share price, net asset value and the FTSE All-Share Index (capital return only) since 1990 to 30 September 2011 (1990 = 100)



Source: Thomson Financial, Datastream.
1990 is the year that James Henderson was appointed Portfolio Manager.

Directors

John Hancox FCA* (Chairman), is a non-executive director of Henderson Fledgling Trust plc and a number of unlisted companies. He was appointed to the Board in 2000 and became Chairman at the conclusion of the 2004 AGM. He is due to retire at the conclusion of the 2012 AGM.

Karl Sternberg*†, is a Director of JP Morgan Income & Growth Investment Trust Plc and Chief Executive of Oxford Investment Partners Limited. He is also a director of Friends Life and a Fellow of St Catherine's College, Oxford. He was formerly Chief Investment Officer for Deutsche Asset Management (Europe and Asia Pacific). He was appointed to the Board in January 2009.

Rupert Barclay ACA*†, is a partner of Cairneagle Associates LLP. He was formerly the director of Group Strategy at Reuters plc and Allied Domecq plc and has held non-executive positions with Macfarlane Group plc, Instinet Corporation and Dimension Data plc. He was appointed to the Board in 2000 and became Chairman of the Audit Committee in June 2008.

Kevin Carter*†, is a director of Murray International Trust Plc and Legal and General Investment Management (Holdings) Ltd and is Chairman of the Investment Committee and a trustee director of the BBC Pension Scheme. He is a director of the Centrica Combined Common Investment Fund Limited and Chairman of Hermes GPE LLP. He was the Head of European Investment Practice of Watson Wyatt Limited and Chief Executive Officer of Old Mutual Asset Managers. He was appointed to the Board in October 2009.

Peter Troughton*†, is Vice-Chairman of Archant Ltd and a non-executive director of a number of private companies. He is also a Director of the Waverton Funds and of JOHIM Global Funds plc. He was formerly a director of WH Smith Group plc and chief executive of Rothschild Asset Management. He was appointed to the Board in 1990. He will become Chairman from the conclusion of the 2012 AGM.

Robert Robertson*†, 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. He was appointed to the Board on 1 May 2011.

* Independent non-executive director and a member of the Company's Management Engagement Committee and Nominations Committee, both of which are chaired by John Hancox.

† A member of the Company's Audit Committee, which is chaired by Rupert Barclay.

Investment Manager

Henderson Global Investors Limited is appointed to manage the investment portfolio in furtherance of the Company's objective. The terms of the appointment of the directors are given in the Directors' Report on pages 18 and 19.

James Henderson managed the portfolio during the year under review. He has been the Portfolio Manager since 1990.

Ben Lofthouse is the Deputy Portfolio Manager.

Wendy King, FCIS is the appointed representative of Henderson Secretarial Services Limited, the Corporate Secretary.

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Authorised and regulated by the
Financial Services Authority.

Directors' Report

The directors present the audited financial statements of the Company and their report for the year ended 30 September 2011.

Business Review

The following review is designed to provide information primarily about the Company's business and results for the year ended 30 September 2011. The business review should be read in conjunction with the Chairman's Statement on page 3 and the Portfolio Manager's Report on pages 4 to 6, which give a detailed review of the investment activities for the year and an outlook for the future.

a) Status

The Company, registered in England and Wales with company registration number 670489, is an investment company as defined in Section 833 of the Companies Act 2006 and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010. The Company is subject to the rules of the UK Listing Authority and is governed by its Articles of Association. It is required to seek HM Revenue & Customs approval of its status as an investment trust under the above-mentioned Section 1158 every year, and this approval will continue to be sought. Approval of the Company's status as an investment trust has been received in respect of the year ended 30 September 2010, although this approval is subject to there being no subsequent enquiries under Corporation Tax Self Assessment. The directors are of the opinion that the Company has continued to conduct its affairs in a manner that will enable it to continue to gain such approval.

The Company is not a close company.

The Company intends to continue to manage its affairs so that its investments fully qualify for a stocks and shares component of an ISA.

b) Investment objective

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 through a broad spread of predominantly UK companies.

The Company measures its performance against the FTSE All-Share Index (total return).

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 with 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 growing the capital value of the Company through investing in shares that usually have a reasonable dividend yield and prospects for dividend growth some time in the future.
- **Gearing**
The Company will at times borrow money both short and longer term in order to enhance performance. The gearing will not exceed 29.9% 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 has, since inception, been managed by a representative of Henderson Global Investors. The Board is independent of the management company.

Directors' Report

continued

c) Financial review

	2011	2010	% Change
Net assets as at 30 September	£214.3m	£203.5m	+5.3
Total return per share for the year	68.3p	139.5p	
Revenue return per share for the year	28.8p	22.5p	+28.0
Dividend payable per share for the year	28.0p	27.0p	+3.7

- Assets

Total net assets at 30 September 2011 amounted to £214,251,000 compared with £203,484,000 at 30 September 2010, and the net asset value per ordinary share increased from 770.3p to 811.0p an increase of 5.3%.

At 30 September 2011 the Company held 106 (2010: 108) investments, as detailed on pages 8 and 9.

- Revenue and Total Return

The net revenue after taxation for the year was £7,618,000, or 28.8p per share (2010: £5,933,000 or 22.5p per share) an increase of 28.0% from the previous year. The total return per share for the year was 68.3p (2010: 139.5p).

- Dividend

For the financial year under review, a first interim dividend of 10.5p (2010: 10.0p) has been paid, which, together with the second interim dividend of 17.5p (2010: 17.0p) to be paid on 21 December 2011, will provide a total dividend of 28.0p per ordinary share for the year, an increase of 3.7% compared to last year.

- Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There

were no trade creditors at 30 September 2011 (2010: nil).

- Bank facility

The Company has put in place facilities which allow it to borrow as and when appropriate. At 30 September 2011 the Company had two committed short term facilities totalling £43 million. The facilities are subject to regular review. Actual borrowing at 30 September 2011 was £33.5 million (30 September 2010: £28 million).

- Future developments

While the future performance of the Company is dependent, to a large degree, on the performance of financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined above. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement on page 3 and the Portfolio Manager's Report on pages 4 and 5.

- Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, it has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", published by the Financial Reporting Council in October 2009.

d) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance

Directors' Report

continued

of the Investment Manager, the directors take into account the following key performance indicators:

- Performance measured against the benchmark**
The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and its benchmark, which is the FTSE All-Share 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 AIC (Association of Investment Companies) sector.

The Board would consider the use of share buy-backs to enhance shareholder value. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV of the remaining shares.

The Company publishes an 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 Growth and 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.
- Total expense ratio ("TER")**
The TER is a measure of the total expenses incurred by the Company expressed as a percentage of the average shareholders' funds at the beginning and end of the year. The Board regularly reviews the TER and monitors all Company expenses.

	Year ended 30 September 2011	Year ended 30 September 2010
NAV total return	8.6%	21.9%
FTSE All-Share total return (the benchmark)	-4.4%	12.5%
AIC Sector NAV total return	-0.5%	14.7%
Share price total return	12.6%	19.7%
AIC Sector share price total return	4.5%	19.5%
Discount to NAV	6.0%	9.2%
Total expense ratio – excluding the performance fee	0.69%	0.70%
– including the performance fee	1.03%	0.70%
AIC Sector average total expense ratio	0.90%	0.80%

Source: AIC, Henderson Global Investors

e) Related party transactions

The provision of investment management, accounting, company secretarial and administrative services has been out-sourced to Henderson Global Investors Limited ("Henderson" or the "Investment Manager"). This is the only related party arrangement currently in place. Other than fees payable by the Company in the ordinary course of business, there have been no material transactions with this related party affecting the financial position or performance of the Company during the year under review.

f) Management arrangements

Investment management, accounting, company secretarial and administrative services were provided to the Company by wholly owned subsidiary companies of Henderson under an Investment Management Agreement which is reviewed annually and has a six month notice period.

- 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 includes short-term borrowings for investment purposes but excludes the value of any investment in any funds managed by Henderson.

Directors' Report

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- *Performance Fee*

This performance fee will be 15% of any outperformance on a total return basis of Lowland's benchmark (currently the FTSE All-Share Index) by more than 10% (the "hurdle rate") over the average of the last three years. The performance fee, plus the basic fee of 0.5% of net assets described above, will be capped in any year at a total of 0.75% of average net assets for the year.

In the first year of operation, the year to 30 September 2011, the performance fee will be based on Lowland's performance over that one year. In the second year, it will be based on the average of the two years to 30 September 2012. In the year to 30 September 2013 and thereafter, it will be based on the average of the previous three years.

Any performance fee paid will be charged to the capital return column of the income statement whereas the management fee will continue to be charged to the revenue return column.

During the year under review the Investment Manager used certain research services which were paid for, or provided by, various brokers. In return it placed business, which may have included transactions relating to the Company, with these brokers.

g) Custody arrangements

Since 14 September 2009 custody services have been provided by JP Morgan Bank, N.A.

h) Principal risks and uncertainties

With the assistance of the Investment Manager, the Board has drawn up a Risk Map, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy**
An inappropriate investment strategy, 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. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Investment Manager 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 limits and restrictions on a regular basis and the Investment Manager confirms adherence to them every month. The Investment Manager provides the Board with management information, including performance data and reports and shareholder analyses. The directors monitor the implementation and results of the investment process with the Portfolio Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

- **Market**
Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in note 14.1.1 on pages 39 to 40.
- **Accounting, legal and regulatory**
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, realised gains in the Company's portfolio would be subject to Corporation Tax. Compliance with the requirements of Section 1158 are monitored by the Investment Manager and the results are reported at each Board meeting.

The Company must comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Rules. A breach of the Companies Act 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 advisers to ensure adherence to the Companies Act and the UKLA Rules.

- **Operational**
Disruption to, or the failure of, the Investment Manager's accounting, dealing or payment systems or the Custodian's records could prevent the

Directors' Report

continued

accurate reporting or monitoring of the Company's financial position. The Investment Manager 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 the Investment Manager and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section on page 22.

- Financial

The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Details of these risks and how they are managed are disclosed in note 14 to the financial statements on pages 39 to 43.

Corporate Governance Statement

a) Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 7.2 of the Disclosure and Transparency Rules of the UK Listing Authority requires all listed companies to publish a corporate governance statement, while paragraph 9.8.6 of the Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the "Code"). As an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and the directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Financial Reporting Council (the "FRC") confirmed on 30 September 2010 that it remained the view of the FRC that by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment Companies (the "AIC Guide") published in October 2010, boards of investment companies should fully meet their obligations in relation to the Code and paragraph 9.8.6 of the Listing Rules. The AIC Code of Corporate Governance published in October

2010 (the "AIC Code"), as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The Board of Lowland Investment Company plc believes that reporting against the AIC Code by reference to the AIC Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code. Copies of the AIC Code and the AIC Guide can be found on www.theaic.co.uk.

b) Statement of compliance

The AIC Code comprises 21 principles. The directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the Code except as noted below.

- Senior independent director
The Board considers that all the directors have different qualities and areas of expertise on which they may lead where particular issues arise. A senior independent director has therefore not been appointed.
- The role of chief executive
Since all directors are non-executive and day-to-day management responsibilities are sub-contracted to the Investment Manager, the Company does not have a Chief Executive.
- Executive directors' remuneration
As the Board has no executive directors, it is not required to comply with the principles of the UK Code of Corporate Governance in respect of executive directors' remuneration and does not have a Remuneration Committee. Directors' fees are detailed in the Directors' Remuneration Report on page 27.
- Internal audit function
As the Company delegates to third parties its day-to-day operations and has no employees, the Board

Directors' Report

continued

has determined that there is no requirement for an internal audit function. The directors annually review whether a function equivalent to an internal audit is needed and will continue to monitor its systems of internal controls in order to provide assurance that they operate as intended.

c) Directors

- Board composition and independence**

The Articles of Association provide that the total number of directors shall not be less than two nor more than nine. The Board currently consists of six non-executive directors. The directors review annually their independence. All directors are considered independent of the Investment Manager except John Hancox as he is also a director of Henderson Fledgling Trust plc which, following the acquisition of Gartmore Investment Limited, is also managed by Henderson. Therefore, since the date of acquisition of Gartmore in April 2011 John Hancox has not been deemed independent. However, the Board believes he remains independent in judgment and character. As previously notified he will be retiring as Chairman of the Company at the conclusion of the 2012 AGM. Peter Troughton and Rupert Barclay have served on the Board for over nine years and, based on the AIC Code, they would not automatically be deemed independent. However, the Nominations Committee concluded that Peter Troughton and Rupert Barclay remain independent as they have no other links to the Investment Manager and have a wide range of other interests. The Chairman's other significant commitments are detailed on page 12 and have not changed during the year. Peter Troughton is to succeed John Hancox as Chairman. All the current directors, with the exception of Robert Robertson who was appointed on 1 May 2011, served on the Board throughout the year.
- Directors' appointment, retirement and rotation**

The Board may appoint directors to the Board without shareholder approval. All directors are appointed for an initial term of three years, subject to re-appointment and Companies Act provisions,

and, in accordance with the articles of association, any director so appointed must stand for election by the shareholders at the next Annual General Meeting ("AGM").

The Code requires that every director retires by rotation at least every three years and the Company's Articles of Association provide that one third of directors retire by rotation each year. Directors may then offer themselves for re-election. Mr Hancox will be retiring at the AGM and is not seeking re-election. Mr Barclay and Mr Troughton offer themselves for annual re-election by shareholders in accordance with both the Code and the AIC Code.

Robert Robertson was appointed by the directors on 1 May 2011 and accordingly offers himself for appointment by shareholders at the forthcoming Annual General Meeting.

In addition under the articles of association, shareholders may remove a director before the end of his term by passing a special resolution. A special resolution is passed if more than 75 per cent. of the votes cast, in person or by proxy, are in favour of the resolution.

The directors' biographies, set out on page 12, 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 believes that each of the directors exercises independent judgement and that length of service does not necessarily diminish the contribution from a director; indeed, a director's experience and extensive knowledge of the Company can be a positive benefit to the Board. 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

Directors' Report

continued

great benefit to shareholders. This view is supported by the AIC Code.

There were no contracts subsisting 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 service contract with the Company. No director is entitled to compensation for loss of office on the takeover of the Company or otherwise.

- Board succession and policy for recruitment
The Nominations Committee considers succession planning bearing in mind the balance of skills, knowledge and experience existing on the Board and will recommend when the further recruitment of non-executive directors is required. The Committee aims to maintain a balance of relevant skills, experience and length of service of the directors serving on the Board. John Hancox is to retire as Chairman at the Annual General Meeting in 2012 and Peter Troughton is to succeed him.
- Directors' remuneration
A report on directors' remuneration is on page 27.
- Directors' Interest in shares
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 each	
	30 September 2011	1 October 2010
Beneficial:		
John Hancox	20,000	20,000
Rupert Barclay	10,993	10,932
Kevin Carter	2,500	2,500
Robert Robertson*	9,400	–
Karl Sternberg	3,500	3,500
Peter Troughton	12,444	8,420
Non-beneficial:		
Robert Robertson*	11,000	–

* Appointed on 1 May 2011.

James Henderson, the Portfolio Manager, has a beneficial interest in 460,183 (2010: 492,419) ordinary shares of the Company.

- Directors' conflicts of interest
Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. With effect from 1 October 2008, the Companies Act 2006 (the "Act") has allowed directors of public companies to authorise such conflicts and potential conflicts, where appropriate, but only if the articles of association contain a provision to this effect. The Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. There are two circumstances in which a conflict of interest can be permitted – either the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or the matter has been authorised in advance by the directors. The Company's articles of association, which were adopted by shareholders on 22 January 2010, give the directors the relevant authority required to deal with conflicts of interest.

Each of the directors has provided a statement of all conflicts of interest and potential conflicts of interest, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. Going forward, the directors have also all undertaken to notify the Chairman as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the Register, which will be reviewed annually by the Board.

It has also been agreed that directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new directors will be asked to submit a list of potential situations falling within the conflicts of interest

Directors' Report

continued

provisions of the Act in advance of joining the Board. The Chairman will then determine whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. Only directors who have no interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve a conflict of interest, directors will also act in a way they consider, in good faith, will be most likely to promote the Company's success in taking such a decision. The Board can impose limits or conditions when giving authorisation if the directors consider this to be appropriate.

The Board confirms that its powers of authorisation of conflicts has operated effectively since they were introduced on 1 October 2008. The Board also confirms that its procedures for the approval of conflicts of interest have been followed by all the directors.

- **Directors' professional development**
When a new director is appointed he or she is offered a training seminar which is held by the Investment Manager. 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 also regularly participate in relevant training and industry seminars.
- **Directors' Indemnity**
Directors' and officers' liability insurance cover is in place in respect of the directors. 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 judgement is given in their favour by the Court.

d) The Board

- **Board attendance**
Six scheduled Board meetings were held during the year to deal with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy, gearing policy, the review of investment performance and the level of the discount or premium to net asset value, financial reporting and controls, internal controls and risk, Board and Committee membership, corporate governance matters and the evaluation of service providers. Additional meetings of the Board may be arranged as required. The number of formal meetings of the Board and its Committees held during the financial year and the attendance of individual directors are shown in the table below. All directors attend the Annual General Meeting.

• Board attendance

No. of meetings	Management			
	Board	Audit Committee	Nominations Committee	Engagement Committee
	6	2	1	1
John Hancox (i)	4	n/a	1	1
Rupert Barclay	6	2	1	1
Kevin Carter	6	2	1	1
Robert Robertson (ii)	3	1	1	1
Karl Sternberg	6	2	1	1
Peter Troughton	6	2	1	1

Notes:

- (i) John Hancox is not a member of the Audit Committee, although he is normally invited to attend.
- (ii) Robert Robertson joined on 1 May 2011.

• Responsibilities of the Board and its Committees

The Board has three Committees, the Audit Committee, the Nominations Committee and the Management Engagement Committee, and Terms of Reference for these Committees are available on the website, www.lowlandinvestment.com.

Audit Committee

The Audit Committee comprises Rupert Barclay, Kevin Carter, Karl Sternberg, Peter Troughton and Robert Robertson. The Chairman of the Committee is Rupert Barclay. Collectively the members of the

Directors' Report

continued

Audit Committee are considered to have the necessary recent and relevant financial experience.

The Audit Committee meets at least twice a year and is responsible for the review of the Annual Report and Financial Statements, the nature and scope of the external audit and the findings therefrom, the terms of appointment of the auditors together with their remuneration, performance, independence and objectivity, as well as any non-audit services provided by the auditors, and the Half Year Report and Half Year Update. It meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

With effect from 30 April 2011, in accordance with changes made by the Auditing Practices Board and the Financial Reporting Council to the APB's Ethical Standards for Auditors and the FRC's Guidance on Audit Committees, audit committees are required to formulate a written policy on the provision of non-audit services by the Company's statutory independent auditors.

The Audit Committee has reviewed the guidance and has formulated a policy on the provision of non-audit services by the Company's auditors. The Audit Committee has determined that the Company's appointed auditors will never be considered for the provision of non-audit services, such as accounting and preparation of the financial statements, internal audit, custody and tax advice to directors to support the financial statements. The auditors may, if required, provide non-audit services relating to a review of the Company's half year report. All other non-audit services will be judged on a case-by-case basis and will be approved by a member of the Audit Committee.

During the year under review, PricewaterhouseCoopers LLP have not provided any non-audit services for the Company.

The Investment Manager and BNP Paribas Securities Services have arrangements in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Audit Committee has reviewed the audit appointment in the past and does not consider it necessary to repeat this at present. The auditors are required to rotate the audit partner every five years and this is the first year that the current partner has been in place.

Following a recommendation from the Audit Committee, the Board concluded that the auditors, PricewaterhouseCoopers LLP, remained independent of both the Company and the Investment Manager.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the AGM.

Nominations Committee

During the year the Nominations Committee comprised of all the directors. The Chairman of the Committee is John Hancox. However, he did not chair the Committee or participate in the discussions when the Chairman's successor was being considered. The Nominations Committee meets at least annually and considers Board succession planning, the review of the performance of the Board as a whole and the Board Committees, and the appointment of new directors. The Nominations Committee met once during the year and reviewed the directors retiring at the forthcoming Annual General Meeting and recommended their re-appointment be put forward to shareholders with the exception of John Hancox, who is retiring and not seeking re-appointment.

When considering succession planning, the Committee bears in mind the balance of skills,

Directors' Report

continued

knowledge and experience existing on the Board and will recommend when the recruitment of an additional non-executive director is required. As and when a decision is made to recruit additional directors to the Board, an external agency may be used and each director is also invited to submit nominations and these are considered in accordance with the Board's agreed procedures.

The Committee met in September 2011 to carry out its annual review of the Board, its composition and size and its Committees.

The results of the performance evaluation are contained in (e) below.

Management Engagement Committee

The Management Engagement Committee comprises of all the directors. The Chairman of the Committee is John Hancox. The Committee meets at least annually to review the Investment Management Agreement with the Company's Investment Manager and to review the services provided by the Investment Manager. Details of Henderson's responsibilities as Investment Manager can be found on pages 15 and 16.

e) Performance Evaluation

- *The Company*
The performance of the Company is considered in detail at each Board meeting.
- *The Board and the Board Committees*
The work of the Board as a whole and of the Board Committees was reviewed by the Nominations Committee in September 2011 and no areas of concern were identified.
- *Individual directors*
The Chairman reviews each individual director's contribution on an annual basis, and the work of the Board as a whole and of the Board Committees is also reviewed annually through a formal process by the Nominations Committee. The Board meets annually without the Chairman present in order to review the performance of the Chairman.

At the Nominations Committee meeting in 2011 it was agreed that the Chairman continued to promote effective leadership and that each of the directors contributed valuable experience and skills to the Board. In addition the succession of the Chairman was considered.

It was agreed that Peter Troughton was to succeed John Hancox as Chairman from the conclusion of the 2012 AGM. Peter's experience of past cycles of both the Company and the markets is considered to be of benefit to shareholders. He will also become Chairman of the Nominations Committee and Management Engagement Committee.

f) Internal Controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process has been in place since 2 March 2000 and is subject to regular review by the Board and up to the date of this report accords with the revised Guidance for Directors on the Combined Code published in October 2005 by the Financial Reporting Council.

The Board is responsible overall for the Company's system of internal control 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 objective and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Investment Manager, has undertaken an annual review of the effectiveness of the Company's system of internal control. The business risks have been analysed and recorded in a risk map, which is reviewed regularly. The Board receives each quarter from the Investment Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Investment Manager, and which reports the details of any known internal control failures. The Board receives each year from the Investment Manager a report on its internal controls which includes a report from the Investment Manager's reporting accountants on the

Directors' Report

continued

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 the effectiveness of the Company's system of internal control, necessary actions would be taken to remedy them.

g) Accountability and relationship with the Investment Manager

The Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements is set out on page 26, the Independent Auditors' Report on page 46 and the Statement of Going Concern on page 14.

The Board has delegated contractually to external third parties, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), 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.

The Board receives and considers regular reports from the Investment Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the Investment Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager attend each Board meeting enabling the directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company

within certain parameters. The directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board and Investment Manager operate in a supportive, co-operative and open environment.

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

h) Continued Appointment of the Investment Manager

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 the Investment Manager are contained on pages 15 and 16.

The Board reviews the performance of the Investment Manager at each Board meeting and the Management Engagement Committee reviews annually the terms of the contract with the Investment Manager. In the opinion of the Directors, the continued appointment of the current Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Investment Manager has extensive investment management resources, wide experience in managing and administering investment trust companies and is deemed likely to achieve the objectives of the Company.

i) Share capital and Shareholders

- **Share capital**
The Company's share capital comprises ordinary shares of 25p nominal value 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 and there are no shares

Directors' Report

continued

which carry specific rights with regards to control of the Company.

At 30 September 2011, there were 26,417,427 shares in issue. Since 30 September 2011 and up to the date of this document, there have been no changes to the share capital or voting rights of the Company.

- **Substantial Share Interests**
Declarations of interests in the voting rights of the Company, at 10 November 2011, are set out below.

Shareholder	% of voting rights
Legal & General	3.26%

In addition, the Board is aware that, at 30 September 2011, 9.9% of the issued share capital was held on behalf of participants in the Halifax Share Dealing products run by Halifax Share Dealing Limited ("HSDL"), which is now part of Lloyds Banking Group. In accordance with the arrangements made between HSDL and Henderson, the participants in the Halifax Share Dealing products are given the opportunity to instruct the nominee company of HSDL to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. HSDL has undertaken to instruct its nominee company to exercise the voting rights of any shares held through the Halifax Share Dealing products that have not been exercised by the individual participants in them. It will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

- **Relations with Shareholders**
Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the Half Year Update and Annual Report and Financial Statements, which aim to provide shareholders with a clear understanding of the Company's activities and their results. In addition, Interim Management

Statements are issued twice per annum. This information is supplemented by the daily calculation and publication at the London Stock Exchange of the net asset value of the Company's ordinary shares and by a monthly fact sheet. Information can also be found on www.lowlandinvestment.com. In addition to publishing various reports, the Portfolio Manager regularly meets with shareholders and, in particular, private client stockbrokers. During the meetings with shareholders, the Portfolio Manager has an opportunity to discuss the Company's investment approach.

The Board encourages shareholders to attend and participate in the Annual General Meeting, which is chaired by the Chairman of the Board and all directors normally attend. 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. The Portfolio Manager, as the representative of the Investment Manager, makes a presentation to and invites questions from shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and on the website afterwards.

It is the intention of the Board that the Annual Report and Financial Statements and the Notice of Annual General Meeting be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting are invited to do so by writing to the Company Secretary at the Registered Office address given on the inside back cover.

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

j) **Corporate Responsibility**

- *Responsible investment (SEE Statement)*
Responsible Investment is the term Henderson uses to cover its work on corporate governance and corporate responsibility (or social, environmental and

Directors' Report

continued

ethical (SEE) issues) in the companies in which it invests on its clients' behalf, across all funds. 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.

- *Voting policy and the UK Stewardship Code*
Henderson's Responsible Investment Policy sets out the Investment Manager's 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 UK Stewardship Code. The Company has delegated responsibility for voting to the Investment Manager. The Board will receive a report, at least annually, on the voting undertaken by the Investment Manager 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 Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefore are fed back to the investee company prior to voting.

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

- *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.

Annual General Meeting ("AGM")

The AGM will be held on Wednesday 18 January 2012 at 12.30 pm. Separate resolutions will be proposed for each substantive issue. The formal notice of the AGM as well as full details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this Annual Report.

Directors' Statement as to Disclosure of Information to Auditors

The directors who were members of the Board at the time of approving this Report are listed on page 12. Each of those directors confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of their Report of which the Company's auditors are unaware; and
- he 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.

By order of the Board

Wendy King FCIS

For and on behalf of Henderson Secretarial Services Limited
21 November 2011

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 profit or loss of the Company for that period. 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.

Statement of Directors' Responsibilities under DTR 4.1.12

Each of the directors, who are listed on page 12 confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report in this Annual Report includes 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

Rupert Barclay

Director

21 November 2011

The financial statements are published on the www.lowlandinvestment.com website, which is a website maintained by the Company's Manager, Henderson Global Investors Limited ("Henderson"). The maintenance and integrity of the website maintained by Henderson or any of its subsidiaries is, so far as it relates to the Company, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Sections 420-422 of the Companies Act 2006. The report also meets the relevant provisions of the Listing Rules issued by the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the AGM. The Company's auditors are required to report on certain information contained within this report.

Remuneration Policy

All directors are non-executive and it should be noted that a Remuneration Committee has therefore not been established. The whole Board considers matters relating to directors' remuneration and was not provided with advice or services by any external person in respect of its consideration of the directors' remuneration.

The Company's policy is that 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 be sufficient to enable candidates of high calibre to be recruited and retained. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities, as is the Chairman of the Audit Committee. The policy is to review fee rates annually, although such review will not necessarily result in any change to the rates, and account is taken of fees paid to directors of other investment trust companies of similar type and size. Fees are paid quarterly in arrears to the director personally.

None of the directors has a service contract with the Company. There are no set notice periods and a director may resign by notice in writing to the Board at any time. There are no long term incentive schemes, share option schemes or pension arrangements provided by the Company and no performance fees are paid to directors.

No other remuneration or compensation was paid or payable by the Company during the year or prior year to any of the current or former directors.

Directors' Fees and Expenses

The Company's articles of association limit the fees payable to the directors in aggregate to a total of £150,000 per annum.

The fees payable to directors during the year to 30 September are shown in the following table. Since 1 October 2011 the

fees have increased as follows: Chairman £30,000, Audit Committee Chairman £22,000 and director £19,000; the previous increase was from 1 October 2010.

	Notes	Directors' Fees	
		2011 £	2010 £
John Hancox		28,500	27,000
Rupert Barclay		21,000	19,000
Kevin Carter		18,000	17,000
Tracey Long	1	–	4,250
Michael Moule	2	–	5,289
Karl Sternberg		18,000	17,000
Peter Troughton		18,000	17,000
Robert Robertson	3	7,516	–
TOTAL		111,016	106,539

Notes

- 1 Tracey Long retired as a director on 31 December 2009.
2. Michael Moule retired as a director on 22 January 2010.
3. Robert Robertson was appointed a director with effect from 1 May 2011.

Performance graph



Source: Datastream

— Lowland share price total return, assuming the investment of £1,000 on 1 October 2006 and the reinvestment of all dividends (excluding dealing expenses).

— FTSE All-Share total return, assuming the notional investment of £1,000 on 1 October 2006 and the reinvestment of all income (excluding dealing expenses).

By order of the Board

Wendy King FCIS

For and on behalf of Henderson Secretarial Services Limited
Secretary

21 November 2011

Reconciliation of Movements in Shareholders' Funds

for the years ended 30 September 2011 and 30 September 2010

Note	Year ended 30 September 2011	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 30 September 2010	6,604	53,561	1,007	134,986	7,326	203,484
	Net return on ordinary activities after taxation				10,414	7,618	18,032
10	Second interim (17.0p) for the year ended 30 September 2010 paid 22 December 2010					(4,491)	(4,491)
10	First Interim dividend (10.5p) for the year ended 30 September 2011 paid 17 June 2011					(2,774)	(2,774)
	At 30 September 2011	6,604	53,561	1,007	145,400	7,679	214,251

Note	Year ended 30 September 2010	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 30 September 2009	6,604	53,561	1,007	104,069	8,392	173,633
	Net return on ordinary activities after taxation				30,917	5,933	36,850
10	Second interim (16.5p) for the year ended 30 September 2009 paid 22 December 2009					(4,359)	(4,359)
10	First interim dividend (10.0p) for the year ended 30 September 2010 paid 18 June 2010					(2,642)	(2,642)
10	Refund of unclaimed dividends over 12 years old					2	2
	At 30 September 2010	6,604	53,561	1,007	134,986	7,326	203,484

Balance Sheet

at 30 September 2011

Notes	2011 £'000	2010 £'000
11	Investments held at fair value through profit or loss	
	Listed at market value in the United Kingdom	205,140
	Quoted at market value on AIM	17,384
	Listed at market value overseas	5,243
	Unquoted	1,307
	246,055	229,074
	Current assets	
12	Debtors	1,562
22	Cash at bank	2,282
	2,856	3,844
13	Creditors: amounts falling due within one year	(29,434)
	Net current liabilities	(25,590)
	Total net assets	203,484
	Capital and reserves	
15	Called up share capital	6,604
16	Share premium account	53,561
17	Capital redemption reserve	1,007
17	Other capital reserves	134,986
18	Revenue reserve	7,326
	Shareholders' funds	203,484
19	Net asset value per ordinary share	770.3p

These financial statements were approved and authorised for issue by the Board of directors on 21 November 2011 and signed on their behalf by:

Rupert Barclay
Director

Cash Flow Statement

for the year ended 30 September 2011

Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
21		8,163		6,774
	Net cash inflow from operating activities			
	Servicing of finance			
	Interest paid	<u>(803)</u>	<u>(1,122)</u>	
	Net cash outflow from servicing of finance	(803)		(1,122)
	Taxation			
	Tax recovered	<u>63</u>	<u>95</u>	
	Net tax recovered	63		95
	Financial investment			
	Purchases of investments	<u>(43,606)</u>	<u>(28,542)</u>	
	Sales of investments	<u>36,992</u>	<u>24,780</u>	
	Net cash outflow from financial investment	(6,614)		(3,762)
	Equity dividends paid	(7,265)		(6,999)
	Net cash outflow before financing activities	(6,456)		(5,014)
	Financing			
	Repayment of Debenture Stock	<u>–</u>	<u>(6,000)</u>	
	Net loans drawdown	<u>5,500</u>	<u>11,000</u>	
		5,500		5,000
	Decrease in cash	(956)		(14)
22	Reconciliation of net cash flow to movement in net debt			
	Decrease in cash as above	(956)		(14)
	Repayment of Debenture Stock	–		6,000
	Net cash inflow from movement in loans	(5,500)		(11,000)
	Exchange movements	(29)		(38)
	Movement in net debt	(6,485)		(5,052)
	Net debt at 1 October	(25,718)		(20,666)
	Net debt at 30 September	(32,203)		(25,718)

The notes on pages 32 to 45 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments at fair value. The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") in January 2009. All of the Company's operations are of a continuing nature. The Company's accounting policies are consistent with the prior year.

(b) Valuation of investments held at fair value through profit or loss

Listed investments, including AIM stocks, have been designated by the Board as 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.

Unquoted investments have also been designated as held at fair value through profit or loss and are valued by the directors using primary valuation techniques such as earnings multiples, 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.

(c) Foreign currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational 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 balance sheet 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.

(d) Income

Dividends receivable from 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 capital return. 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 on an accruals basis.

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.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

(e) Management, performance and administrative expenses and finance charges

All expenses and finance charges 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.

(f) 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 tax rate of corporation tax for the accounting period.

In line with the recommendations of the 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 balance sheet 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 substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

(g) Borrowings

Interest bearing bank loans, overdrafts and debentures are recorded initially at fair value, being the proceeds received, less direct issue costs. They are subsequently remeasured at amortised cost. Finance charges, 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.

(h) 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 Reconciliation of Movements in Shareholders' Funds.

(i) 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 dealt with in the Reconciliation of Movements in Shareholders' Funds. Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and dealt with in the share premium account. Issue costs incurred in respect of shares sold out of treasury are offset against proceeds received and dealt with 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)

(j) Capital reserves

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.

2 Gains from investments held at fair value through profit or loss	2011 £'000	2010 £'000
Gains/(losses) on the sale of investments based on historical cost	12,446	(5,864)
(Less)/add: Revaluation (gains)/losses recognised in previous years	(7,600)	8,117
Gains on investments sold in the year based on carrying value at previous balance sheet date	4,846	2,253
Revaluation gains on investments held at 30 September	6,295	28,702
Exchange losses	(29)	(38)
	11,112	30,917
3 Income from investments	2011 £'000	2010 £'000
UK dividends:		
Quoted investments	8,451	7,316
Unquoted	43	43
	8,494	7,359
Non UK dividends:		
Overseas dividend income	1,192	820
Property income dividends	92	119
Interest income	3	5
Non UK dividends	1,287	944
	9,781	8,303

Notes to the Financial Statements

continued

4 Other interest receivable and similar income	2011 £'000	2010 £'000
Deposit interest	1	2
Stock lending fees	60	7
Income from underwriting	64	98
	125	107

At 30 September 2011 the total value of securities on loan by the Company for stock lending purposes was £5,300,000 (2010: £3,490,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2011 was £13,200,000 (2010: £10,450,000). The Company's agent holds collateral comprising FTSE 100 stocks with a market value amounting to 105% of the market value of any securities on loan.

5 Management and Performance fees	2011			2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	1,043	–	1,043	924	–	924
Performance fee	–	698	698	–	–	–
Total	1,043	698	1,741	924	–	924

A description of the basis for calculating the management fee and performance fees is given in the Directors' Report on pages 15 and 16. For the year ended 30 September 2011, a performance fee of £698,000 is payable. This is based on Lowland's NAV total return for the year ended 30 September 2011 of +8.6% compared to the FTSE All-Share Index total return (plus a 10% hurdle rate) of -3.9%. As a result, the performance fee, plus the basic fee of 0.5% of net assets, is capped at 0.75% of average quarterly net assets for the year.

6 Other administrative expenses	2011 £'000	2010 £'000
Directors' fees (see Directors' Remuneration Report on page 27)	111	107
Auditors' remuneration – for audit services	21	20
AIC subscriptions	19	14
Directors' and Officers' liability insurance	12	13
Listing fees (Stock Exchange, newspapers and internet)	21	23
Loan facility fees	72	110
Printing and postage	26	26
Registrar's fees	16	19
Stock lending fees (see note 4)	18	2
Legal fees	2	5
General expenses and marketing expenses payable to Henderson	43	27
Other expenses	19	16
Irrecoverable VAT	22	17
	402	399

Notes to the Financial Statements

continued

7 Finance charges	2011 £'000	2010 £'000
On debenture stock repayable wholly or partly within five years	–	506
On bank loans and overdrafts repayable within one year	738	558
	738	1,064

8 Taxation	Year ended 30 September 2011			Year ended 30 September 2010		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
(a) Analysis of tax charge for the year						
Overseas tax suffered	105	–	105	90	–	90
Total taxation for the year	105	–	105	90	–	90

(b) Factors affecting the tax charge for the year	Year ended 30 September 2011			Year ended 30 September 2010		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Return on ordinary activities before taxation	7,723	10,414	18,137	6,023	30,917	36,940
Corporation tax at 27% (2010: 28%)	2,085	2,812	4,897	1,686	8,657	10,343
Effects of:						
Non-taxable UK dividends	(2,294)	–	(2,294)	(2,061)	–	(2,061)
Other non taxable income	(322)	–	(322)	(61)	–	(61)
Overseas tax suffered	105	–	105	90	–	90
Excess expenses/non trading deficits for the year	719	–	719	430	–	430
Expenses charged to capital	(188)	188	–	–	–	–
Income taxable in different periods	–	–	–	6	–	6
Non-taxable/deductible capital gains	–	(3,000)	(3,000)	–	(8,657)	(8,657)
	105	–	105	90	–	90

Investment trusts are exempt from Corporation Tax on capital gains provided that the Company obtains agreement from HM Revenue and Customs in respect of each accounting year that the tests under Section 1158 of the Corporation Tax Act 2010 have been met.

Due to the Company's status as an investment trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

The Company has not recognised a deferred tax asset totalling £7,540,000 (2010: £7,424,000) arising as a result of having unutilised management expenses and unutilised non trade loan relationship deficits. These expenses will only be utilised if the Company has profits chargeable to Corporation Tax in the future.

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 £18,032,000 (2010: £36,850,000) and on 26,417,427 ordinary shares (2010: 26,417,427) 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.

	2011 £'000	2010 £'000
Net revenue return	7,618	5,933
Net capital return	10,414	30,917
Net total return	<u>18,032</u>	<u>36,850</u>
Weighted average number of ordinary shares in issue during the year	26,417,427	26,417,427
Revenue return per ordinary share	28.8p	22.5p
Capital return per ordinary share	39.5p	117.0p
Total return per ordinary share	<u>68.3p</u>	<u>139.5p</u>

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	2011 £'000	2010 £'000
Final dividend (16.5p) for the year ended 30 September 2009	4 December 2009	22 December 2009	–	4,359
First interim dividend (10.0p) for the year ended 30 September 2010	28 May 2010	18 June 2010	–	2,642
Second interim dividend (17.0p) for the year ended 30 September 2010	3 December 2010	22 December 2010	4,491	–
First interim dividend (10.5p) for the year ended 30 September 2011	27 May 2011	17 June 2011	2,774	–
Refund of unclaimed dividends over 12 years old			–	(2)
			<u>7,265</u>	<u>6,999</u>

The second interim dividend for the year ended 30 September 2011 has 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.

	2011 £'000
Revenue available for distribution by way of dividend for the year	7,618
First interim dividend (10.5p) for the year ended 30 September 2011	(2,774)
Second interim dividend (17.5p) for the year ended 30 September 2011 (based on 26,417,427 ordinary shares in issue at 21 November 2011)	<u>(4,623)</u>
Revenue surplus	<u>221</u>

For Section 1158 purposes the Company's undistributed revenue represents 2.3% of the income from investments.

Notes to the Financial Statements

continued

11 Investments held at fair value through profit or loss	Total £'000
Valuation at 1 October 2010	229,074
Investment holding gains at 1 October 2010	(8,936)
Cost at 1 October 2010	220,138
Additions at cost	42,693
Disposals at cost	(24,407)
Cost at 30 September 2011	238,424
Investment holding gains at 30 September 2011	7,631
Valuation at 30 September 2011	246,055

Purchase transaction costs for the year ended 30 September 2011 were £208,000 (2010: £149,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2011 were £50,000 (2010: £36,000).

The Company has interests of 3% or more of any class of capital in 18 (2010: 15) investee companies. At 30 September 2011, of the 18 investee companies, the following represented more than 1% of investments.

Company	Valuation £'000	% of voting rights
Carclo	15,223	8.2
Avon Rubber	3,082	3.6
Renold	2,805	4.5

12 Debtors	2011 £'000	2010 £'000
Sales for future settlement	–	139
Prepayments and accrued income	1,541	1,360
Taxation recoverable	18	63
	1,559	1,562

13 Creditors: amounts falling due within one year	2011 £'000	2010 £'000
Unsecured sterling bank loans	33,500	28,000
Purchases for future settlement	6	919
Other creditors	1,154	515
	34,660	29,434

The Company entered into a two year £33m loan facility with ING Bank N.V. on 28 October 2010 and a two year £10m loan facility with National Australia Bank on 27 July 2011.

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 13. 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: market risk (comprising 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 the Investment Manager coordinate the Company's risk management.

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. The Investment Manager 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 quoted and unquoted investments.

The Company's exposure to market price risk at 30 September 2011 is represented by its investments held on the Balance Sheet under the heading "Investments held at fair value through profit or loss" on page 30.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Investment Manager'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 8 and 9. 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 recent market conditions.

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

Sensitivity analysis – Market prices

If prices change by 40% (2010: 40%)

	2011 If prices go up £'000	2011 If prices go down £'000	2010 If prices go up £'000	2010 If prices go down £'000
Investments	246,055	246,055	229,074	229,074
Impact on income statement:				
Revenue return (0.5% management fee rate)	(492)	492	(458)	458
Capital return	98,422	(98,422)	91,630	(91,630)
Impact on net assets and total return (excluding gearing)	97,930	(97,930)	91,172	(91,172)

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.

Management of the risk

The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. The Investment Manager 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
- 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 Balance Sheet under the heading "Cash at bank" and in note 13 under the heading "Unsecured sterling bank loans".

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

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 (2010: 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 2.4% as at 30 September 2011 (2010: 2.4%).

The Company had no fixed interest rate liability exposure at 30 September 2011 (2010: £nil).

Interest rate risk sensitivity

The Company is primarily exposed to interest rate risk through its loan facilities with ING Bank N.V and National Australia Bank 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 £32,203,000 (2010: £25,718,000) 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 £644,000 (2010: £514,000).

14.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company had unsecured sterling loan facilities totalling £43,000,000 (2010: £32,000,000) 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 the Investment Manager 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:

	30 September 2011		30 September 2010	
	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	33,701	–	28,247	–
Other creditors & accruals	1,029	–	1,238	–
	34,730	–	29,485	–

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.

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

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 the Investment Manager, and limits are set on the amount that may be due from any one broker.
- cash at bank is held only with reputable banks with high quality external credit ratings.

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 balance sheet at their fair value (investments) or the balance sheet 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 facility).

14.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 29 fair value hierarchy.

Fair value hierarchy	2011 £'000	2010 £'000
Equity investments		
Level 1	244,757	227,767
Level 2	17	–
Level 3	1,281	1,307
	246,055	229,074

Categorisation within the hierarchy has been determined on the basis of the lowest level 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 in Level 1

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

A reconciliation of movements within Level 3 is set out below:	2011 £'000	2010 £'000
Opening balance	1,307	1,302
Disposal proceeds	(52)	–
Total gains included in the Income Statement		
– on investments sold	26	–
– on investments held	–	5
Closing balance	1,281	1,307

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 2011 comprises its equity share capital, reserves and loans that are shown in the balance sheet at a total of £247,751,000 (2010: £231,484,000).

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

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

- the planned level of gearing, which takes into account the Investment 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
- 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 facility 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
- 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	2011 £'000	2010 £'000
Allotted, issued and fully paid		
26,417,427 (2010: 26,417,427) ordinary shares of 25p each	6,604	6,604

16 Share premium account	2011 £'000	2010 £'000
At the start and end of the year	53,561	53,561

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 30 September 2010	1,007	8,936	126,050	134,986
Transfer on disposal of investments	–	(7,600)	7,600	–
Net gains on investments	–	6,295	4,846	11,141
Performance fee taken to capital	–	–	(698)	(698)
Exchange differences	–	–	(29)	(29)
At 30 September 2011	1,007	7,631	137,769	145,400

The capital reserve arising on revaluation of investments held at 30 September 2011 includes a gain of £1,230,000 (2010: gain of £1,204,000) based on historical book cost, in respect of the revaluation of unquoted investments.

Notes to the Financial Statements

continued

18	Revenue reserve	£'000
	At 1 October 2010	7,326
	Net revenue return for the year after tax	7,618
	Net dividends paid (note 10)	(7,265)
	At 30 September 2011	7,679

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £214,251,000 (2010: £203,484,000) and on 26,417,427 (2010: 26,417,427) shares in issue on 30 September 2011.

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

	2011 £'000
Total net assets at 1 October 2010	203,484
Total net return on ordinary activities after taxation	18,032
Net dividends paid in the year:	
Ordinary shares	(7,265)
Net assets attributable to the ordinary shares at 30 September 2011	214,251

20 Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities as at 30 September 2011 (2010: £nil).

	2011 £'000	2010 £'000
21 Reconciliation of operating revenue to net cash inflow from operating activities		
Total return before finance charges and taxation	18,875	38,004
Less capital return before finance charges and taxation	(10,414)	(30,917)
Net revenue return before finance charges and taxation	8,461	7,087
Increase in prepayments and accrued income	(181)	(172)
Expenses charged to capital	(698)	–
Increase/(decrease) in other creditors and accruals	704	(27)
Income tax suffered on property income dividends	(18)	(24)
Overseas withholding tax suffered	(105)	(90)
	8,163	6,774

Notes to the Financial Statements

continued

22	Analysis of changes in net debt	1 October 2010 £'000	Cash flow £'000	Exchange Movements £'000	30 September 2011 £'000
	Cash at bank	2,282	(956)	(29)	1,297
	Debt falling due within one year	(28,000)	(5,500)	–	(33,500)
	Net debt	<u>(25,718)</u>	<u>(6,456)</u>	<u>(29)</u>	<u>(32,203)</u>

23 Transactions with the management company

Under the terms of an agreement dated 27 August 2009 the Company has appointed subsidiaries of Henderson Group plc ("Henderson") to provide investment management, accounting, secretarial and administrative services.

Details of the fee arrangements for these services are given in the Directors' Report on pages 15 and 16. The total of the management fees paid or payable to Henderson under this agreement in respect of the year ended 30 September 2011 was £1,024,000 (2010: £924,000). The amount outstanding at 30 September 2011 was £254,000 (2010: £261,000). The total of the performance fee paid or payable to Henderson under this agreement in respect of the year ended 30 September 2011 was £698,000 (2010: £nil). The amount outstanding at 30 September 2011 was £698,000 (2010: £nil).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 30 September 2011 was £43,000 (2010: £27,000), of which £12,000 was outstanding at 30 September 2011 (2010: £8,000).

Independent Auditors' Report

to the members of Lowland Investment Company plc

We have audited the financial statements of Lowland Investment Company plc for the year ended 30 September 2011 which comprise Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Statement of Responsibilities set out on page 26, 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 International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2011 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement set out on page 14, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Sally Cosgrove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 November 2011

Glossary of Terms

AIC

The Association of Investment Companies.

Benchmark

The FTSE All-Share Total Return.

Dividend Yield

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

Gearing

The gearing percentage reflects the amount of borrowings (ie bank loans) the Company has used to invest in the market. In a falling market, the gearing effect will have a negative contribution to performance, whereas in a rising market it will have a positive contribution.

There are several methods of calculating gearing and the following has been selected:

Investments as a percentage of equity shareholders' funds minus 100.

Investment Trusts

Investment trusts are public limited companies, quoted 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. Income, net of expenses and tax, is substantially distributed to shareholders.

Net Asset Value (NAV) per Ordinary Share

The value of the Company's assets (investments and cash held) less any liabilities (bank loans) 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 per share is published daily.

Performance Attribution Analysis

A performance attribution analysis shows how the Company achieved its recorded performance relative to its benchmark. This is broken down to show the effect of stock selection, gearing, expenses and any changes in share capital made during the year. In a falling market, the gearing effect will have a negative contribution to performance, whereas in a rising market it will have a positive contribution.

Premium/Discount

The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV.

Total Expense Ratio

This is the total expenses incurred by the Company in the year expressed as a percentage of the average shareholders' funds at the beginning and end of the year.

Total Return

This is the return on the share price or net asset value per share taking into account both the rise and fall of share prices and the dividends 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 net asset value total return).

Website

Further information on the Company can be found on www.lowlandinvestment.com

General Investor Information

Disability Discrimination Act

Copies of this Annual Report and Financial Statements 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, either Braille or on audio tape 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 0870 702 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.

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. Alternatively, shareholders can write to the Registrar (the address is given on the inside back cover) 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.

Share Price Listings

The share price, net asset value and other information can be found on the website: www.lowlandinvestment.com The net asset value is published daily. The market price of the Company's ordinary shares is quoted in the Financial Times and other leading newspapers. The London Stock Exchange Daily Official List (SEDOL) code is 0536806.

Release of Results

The Company announces full year results in November and half year results in May.

Dividends

The Company pays a first interim dividend in June and a second interim dividend, in lieu of a final dividend, in December.

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.

Nominee Code

Where shares in the Company are held by nominee companies, Lowland Investment Company plc undertakes to:

- provide nominee operators, who have indicated in advance a wish to receive them, with copies of shareholder communications for distribution to their customers; and
- encourage nominee operators to advise investors that they will be permitted to attend general meetings, and to speak at meetings when invited to do so by the Chairman.

Investors in Halifax Share Dealing Limited (formerly Itshenderson) and other Henderson ISAs receive all shareholder communications. Voting forms are provided to facilitate voting.

Warning to Shareholders

Over recent years many companies have become 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 US or UK investments. These operations are commonly known as "boiler rooms". These brokers 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 deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/laws/alerts/overseas.shtml

If you are in any doubt about the veracity of an unsolicited phone call, please contact either the Company Secretary or the Registrar at the numbers provided on the inside back cover. More detailed information on this or similar activity can be found on the CFEB website www.moneymadeclear.fsa.gov.uk

General Investor Information

continued

Directors

John Hancox (Chairman)
Rupert Barclay (Chairman of the Audit Committee)
Kevin Carter
Robert Robertson
Karl Sternberg
Peter Troughton

Investment Manager

Henderson Global Investors Limited,
authorised and regulated by the Financial Services Authority
Portfolio Manager: James Henderson
Deputy Portfolio Manager: Ben Lofthouse

Secretary

Henderson Secretarial Services Limited,
represented by Wendy King FCIS

Registered Office

201 Bishopsgate
London EC2M 3AE

Registered Number

Registered in England and Wales No. 670489

The Company is a member of

aic

The Association of
Investment Companies

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 707 1117

Independent Auditors

PricewaterhouseCoopers LLP
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London SE1 2RT

Stockbroker

JPMorgan Cazenove
10 Aldermanbury
London EC2V 7RF

Henderson ISAs

ISA Department
Henderson Global Investors
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Lovell Park Road
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Website: www.halifax.co.uk





Lowland Investment Company plc is managed by



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