Law Debenture

Annual Report 2012

The Law Debenture Corporation p.l.c.

(i) Group summary

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct complementary areas of business.

Investment trust

We are a global investment trust, listed on the London Stock Exchange.

Our portfolio of investments is managed by Henderson Global Investors Limited under a contract terminable by either side on six months' notice.

Our objective is to achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Independent fiduciary services

We are a leading provider of independent fiduciary services. Our activities are corporate trusts, treasury and agency solutions, pension trusts, corporate services (including agent for service of process), whistle blowing services and board effectiveness services. We have offices in London, Sunderland, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

Companies, agencies, organisations and individuals throughout the world rely upon Law Debenture to carry out its duties with the independence and professionalism upon which its reputation is built.

Contents

At a glance

The Corporation regularly receives enquiries from private individuals, IFAs and private client brokers for details they believe are important in reaching decisions on whether or not to buy Law Debenture shares. These enquiries have increased since the introduction of the Retail Distribution Review, as brokers and others look to review the suitability of equity investments suitable for retail investors.

The information that we are most frequently asked to provide is set out in pages 3 to 11.

Law Debenture's shareholders

Law Debenture shares are intended for private investors in the UK ('retail investors'), professionally advised private clients and institutional investors. Law Debenture aims to achieve for shareholders long term capital growth in real terms and steadily increasing income. By investing in an investment trust, shareholders typically accept the risk of exposure to equities but hope that the pooled nature of an investment trust portfolio will give some protection from the radical share price movements that can sometimes affect individual equities. Investors should satisfy themselves that they are capable of evaluating the risks and merits of any investment in equities, including investment trusts.

Investment strategy

The Corporation carries on its business as a global growth investment trust. Its objective is set out in the business review. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

To achieve this, investments are selected on the basis of what appears most attractive in the conditions of the time. This approach means that there is no obligation to hold shares in any particular type of company, industry or geographical location. The independent fiduciary services businesses do not form part of the investment portfolio and are outwith this strategy.

The Corporation's portfolio will typically contain between 70 and 150 listed investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is measured against local and UK indices, the composition of these indices does not influence the construction of the portfolio. As a consequence, it is expected that the Corporation's investment portfolio and performance will deviate from the comparator indices.

Because the Corporation's assets are invested internationally and without regard to the composition of indices, there are no restrictions on maximum or minimum stakes in particular regions or industry sectors. However, such stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to assume only that level of gearing which balances risk with the objective of increasing the return to shareholders. In pursuit of its investment objective, investments may be held in, inter alia, equity shares, fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted.

The Corporation's investment activities are subject to the following limitations and restrictions:

- No investment may be made which raises the aggregate value of the largest 20 holdings, excluding investments in OEICs, Baillie Gifford Pacific, First State Asia Pacific and UK gilts, to more than 40% of the Corporation's portfolio, including cash. The value of a new acquisition in any one company may not exceed 5% of total portfolio value (including cash) at the time the investment is made, further additions shall not cause a single holding to exceed 5%, and board approval must be sought to retain a holding, should its value increase above the 5% limit.
- The Corporation applies a ceiling on effective gearing of 150%. While effective gearing will be employed in a typical range of 90% to 120%, the board retains the ability to reduce equity exposure to below 90% if deemed appropriate.
- The Corporation may not make investments in respect of which there is unlimited liability.
- Board approval must be sought for any proposed direct investments in certain jurisdictions.
- The Corporation has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Factors to take into account when considering equity investment

Investment trust shares should, generally, be viewed as long-term investments. Some of the key factors to take into account are set out below.

Performance

Investment trust shares are generally considered to be investments suitable for the longer term. Their records are readily available from the website of the Association of Investment Companies ('AIC'). Past performance can never give guarantees about future prospects.

Fee structure

Investment trusts will typically pay a fee to the investment manager, normally based on the net assets of the portfolio, to which must be added other costs such as custody services, etc. Some trusts will pay fees based on performance of the portfolio against a benchmark. All investment trusts publish AIC Ongoing Charges (cost of operating the trust) as a means to compare costs between trusts and other investment vehicles such as OEICs. Traditionally, investment trusts have had lower total charges than OEICs and Law Debenture's latest published level of Ongoing Charges is one of the lowest in the marketplace at 0.47%. No performance fees are paid to the investment manager.

Complexity

Investment trusts' shares are available for purchase in the market. In some cases, investment trusts may offer more than one class of share, or offer innovative (not necessarily simple) subscription offers. It is important for investors to understand the capital structure of any investment they make. Law Debenture's capital structure is transparent – we have only one class of share (ordinary shares) and each share has the same rights as every other share.

Transparency

It is important for investors to understand the nature of the underlying investments they are buying into when investing in an investment trust. Investment trusts should be publishing, as a minimum, details of their entire portfolio at least twice a year (in the annual and semi-annual reports) with regular monthly updates on the composition of the top ten holdings in the portfolio. Law Debenture meets this minimum standard and is committed to publishing, on its website www.lawdeb.com, its full list of underlying shares on a monthly basis commencing July 2013.

Gearing

Investment trusts have traditionally had the benefit of being able to 'gear' their portfolios according to market conditions at the time. In other words, they can raise debt (either short or long term) to generate funds for further investment – i.e. to increase the size of the portfolio – or they can sell assets from within the portfolio to reduce debt and even be 'negatively geared' – i.e. selling assets to hold as cash so that less than 100% of the trust's assets are invested in equities.

Share price and net asset value ('NAV')

Investment trusts can trade at a discount (where the share price is lower than the combined value (NAV) of the underlying assets) or at a premium (where the share price trades at a higher level than the underlying NAV). Investment trust investors need to understand these concepts as well as examine the underlying portfolio, and the way that it is managed, to decide whether or not an investment trust share represents 'good value'. Law Debenture has often traded at a premium to NAV because it has a trading subsidiary (its independent fiduciary services businesses, described in more detail on page (i)) which is not included at estimated current value in the NAV, but is priced by the market into Law Debenture's share price. It is therefore important that investors understand this structure and that they take time to recognise the considerable benefits that investors in Law Debenture derive from the existence of the independent fiduciary services businesses.

Liquidity

Investors also need to look at the tradability and availability of shares so that they can be reasonably confident that shares can easily be bought and sold. Here, various indices are helpful. For example, the London Stock Exchange publishes a range of data for all listed companies showing how many shares trade each day, trade pricing, volatility, etc.

Summary

These "At a glance" pages are for information purposes only. It is not a financial promotion or a recommendation to buy or sell Law Debenture or any other shares. It is a general summary of *some* of the factors that investors should take into account when considering an investment in investment trust shares.

Financial summary

	31 December 2012 pence	31 December 2011 pence
Share price	**425.00**	333.50
NAV per share after proposed final dividend	**374.55**	323.75
NAV per share after proposed final dividend with debt at fair value*	**367.86**	323.75
Revenue return per share		
– Investment trust	**8.47**	8.27
– Independent fiduciary services	**6.67**	7.25
Group revenue return per share	**15.14**	15.52
Capital return/(loss) per share	**50.24**	(19.07)
Dividends per share	**14.25**	13.50

* See note 20 to the accounts on page 60.

	%
Ongoing charges	**0.47**
Gearing	**100**

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

Performance

	2012 %	2011 %
Share price total return[1]	**32.0**	(2.9)
NAV total return[1]	**19.7**	(1.6)
FTSE Actuaries All-Share Index total return	**12.3**	(3.5)

[1] Source AIC.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Net assets[1] (£m)	199.6	241.7	272.5	339.6	392.6	407.1	266.4	342.4	412.6	390.9	**451.9**
Revenue return[2] (pence)	6.33	6.91	8.57	10.05	12.19	14.23	15.58	13.02	13.26	15.52	**15.14**
Capital return[2] (pence)	(50.12)	37.31	25.85	54.67	40.94	9.37	(120.59)	62.77	58.22	(19.07)	**50.24**
Total[2] (pence)	(43.79)	44.22	34.42	64.72	53.13	23.60	(105.01)	75.79	71.48	(3.55)	**65.38**
Revenue return[2] (pence)											
Investment trust	4.10	4.51	5.06	5.73	7.07	8.60	10.23	7.33	7.07	8.27	**8.47**
Independent fiduciary services	2.23	2.40	3.51	4.32	5.12	5.63	5.35	5.69	6.19	7.25	**6.67**
	6.33	6.91	8.57	10.05	12.19	14.23	15.58	13.02	13.26	15.52	**15.14**
Dividends[2] (pence)	6.90	6.90	7.55	9.05	10.50	12.00	12.20	12.20	12.70	13.50	**14.25**
NAV[1,2] (pence) (after proposed final dividend)	170.5	201.9	228.1	284.0	328.2	339.6	219.2	284.0	342.9	323.8	**374.6**
Share price[1,2] (pence)	192.5	221.75	232.5	288.75	349.0	354.5	223.5	284.5	356.6	333.5	**425.0**
Premium[1] (%)	12.9	9.8	1.9	1.7	6.3	4.4	2.0	0.2	4.0	3.0	**13.5**
Market capitalisation[1] (£m)	225.3	260.0	273.2	339.7	410.8	417.4	263.8	335.9	418.6	393.8	**501.9**

[1] At 31 December.

[2] Pence per share as restated following a five for one share split in August 2002.

The information in respect of 2003-2012 is in accordance with International Financial Reporting Standards. The information in respect of 2002 is in accordance with UK Generally Accepted Accounting Principles.

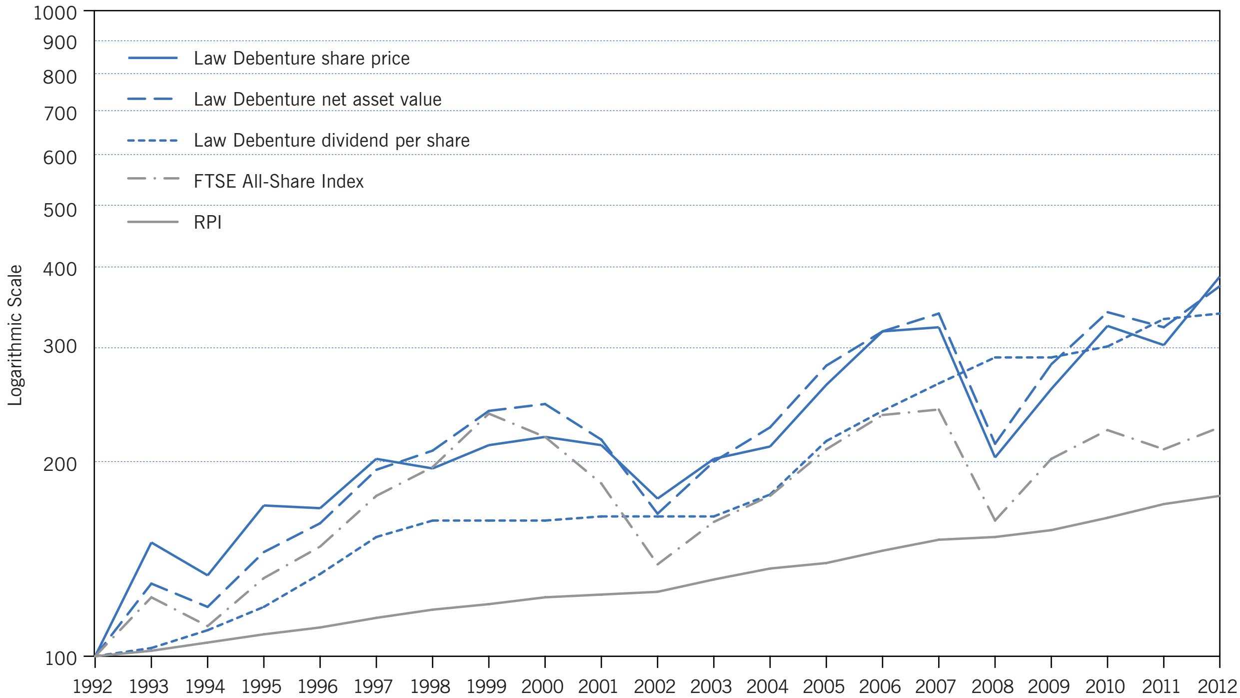
	5 years %	10 years %
NAV total return[1]	**36.8**	**218.3**
FTSE Actuaries All-Share Index total return[1]	**13.2**	**131.7**
Share price total return[1]	**47.2**	**218.3**
Change in retail price index[1]	**17.1**	**37.8**
Annual revenue earnings growth	**1.2**	**9.1**
Annual dividend growth	**3.5**	**7.5**
Annual RPI change	**3.2**	**3.3**

[1] Source: AIC.

The performance data contained above has been compiled in accordance with AIC recommendations.

Total returns assume the reinvestment of dividends.

20 year performance 5



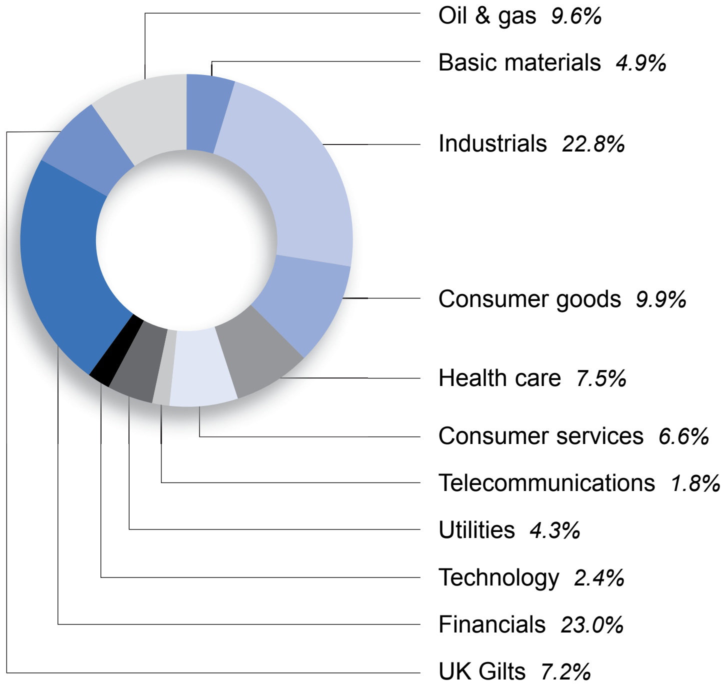
6 Classification of investments based on market values at 31 December 2012

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	UK Gilts %
Oil & gas						
Oil & gas producers	5.70	–	0.40	–	–	–
Oil equipment & services	1.20	2.13	0.17	–	–	–
	6.90	2.13	0.57	–	–	–
Basic materials						
Chemicals	1.82	–	0.21	–	–	–
Forestry & paper	0.56	–	–	–	–	–
Mining	2.32	–	–	–	–	–
	4.70	–	0.21	–	–	–
Industrials						
Construction & materials	0.89	–	–	–	–	–
Aerospace & defence	6.61	–	–	–	–	–
General industrials	1.51	–	–	–	–	–
Electronic & electrical equipment	2.96	0.73	0.18	–	–	–
Industrial engineering	3.13	1.43	–	–	–	–
Industrial transportation	0.13	–	0.35	–	–	–
Support services	3.35	–	1.50	–	–	–
	18.58	2.16	2.03	–	–	–
Consumer goods						
Automobiles & parts	2.21	–	–	0.41	–	–
Beverages	1.42	–	0.28	–	–	–
Food producers	1.67	–	0.67	–	–	–
Household goods & home construction	1.72	–	0.57	–	–	–
Leisure goods	–	–	–	–	–	–
Tobacco	0.74	–	0.26	–	–	–
	7.76	–	1.78	0.41	–	–
Health care						
Health care equipment & services	0.67	0.75	0.95	–	–	–
Pharmaceuticals & biotechnology	3.82	0.48	0.78	–	–	–
	4.49	1.23	1.73	–	–	–
Consumer services						
Food & drug retailers	0.53	–	–	–	–	–
General retailers	1.61	–	0.36	–	–	–
Media	2.48	–	–	–	–	–
Travel & leisure	1.66	–	–	–	–	–
	6.28	–	0.36	–	–	–
Telecommunications						
Fixed line telecommunications	0.57	–	–	–	–	–
Mobile telecommunications	1.08	–	0.17	–	–	–
	1.65	–	0.17	–	–	–
Utilities						
Electricity	1.40	–	0.12	–	–	–
Gas water & multiutilities	2.74	–	–	–	–	–
	4.14	–	0.12	–	–	–
Financials						
Banks	3.03	–	–	–	–	–
Nonlife insurance	3.27	–	–	–	–	–
Life insurance / assurance	1.55	–	–	–	–	–
Real estate investment & services	0.64	–	–	–	–	–
Real estate investment trusts	1.18	–	–	–	–	–
Financial services	3.12	–	0.28	–	–	–
Equity investment instruments	0.91	–	–	2.34	6.65	–
	13.70	–	0.28	2.34	6.65	–
Technology						
Software & computer services	0.21	1.03	0.71	–	–	–
Technology, hardware & equipment	0.49	–	–	–	–	–
	0.70	1.03	0.71	–	–	–
UK Gilts	–	–	–	–	–	7.19
Total 2012	**68.90**	**6.55**	**7.96**	**2.75**	**6.65**	**7.19**
Total 2011	64.90	6.60	7.41	3.02	7.55	10.52

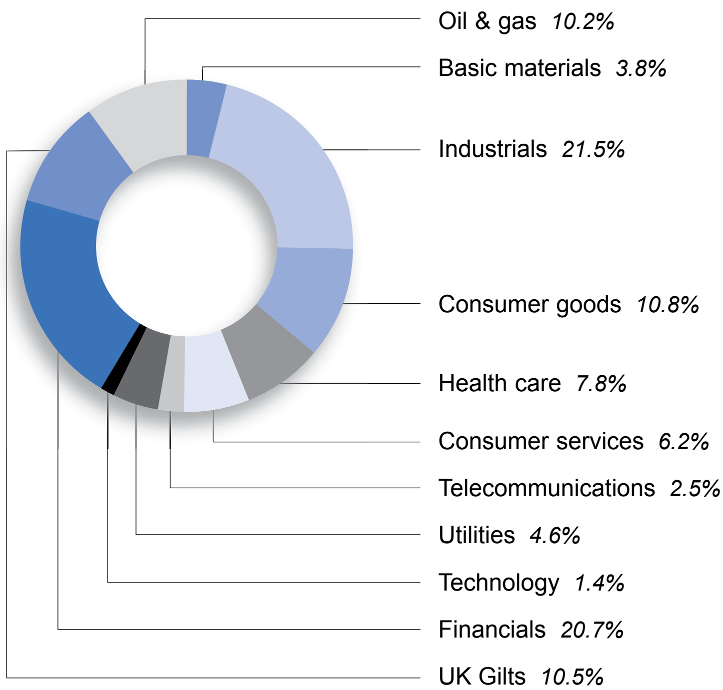
The above table excludes bank balances and short term deposits.

Total 2012 £000	2012 %	Total 2011 £000	2011 %
29,221	6.10	31,296	7.41
16,755	3.50	11,696	2.78
45,976	**9.60**	42,992	10.19
9,703	2.03	3,892	0.92
2,672	0.56	2,275	0.54
11,093	2.32	9,838	2.32
23,468	**4.91**	16,005	3.78
4,265	0.89	3,776	0.89
31,692	6.61	27,479	6.49
7,260	1.51	5,528	1.30
18,532	3.87	15,112	3.57
21,896	4.56	19,098	4.52
2,332	0.48	2,017	0.48
23,337	4.85	17,937	4.26
109,314	**22.77**	90,947	21.51
12,522	2.62	9,937	2.35
8,113	1.70	6,107	1.44
11,236	2.34	9,509	2.24
10,994	2.29	9,703	2.29
–	–	242	0.06
4,808	1.00	10,159	2.39
47,673	**9.95**	45,657	10.77
11,356	2.37	11,715	2.76
24,345	5.08	21,171	5.02
35,701	**7.45**	32,886	7.78
2,520	0.53	4,034	0.95
9,454	1.97	5,489	1.28
11,921	2.48	10,495	2.50
7,947	1.66	6,154	1.45
31,842	**6.64**	26,172	6.18
2,773	0.57	2,291	0.54
6,026	1.25	8,386	2.00
8,799	**1.82**	10,677	2.54
7,258	1.52	7,065	1.67
13,139	2.74	12,358	2.93
20,397	**4.26**	19,423	4.60
14,566	3.03	6,384	1.51
15,646	3.27	11,496	2.71
7,436	1.55	6,016	1.42
3,052	0.64	1,120	0.26
5,637	1.18	4,382	1.03
16,275	3.40	11,201	2.64
47,530	9.90	47,119	11.13
110,142	**22.97**	87,718	20.70
9,375	1.95	6,076	1.43
2,364	0.49	–	–
11,739	**2.44**	6,076	1.43
34,470	**7.19**	44,491	10.52
479,521	**100.00**		
		423,044	100.00

Portfolio by sector 2012



Portfolio by sector 2011



Portfolio valuation as at 31 December 2012

The number of investments increased from 123 at 31 December 2011 to 127 at 31 December 2012.

	£000	%
Oil & gas		
Oil & gas producers		
BP	11,256	2.35
Royal Dutch Shell	10,868	2.27
Indus Gas	*2,634*	*0.55*
Premier Oil	2,518	0.53
Total (Fra)	1,945	0.40
	29,221	6.10
Oil equipment & services		
Cape	4,725	0.99
Gibson Energy (Can)	4,690	0.98
Schlumberger (USA)	3,410	0.71
National Oilwell Varco (USA)	2,102	0.44
AMEC	1,002	0.21
Saipem (Ita)	826	0.17
	16,755	3.50
Basic materials		
Chemicals		
Oxford Catalysts	*4,560*	*0.95*
Croda	4,158	0.87
Brenntag (Ger)	985	0.21
	9,703	2.03
Forestry & paper		
Mondi	2,672	0.56
	2,672	0.56
Mining		
Rio Tinto	7,899	1.65
BHP Billiton	3,194	0.67
	11,093	2.32
Industrials		
Construction & materials		
Balfour Beatty	3,323	0.69
Marshalls	614	0.13
Accsys Technologies	*328*	*0.07*
	4,265	0.89
Aerospace & defence		
Senior	15,045	3.14
BAE Systems	6,064	1.26
Meggitt	5,348	1.12
Rolls Royce	5,235	1.09
	31,692	6.61
General industrials		
Smith (DS)	7,260	1.51
	7,260	1.51
Electronic & electrical equipment		
Spectris	6,075	1.27
Morgan Crucible	5,348	1.12
Applied Materials (USA)	3,516	0.73
TT Electronics	2,059	0.43
Legrand (Fra)	842	0.18
XP Power	*692*	*0.14*
	18,532	3.87

	£000	%
Industrial engineering		
Hill & Smith	7,104	1.48
Weir Group	5,622	1.17
Cummins (USA)	4,666	0.97
Caterpillar (USA)	2,205	0.46
IMI	1,093	0.23
Renold	961	0.20
Severfield-Rowen	245	0.05
	21,896	4.56
Industrial transportation		
Kuehne & Nagel (Swi)	1,019	0.21
AP Moller-Maersk (Den)	*695*	*0.14*
Wincanton	333	0.07
Goldenport	285	0.06
	2,332	0.48
Support services		
Interserve	7,354	1.53
Carillion	3,937	0.82
Babcock	2,412	0.50
Johnson Service	2,124	0.44
Deutsche Post (Ger)	1,958	0.41
SGS (Swi)	1,770	0.37
Sodexo (Fra)	1,575	0.33
Adecco (Swi)	979	0.20
DKSH (Swi)	928	0.19
Augean	300	0.06
	23,337	4.85
Consumer goods		
Automobiles & parts		
GKN	10,580	2.21
Toyota Motor (Jap)	1,942	0.41
	12,522	2.62
Beverages		
Diageo	6,787	1.42
Pernod-Ricard (Fra)	1,326	0.28
	8,113	1.70
Food producers		
Unilever	4,139	0.86
Associated British Foods	3,905	0.81
Nestlé (Swi)	3,192	0.67
	11,236	2.34
Household goods & home construction		
Bellway	4,635	0.97
Redrow	3,615	0.75
Essilor (Fra)	1,384	0.29
L'Oreal (Fra)	1,360	0.28
	10,994	2.29
Tobacco		
Imperial Tobacco	3,557	0.74
Swedish Match (Swe)	1,251	0.26
	4,808	1.00

Those shown in italics are new holdings in the six months since 30 June 2012.

	£000	%
Health care		
Health care equipment & services		
Becton Dickinson (USA)	3,608	0.75
Smith & Nephew	3,191	0.67
Fresenius (Ger)	2,904	0.61
Fresenius Medical Care (Ger)	1,653	0.34
	11,356	2.37
Pharmaceuticals & biotechnology		
GlaxoSmithKline	10,005	2.09
BTG	6,133	1.28
Pfizer (USA)	2,314	0.48
AstraZeneca	2,181	0.45
Novartis (Swi)	2,104	0.44
Roche (Swi)	1,608	0.34
	24,345	5.08
Consumer services		
Food & drug retailers		
Tesco	2,520	0.53
	2,520	0.53
General retailers		
Dunelm	5,857	1.22
Inditex (Spa)	1,736	0.36
Findel	1,486	0.31
Topps Tiles	375	0.08
	9,454	1.97
Media		
Reed Elsevier	4,808	1.00
Pearson	3,267	0.68
Daily Mail & General Trust	1,927	0.40
British Sky Broadcasting	1,915	0.40
Hibu	4	–
	11,921	2.48
Travel & leisure		
Greene King	3,922	0.82
Marstons	2,501	0.52
International Consolidated Airlines	1,524	0.32
	7,947	1.66
Telecommunications		
Fixed line telecommunications		
BT	2,773	0.57
	2,773	0.57
Mobile telecommunications		
Vodafone	3,088	0.64
Inmarsat	2,108	0.44
Ericsson (Swe)	830	0.17
	6,026	1.25
Utilities		
Electricity		
SSE	4,251	0.89
SSE 5.75% 05/02/14	2,451	0.51
Iberdrola (Spa)	556	0.12
	7,258	1.52

	£000	%
Gas water & multiutilities		
National Grid 6.125% 15/04/14	5,654	1.18
National Grid	4,285	0.89
Severn Trent	3,200	0.67
	13,139	2.74
Financials		
Banks		
HSBC	8,408	1.75
Barclays	*6,158*	*1.28*
	14,566	3.03
Nonlife insurance		
Amlin	8,329	1.74
Hiscox	6,116	1.28
Direct Line Insurance	*1,201*	*0.25*
	15,646	3.27
Life insurance/assurance		
Aviva	2,927	0.61
Prudential	2,592	0.54
Chesnara	1,910	0.40
Permanent TSB (Ire)	7	–
	7,436	1.55
Real estate investments & services		
St Modwen Properties	3,052	0.64
	3,052	0.64
Real estate investment trusts		
Mucklow (A&J) Group	3,020	0.63
Land Securities	2,617	0.55
	5,637	1.18
Financial services		
International Personal Finance	4,644	0.97
IP Group	4,151	0.87
Provident Financial	3,734	0.78
3i	2,170	0.45
Deutsche Börse (Ger)	1,311	0.27
	16,010	3.34
Equity investment instruments		
Henderson Asia Pacific Capital Growth	12,104	2.52
Henderson Japan Capital Growth	11,232	2.34
Baillie Gifford Pacific	10,323	2.15
First State Asia Pacific	9,510	1.98
Herald Investment Trust	4,361	0.91
	47,530	9.90
Technology		
Software & computer services		
Microsoft (USA)	4,929	1.03
SAP (Ger)	*1,846*	*0.38*
Amadeus IT (Spa)	1,570	0.33
Sage	1,030	0.21
	9,375	1.95
Technology hardware & equipment		
Imagination Technologies	*2,364*	*0.49*
	2,364	0.49
Gilts		
UK Treasury 4.5% 07/03/13	19,644	4.10
UK Treasury 2.25% 07/03/14	14,826	3.09
	34,470	7.19

10 Top 20 equity holdings by value

Rank	Company	2012 Value £000	2012 % of portfolio	2011 % of portfolio	2011 Rank
1	Senior	**15,045**	**3.14**	3.25	1
2	BP	**11,256**	**2.35**	2.88	3
3	Royal Dutch Shell	**10,868**	**2.27**	2.90	2
4	GKN	**10,580**	**2.21**	2.00	5
5	GlaxoSmithKline	**10,005**	**2.09**	2.61	4
6	HSBC	**8,408**	**1.75**	1.51	7
7	Amlin	**8,329**	**1.74**	1.44	9
8	Rio Tinto	**7,899**	**1.65**	1.66	6
9	Interserve	**7,354**	**1.53**	1.44	10
10	Smith (DS)	**7,260**	**1.51**	0.98	23
11	Hill & Smith	**7,104**	**1.48**	1.08	20
12	Diageo	**6,787**	**1.42**	1.26	12
13	Barclays	**6,158**	**1.28**	–	–
14	BTG	**6,133**	**1.28**	0.93	26
15	Hiscox	**6,116**	**1.28**	1.19	16
16	Spectris	**6,075**	**1.27**	0.91	29
17	BAE Systems	**6,064**	**1.26**	1.01	22
18	Dunelm	**5,857**	**1.22**	0.86	33
19	Weir Group	**5,622**	**1.17**	1.20	15
20	Morgan Crucible	**5,348**	**1.12**	1.24	14
			33.02		

The top 20 equity holdings by value at 31 December 2011 accounted for 33% of the investment portfolio.

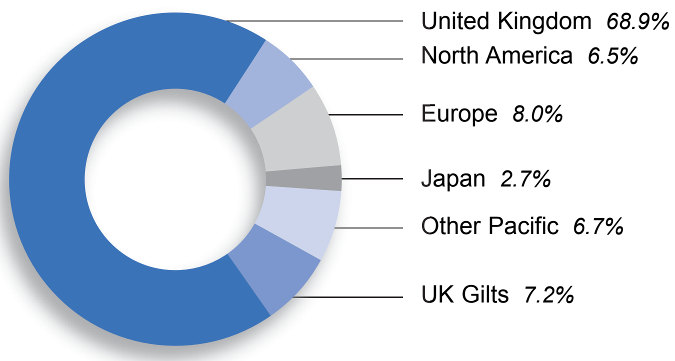
Other significant holdings by value

Rank	Company	2012 Value £000	2012 % of portfolio	2011 % of portfolio	2011 Rank
1	UK Treasury 4.5% 07/03/13	**19,644**	**4.10**	4.84	1
2	UK Treasury 2.25% 07/03/14	**14,826**	**3.09**	3.57	2
3	Henderson Asia Pacific Capital Growth*	**12,104**	**2.52**	2.39	4
4	Henderson Japan Capital Growth*	**11,232**	**2.34**	2.67	3
5	Baillie Gifford Pacific*	**10,323**	**2.15**	2.04	6
6	First State Asia Pacific*	**9,510**	**1.98**	1.89	7
7	National Grid 6.125% 15/04/14	**5,654**	**1.18**	1.38	8
8	Herald Investment Trust	**4,361**	**0.91**	0.91	10
9	SSE 5.75% 05/02/14	**2,451**	**0.51**	0.60	11
			18.78		

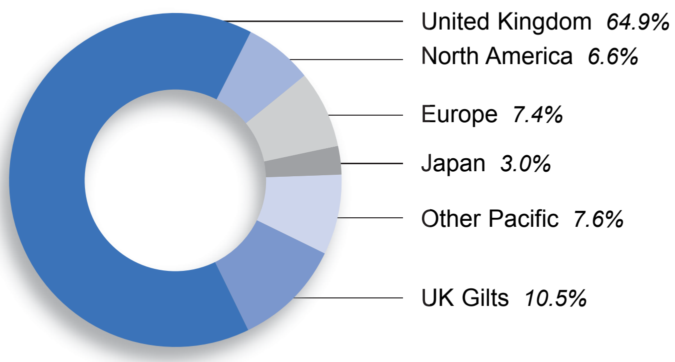
*Open ended investment companies.

	Valuation 31 December 2011 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	**Valuation 31 December 2012 £000**
United Kingdom	274,705	36,240	(173)	(26,858)	46,383	**330,297**
North America	27,859	5,375	(8)	(4,096)	2,310	**31,440**
Europe	31,263	6,761	(12)	(4,049)	4,240	**38,203**
Japan	12,753	–	–	–	421	**13,174**
Other Pacific	31,973	–	–	(6,388)	6,352	**31,937**
UK Gilts	44,491	–	–	(8,802)	(1,219)	**34,470**
	423,044	48,376	(193)	(50,193)	58,487	**479,521**

Geographical distribution of portfolio 2012



Geographical distribution of portfolio 2011



The board

Douglas McDougall
Chairman

Chairman of The Independent Investment Trust plc, The European Investment Trust PLC and The Scottish Investment Trust plc and a director of The Monks Investment Trust, Pacific Horizon Investment Trust and Herald Investment Trust. Former joint senior partner of Baillie Gifford & Co, investment managers, and former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association. Joined the board in 1998, becoming chairman in 2000. Chairman of the remuneration and nomination committees and a member of the audit committee.

Caroline Banszky
Managing director

Appointed to the board in January 2002. Former chief operating officer of SVB Holdings PLC (now called Novae plc), a Lloyd's listed integrated vehicle, and former finance director of N.M. Rothschild & Sons Limited.

John Kay
Non-executive director

Appointed to the board in September 2004. Business economist, writer and broadcaster. Visiting Professor at the London School of Economics. Founded London Economics, Britain's largest independent economic consultancy. Director of Value and Income Trust plc and Scottish Mortgage Investment Trust plc.

He writes a weekly column for the Financial Times. Member of the audit, remuneration and nomination committees and chairman of L.D. Pension Plan Trustee Limited.

Robert Laing
Non-executive director

Appointed to the board in April 2012. Admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983 when he joined Maclay Murray & Spens. He has been a partner in that firm (now Maclay Murray & Spens LLP) since 1985 and chairman since 1 June 2010. He is a non-executive director of The Independent Investment Trust plc. Member of the audit, remuneration and nomination committees and a non-executive director of L.D.C. Trust Management Limited.

Christopher Smith
Non-executive director

Appointed to the board on 1 March 2009. Former Partner, Cazenove & Co and Managing Director-Corporate Finance of JP Morgan Cazenove. Over 30 years' experience in corporate finance and equity capital markets. He is a director of CG Asset Management and Allchurches Trust. He is chairman of the audit committee, a member of the remuneration and nomination committees, chairman of L.D.C. Trust Management Limited and chairman of Law Debenture Trust Company of New York Inc.

Investment manager

James Henderson

Joined Henderson Global Investors in 1983 and has been an investment trust portfolio manager since 1990, managing Lowland Investment Company plc since then and Henderson Opportunities Trust plc since January 2006. He first became involved in the management of Law Debenture's portfolio in 1994 and took over sole management of the portfolio in June 2003.

Performance

Our net asset value total return for the year to 31 December 2012 was 19.7%, compared to a total return of 12.3% for the FTSE Actuaries All-Share Index. Net revenue return per share was 15.14p, a decrease of 2.4% over the previous year, as a result of a 2.4% increase in the investment trust and an 8.0% decrease in independent fiduciary services.

Dividend

The board is recommending a final dividend of 9.75p per ordinary share (2011: 9.0p), which together with the interim dividend of 4.5p (2011: 4.5p) gives a total dividend of 14.25p (2011: 13.5p).

The final dividend will be paid, subject to shareholder approval, on 18 April 2013 to holders on the register on the record date of 22 March 2013.

The Corporation's policy continues to be to seek growth in both capital and income. We attach considerable importance to the dividend, which we aim to increase over a period, if not every year, at a rate which is covered by earnings and which does not inhibit the flexibility of our investment strategy. Our basis for reporting earnings is more conservative than that of many investment trusts, in that all of our expenses, including interest costs, are charged fully to the revenue account.

Investment trust

Equity markets rose and good corporate performance led to increased dividends. However, uncertainty remained as a result of persistent fiscal deficits, uncertainty over the euro and disappointing rates of recovery following the financial crisis.

We remained fully invested in equities in the investment portfolio, but the board has not been convinced that the macroeconomic uncertainty of recent years is over and has therefore not deployed our gearing. Our exposure to industrial companies has remained high. For a discussion of the portfolio, see the investment manager's review on page 14.

Independent fiduciary services

The business continued to deliver a good return for shareholders, against a background of difficult market conditions.

For a discussion on the independent fiduciary services business please see the managing director's report on page 16.

Regulatory environment

The introduction of the Retail Distribution Review at the end of 2012 has changed the way that retail investors receive and pay for independent financial advice. This might lead to an increased awareness of investment trust shares generally, but also means that those who advise retail investors may require greater detail about individual trusts in order to recommend them or include them on execution only platforms. With that in mind, the Corporation has introduced a new section in this year's annual report, which is at page 1.

During 2013, the board will be taking decisions on how the Corporation should best organise itself to comply with the latest iteration of the Combined Code, the Foreign Account Tax Compliant Act ("FATCA") and the Alternative Investment Fund Manager's Directive. Neither of these last two developments is welcome and both may impose significant costs for little or no benefit to shareholders.

Board

Mark Bridgeman will be appointed to the board on 15 March 2013 and comes up for election at the annual general meeting. He has a strong background in investment management, having been Global Head of Research at Schroder plc, and experience of investment trusts. I am confident that he will make a valuable contribution and encourage you to support his election.

I shall retire from the board at the conclusion of the annual general meeting. In my period of office I have been fortunate to work with two outstanding investment managers, first Michael Moule and latterly James Henderson, and with Caroline Banszky, who with her team, has vigorously enhanced the profitability of the independent fiduciary services business. Christopher Smith, who takes over from me, has a deep understanding of both sides of this unique and successful company, and I am confident of its future in the hands of him and his colleagues.

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London EC2V 7HR on 10 April 2013, and I look forward to seeing as many as possible of you there.

Douglas McDougall

Review

The global economy did not grow in 2012 as fast as had been hoped but this did not stop equity markets performing well. Markets were driven by decent corporate profit and dividend growth at a time when investor expectations were low. The best performing area was the Far East, while the US stocks lagged after a few years of strong performance. The majority of our investments are in the UK, where small and medium sized companies significantly outperformed larger companies. The four biggest detractors of value from the portfolio, as can be seen from the table below, were large blue chips involved in the oil, gas and pharmaceutical industries, while the fifth largest detractor was **Cape**, where accounting irregularities were discovered. The five largest contributors all came from different business sectors. Among these, **IP Group** works with start-up companies to commercialise their intellectual property, **International Personal Finance** provides home credit to customers in emerging markets and **Hill & Smith** manufactures infrastructure products.

Biggest rises by value

		£'000
1.	IP Group	3,386
2.	Smith (DS)	2,788
3.	Hill & Smith	2,713
4.	International Personal Finance	2,519
5.	Senior	2,253

Biggest falls by value

		£'000
1.	Royal Dutch Shell	(1,400)
2.	BG	(1,061)
3.	GlaxoSmithKline	(1,028)
4.	BP	(929)
5.	Cape	(851)

The equity market advanced across most business sectors during the year, suggesting – encouragingly – that the operating improvements in UK companies achieved in recent years are not confined to a narrow part of the economy. Some commentators claim that the UK economy is in a poor state, but if they were to visit companies they would take a different view. I continue regularly to have face-to-face meetings with the senior managements of UK companies, as I have been doing for over 25 years, and believe that companies have never been financially stronger or operationally more motivated than they are at present.

Investment Approach

The focus is on individual companies with the intention of buying them when their prospects for growth are being underestimated and selling them when the valuations reach or exceed a level that more accurately reflects the potential. The frequent mispricing of individual stocks affords opportunities to the investor who pays close attention to the monitoring of stocks. The approach is to have a relatively low portfolio turnover, with purchases and sales being determined by the company fundamentals rather than based on a wider macroeconomic view, which is subjective and notoriously difficult to get right.

I do not believe that we can add long term value to the portfolio simply by switching between different geographic areas, nor do I believe that taking a view on currencies, say by hedging the currency exposure, would bring any benefit or value in the long term. The object is to play to the strengths in the team at Henderson and to recognise the weaknesses. We will use other fund managers' vehicles to obtain their expertise if Henderson does not have it. For example, we have a holding in **Herald Investment Trust** as this gives us access to smaller technology companies; and we spread our exposure to the Far East between three different investment houses.

Portfolio activity

We remained fully invested throughout the year aside from our gearing. Rather than employing gearing to make new purchases, we reduced some holdings when it was deemed that they had become overweight in the overall portfolio. An example of this was **Senior**, the aerospace and automotive supplier, which is operationally performing well and continues to be our largest individual holding and about which we remain positive.

We profitably bought and sold **Apple**; it is unusual for a company to come in and out of the portfolio so fast but consumer electronics is a fluid industry undergoing rapid change and the sale subsequently proved to have been timely. We will consider investing in companies of any size so long as they can add value. For example, we took a holding in **Oxford Catalysts**, a small AIM listed company whose technology in the production of clean synthetic fuels could lead to substantial growth in business over coming years.

The exposure to manufacturing businesses in the portfolio remains large. In the USA and UK they are experiencing a period of renewed dynamic growth, as they apply advanced technologies to new products. The aerospace sector is a good example.

The overall turnover in the portfolio during the year was approximately 10%.

Outlook

Companies are stronger. Corporate debt has fallen substantially and many of our holdings have net cash. Corporate margins may surprise many commentators over the coming year by increasing as management teams continue to drive operational efficiencies at a time when the economy is stable but dull. There is no complacency from managements, even though the upswing in valuation is now into its fourth year. The memories of 2008 still exert a discipline, but we believe the equity market may make further advances.

James Henderson
Henderson Global Investors Limited

Results

Independent fiduciary services profit before tax decreased by 8.5% from £10.49million to £9.60 million. Revenue return per share decreased by 8.0% from 7.25p to 6.67p.

Independent fiduciary services businesses

Law Debenture is a leading provider of independent third party fiduciary services, including corporate and pension trusts, service of process, treasury and agency solutions, corporate services, board effectiveness and whistle blowing. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas, chaired by a non-executive independent director, currently Christopher Smith.

Review of 2012

The independent fiduciary businesses performed reasonably well in the face of continuing macroeconomic negativity, particularly in the first half of the year. The dip back into recession, further pressure on the banking sector and Eurozone difficulties all contributed to uncertainty in the markets where we operate. However, some sectors, such as service of process, were very lively as corporate activity overseas was maintained at 2011 levels. Market share remained satisfactory across all of the businesses and activity levels in pre-existing transactions remained high, caused by the continuing need for transactions to be amended as a result of strains incurred since 2007. In a number of these cases, we were able to generate additional fees for time spent.

Some features of the year are set out below.

Corporate trusts

Corporate trusts had a reasonable year, with signs of greater activity in the bond market in the second half. We were selected to act as trustee by a wide range of companies including Aviva, BG Energy, Friends Life, First Group, GlaxoSmithKline, National Grid, Severn Trent and The Housing Finance Corporation.

We took on an increasing amount of security trustee work, including on two major international project financings with the International Finance Corporation.

Our recognised independence as an impartial third party was instrumental in securing a growing number of escrow agent appointments, holding a variety of assets.

We remained busy on post-issuance work including restructurings and transaction amendments arising from, for example, ratings downgrades of transaction parties.

Pension trusts

Our pension scheme trusteeship service continued to be busy and demanding, reflecting the challenges which pension schemes face. We were appointed to 11 new schemes ranging in size from £5 million to over £ 8 billion and new clients included IBM and Santander. Michael Chatterton and Simone Lavelle were appointed as joint Managing Directors to manage our practice and Mark Ashworth took on the role of Chairman. John Nestor joined the team. His expertise is in investment management.

Reflecting the ever changing nature of the pensions sector, we now offer sole trusteeship services, where we act as the sole trustee of a pension scheme to deliver extra governance where people, time or knowledge are lacking. We are also developing on-line trustee assessment and board effectiveness survey tools.

Corporate services

Our long established and highly regarded service of process business had another solid year with an increase in new appointments.

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) was steady. While the market for new structured finance transactions was slow, new securitisations were secured originated by Virgin Money and Apollo European Principal Finance. We also continued to win business from other markets, including a number of new company secretarial appointments and specialised roles providing administration support to companies in distress.

Treasury and agency solutions

We successfully developed and launched our advanced on-line Dynamic Analytical Reporting Tool system ('DARTS') during the course of the year. DARTS delivers superior real time client reporting, accessible directly by borrowers, investors and other parties on structured, loan facility and treasury transactions. We continue to service our cash escrow, security trust and project finance business, as well as providing other customised solutions including data verification and data room services.

Safecall

It was another good year for our external whistleblowing service with a significant increase in the customer base. Recent legislation including The Bribery Act continues to result in a number of organisations reviewing their policies and procedures and deciding to contract with Safecall. Notable appointments in 2012 include Michelin, NXP Semiconductors, 3663, CHEP and Bright Horizons.

Governance services

Our governance services business completed its second year in what remains a fragmented and competitive market. We won a number of assignments in board effectiveness in the listed, public and voluntary sectors and expect this to continue in 2013. We have developed sector specific approaches, for example for investment companies and the insurance market, where we have found that modifications have been necessary. Our ancillary products – tools for use in decision making and risk management - have been positively received by boards, management teams and operating committees alike.

Overseas

United States

The US corporate trust business held its own. Its core successor trustee business (which derives from bankruptcies) faced challenges in an improving domestic economy and a continued low interest rate environment. However, new roles, including acting as a "separate trustee" to pursue remedial rights in residential mortgage securitisations, generated a healthy number of new appointments. This business should continue to offer growth prospects in the year ahead. The corporate services business, including Delaware Corporate Services, continued to generate excellent returns.

Hong Kong

General business levels remained strong until the third quarter, when both the Hong Kong and the Chinese markets became less active. However, we saw continued firm demand for employee share trust and escrow services and our service of process team had another good year in respect of appointments under local law and particularly on behalf of the US and UK offices.

Channel Islands

There was an overall increase in transactional activity during the year from our existing client base, although this was largely offset by the loss of several transactions coming to the end of their natural life. New business remains difficult to come by, although there were several new service of process appointments taken on in the year.

Outlook

The recent rally in stock market values may indicate that investor confidence is returning, possibly leading to an increase in activity in the capital markets. Similarly, governmental initiatives to stimulate lending could possibly lead to an increase in debt market activities and the crisis in the Eurozone seems to have abated, at least for the time being, removing some uncertainty. While prospects for a possible upturn in activity may exist, caution remains the watchword as growth prospects remain largely dependent on wider macroeconomic factors. We are well positioned to take advantage of opportunities as they arise, including being willing to expand our fiduciary services into areas where there is a need for an established, trusted, independent third party.

Caroline Banszky

Corporation advisers and information

Registered office
Fifth Floor
100 Wood Street
London EC2V 7EX

Telephone: 020 7606 5451

Facsimile: 020 7606 0643

Website: www.lawdeb.com

(Registered in England – No. 30397)

Investment portfolio manager
Henderson Global Investors Limited
201 Bishopsgate
London EC2M 3AE

Auditors
BDO LLP
55 Baker Street
London W1U 7EU

Global custodians and bankers
HSBC Group

Registrar and transfer office
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Telephone: 0870 707 1129

Stockbrokers
J.P. Morgan Cazenove Limited
25 Bank Street
London E14 5JP

A member of

aic
The Association of Investment Companies

The directors present their annual report and the audited financial statements for the year ended 31 December 2012. The Corporation retains its status as an investment trust and has been treated by HM Revenue & Customs ('HMRC') and approved as such for the year ended 31 December 2011, the latest year for which financial statements have been submitted. Such approval for the year ended 2011 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain Sections 1158-1159 approval under the Corporation Tax Act 2010. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in section 833 of the Companies Act 2006. The directors consider that the group operates as a going concern.

Business review

The group divides into two distinct complementary areas of business. The Corporation is a global investment trust, its portfolio of investments being managed by Henderson Global Investors Limited ('Henderson'). Independent fiduciary services activities are corporate trusts, agency services, pension trusts, corporate services (including agent for service of process), treasury and agency solutions, whistle blowing services and board evaluation services to client boards. The services are provided by wholly owned subsidiaries of the Corporation with offices in London, Sunderland, New York, Delaware, Hong Kong and the Channel Islands.

The Corporation's objective for the investment trust is to achieve long term capital growth in real terms and steadily increasing income. The directors consider a number of performance measures to assess the group's success in achieving its objectives. The key performance indicators used to measure the progress and performance of the group are: net asset value total return per share; the discount or premium in share price to net asset value; and the cost of running the portfolio as a percentage of its value. The net asset value total return combines the capital and income returns of the group.

The net asset value performance and other performance factors affecting the group are included in the chairman's statement and the premium or discount to net asset value and cost of running the portfolio are given within the 10 year record.

The outlook for the investment portfolio is described in the investment manager's report and the outlook for the independent fiduciary services business is included in the management review.

Law Debenture considers that none of its trading activities has a negative environmental impact.

The group's employees are provided with a modern, comfortable working environment which complies with all relevant safety regulations. Employees receive a range of benefits designed to promote good health including health insurance, medicals, etc. Independent confidential helpline facilities are provided to enable employees to deal with issues of concern to them, whether work related or domestic. As a result of these measures, and senior management's open style, staff turnover is extremely low, normally less than 10% per annum.

The group does not support local social and community initiatives, its offices being based in non-residential financial districts.

The board is required to give information about persons with whom Law Debenture has contractual or other arrangements that are essential to the business of the group. In the view of the board, the only contract that is essential is the one in place with Henderson, details of which are given elsewhere in the directors' report.

Investment strategy and implementation

The Corporation's investment strategy is set out at page 1 and the way it was implemented is described in the chairman's statement and the investment manager's review.

Principal risks and uncertainties

The principal risks of the Corporation relate to its investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk, credit risk and country/region risk. These are explained in note 19 to the accounts.

The principal risks of the independent fiduciary services business arise during the course of defaults, potential defaults and restructurings where we have been appointed to provide services. Such default risk is currently heightened due to the wider economic pressures on some countries and borrowers. To mitigate these risks we work closely with our legal advisers and, where appropriate, financial advisers, both in the set up phase to ensure that we have as many protections as practicable and at all other stages whether or not there is a danger of default.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2012 was 15.14p. The directors recommend a final dividend of 9.75p per share, which together with the interim dividend of 4.5p paid in September 2012, will produce a total of 14.25p (2011: 13.5p). The final dividend will be paid on 18 April 2013 to holders on the register on the record date of 22 March 2013. After deduction of the interim and final dividends of £16,755,000 (2011: £15,868,000), consolidated revenue reserves increased by £1,272,000 (2011: increase of £18,000).

Directors

The directors on page 12 held office throughout the year except for Robert Laing who was appointed on 2 April.

All directors are required to stand for re-election every year. The list of candidates, which the board supports, is set out in the notice of annual general meeting, along with a statement in each case of why the candidate is supported. Douglas McDougall will not be seeking re-election and stands down after 15 years of service as a director. He will be replaced as chairman by Christopher Smith.

The board announced on 1 March 2013 that it intended to appoint a new non-executive director with effect from 15 March 2013 – Mark Bridgeman. He is an experienced fund manager and spent 19 years with Schroder plc as an analyst and fund manager, rising to become Global Head of Research. Further biographical details appear in the notes to the notice of annual general meeting.

No director has a service contract with any member of the group in excess of one year or was materially interested in any other contract with any member of the group. During the year, liability insurance was maintained for the benefit of directors and other officers.

Directors' shareholdings

Beneficial interests as at 31 December	**2012**	2011
C.J. Banszky	**241,631**	223,246
A.C. Cates	**n/a**	37,029
J.A. Kay	**15,000**	15,000
R. Laing	**12,300**	n/a
D.C.P. McDougall	**410,000**	410,000
C. Smith	**55,000**	55,000

There have been no other changes in directors' interests since 31 December 2012. No director has a beneficial interest in the shares of any subsidiary company.

The beneficial interest of James Henderson at 31 December 2012 was 50,000 shares (2011:50,000).

Directors' conflicts of interests

The directors are under statutory duty to avoid conflicts of interest. The board has in place appropriate procedures to deal with conflicts and potential conflicts, including an annual review, and those procedures are operating effectively. Each director has declared all matters that might give rise to a potential conflict of interest and these have been considered and (where necessary) approved by the board.

Regulatory compliance

The Corporation is subject to continuing obligations applicable to premium listed companies, overseen by the UK Listing Authority. One company in the group, The Law Debenture Trust Corporation p.l.c., is regulated in the conduct of a limited range of authorised business activities. The directors receive periodic reports from the compliance officer about its conduct.

Law Debenture's responsibilities as an institutional shareholder

The Corporation's policy is as follows:

Law Debenture will normally support incumbent management and vote in favour of resolutions proposed by the boards of companies in which it has a shareholding, but reserves the right to vote against management where appropriate.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager on transactions in particular shares. Where Law Debenture believes that incumbent management is failing in its duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter into dialogue with the company concerned in an attempt to alter the management's position.

Where this is not possible, or where incumbent management declines to alter its behaviour, Law Debenture will consider voting against resolutions proposed by the management. Further, if it is deemed necessary or desirable, the Corporation would consider acting collectively with other institutional investors to try and achieve a particular goal.

Henderson, on Law Debenture's behalf, monitors companies in which Law Debenture is invested, and from time to time may discuss matters of corporate governance with such companies. The Henderson corporate governance unit will notify Law Debenture's investment manager, who in turn will notify Law Debenture, should matters arise that might lead the Corporation to consider intervening, abstaining or voting against a particular proposal. During the year, the Corporation abstained or voted against one or more resolutions at the annual general meetings of two investee companies.

The Corporation will not hold shares in companies whose ethical and environmental practices are in its view likely to damage the performance of the business to the detriment of its shareholders.

A conflict of interest could potentially arise from the Corporation's investments in products operated by its investment manager, Henderson. The board is mindful of this and manages the potential conflict by careful monitoring of the performance of any such funds. To the extent necessary in these cases, the Corporation would not hesitate to exercise votes against resolutions where it felt that shareholders' interests warranted such a step.

The Corporation does not believe that conflicts can arise between its duties as an institutional shareholder and the independent fiduciary services work undertaken by the Corporation's subsidiaries. The investment manager has complete discretion as to portfolio decisions and as a matter of policy, has no access to 'non public' knowledge about any of the activities of the independent fiduciary services businesses.

Repurchase of shares

During the year, the Corporation did not repurchase any of its shares for cancellation. It intends to seek shareholder approval to renew its powers to repurchase shares for cancellation up to 14.99% of the Corporation's issued share capital, if circumstances are appropriate.

Shares may be issued in accordance with the articles of association – see AGM resolution 11.

Substantial shareholdings and share information

As at 1 March 2013, there were no shareholders that had notified the Corporation of a beneficial interest in 3% or more of the issued share capital. Share information as required by section 992 of the Companies Act 2006 appears at page 70. Unless expressly stated the Corporation has no disclosure to make under that section.

Shareholder relations

The Corporation encourages communication between the management and shareholders on matters of mutual interest. All shareholders receive a copy of the annual report and the half yearly report, and the Corporation also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. Shareholders wishing to receive reports and other communications electronically may do so by writing to the Corporation. In addition to the periodic regulatory reports that are published via the stock exchange, the Corporation publishes a monthly factsheet on its website about the investment portfolio performance.

Employee participation

Employees are informed of the financial aspects of the group's performance through periodic management meetings. Copies of the annual and half yearly reports are made available to all employees. Details of the general independent fiduciary services profit sharing arrangements are contained in the remuneration report on page 31. The Corporation has since 1992 operated SAYE schemes in which all UK full-time employees are eligible to participate after completing a minimum service requirement.

Options outstanding under the SAYE scheme at 31 December 2012 were:

Date of grant	Number of option holders	Shares under option	Exercise price
11 June 2007	1	936	349.76p
22 May 2008	14	51,268	314.24p
27 May 2009	32	159,956	211.50p
25 May 2010	11	12,831	314.88p
4 August 2011	17	29,326	357.51p
3 September 2012	9	16,181	398.50p

From 1993 to 2004, the Corporation operated Executive Share Option Schemes, which enabled executives to be granted options to acquire shares in the Corporation. Following a board decision in 2005 to discontinue the scheme and replace it with a Deferred Share Plan, no further options have been granted and the last remaining options (over 9,740 shares) were exercised during the year. There were no such options outstanding at 31 December 2012.

Investment management

Henderson is responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment strategy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of Henderson is in the best interests of shareholders. The agreement does not cover custody or the preparation of data associated with investment performance, which are outsourced, or record keeping, which is maintained by the Corporation. Fees paid to Henderson in the year amounted to £1,208,000 (2011: £1,150,000). Fees are charged at 0.30% of the value of the net assets of the group (excluding the net assets of the independent fiduciary services business), calculated on the basis adopted in the audited financial statements. This means that the Corporation continues to maintain one of the most competitive fee structures in the investment trust sector. The underlying management fee of 1% on the Corporation's holdings in the Henderson Japanese and Pacific OEICs continues to be rebated.

The Corporation holds no shares in members of the HHG Group, the parent company of Henderson. It has been notified that funds managed by members of the HHG Group held 104,515 shares in the Corporation at 31 December 2012.

Charitable donations

During the year the Corporation made charitable donations of £1,708 (2011: £2,193).

Bribery Act

The Corporation maintains a 'zero tolerance' anti-bribery policy, which applies to the Corporation and all its subsidiaries. The policy is published on the Corporation's website.

Payment of suppliers

The group is committed to seeking the best terms possible for all types of business and hence there is no single policy as to the terms used. For most suppliers, the average credit period is 30 days.

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which complies with the requirements of the Companies Acts.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Corporation in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Corporation's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare a directors' report and directors' remuneration report that complies with the Companies Act 2006.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors and is subject to annual review by the board. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of information given to auditors

The directors have confirmed that so far as they are aware, there is no relevant audit information of which the Corporation's auditors are unaware, and that they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

The group financial statements have been prepared in accordance with IFRSs and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group.

The annual report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face.

Auditors

A resolution to re-appoint BDO LLP as auditors to the Corporation will be proposed at the annual general meeting.

By order of the board

Law Debenture Corporate Services Limited
Secretary

1 March 2013

Registered in England – No. 30397

The directors are required to report on how the Corporation has applied the main and supporting principles in the UK Corporate Governance Code (the 'Code'), and to confirm that it has complied with the Code's provisions or, where this has not been the case, to provide an explanation. This report relates to the Code as published in June 2010, a copy of which may be obtained by visiting www.frc.org.uk. A revised version of the Code was published in September 2012 and to the extent possible, we voluntarily report on the new requirements it contains, although mandatory compliance will only apply from next year. The Corporation was a constituent of the FTSE 250 during the period of the review, so all of the provisions of the Code apply to it. However, the Code recognises that investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Code. Where Law Debenture has departed from any provisions of the Code, this is explained below. This corporate governance statement is intended to form a part of the directors' report.

The board – role, modus operandi & appraisal

The board includes a majority of non-executive directors. The names of the directors, all of whom save for Robert Laing (appointed 2 April) served through the year, along with biographies, are on page 12 of the annual report.

The board is responsible for the overall strategy and management of the group, setting investment strategy and ensuring that the Corporation is operating in compliance with statutory and legal obligations. There is a formal schedule of matters specifically reserved for board decision, and this document is published on the Corporation's website (www.lawdeb.com under investment-trust/corporate-governance). Matters connected with strategy and management, structure and capital, financial reporting and control, investment trust portfolio, contracts, shareholder communication, board membership and other appointments, remuneration and corporate governance are reserved for the board. There is a separate schedule setting out the division of responsibility between the chairman and managing director.

The chairman takes personal responsibility for leadership of the board and ensures that directors receive accurate, timely and clear information. He reviews channels for provision of information with the company secretary at least annually.

The board operates as a collective decision making forum. Individual directors are required to scrutinise reports produced by the executive, and are encouraged to debate issues in an open and constructive manner. If one or more directors cannot support a consensus decision, a vote will be taken and the views of a dissenting director recorded in the minutes.

Procedures are in place to enable independent professional advice to be taken by individual directors at the Corporation's expense, and appropriate insurance cover is in place in respect of legal action against the directors.

The board meets regularly throughout the year. The attendance records of the directors (both at meetings of the board and, where relevant, meetings of board committees) are set out in the table below. There was also a strategy day during the year attended by the directors.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	**8**	**4**	**3**	**2**
Meetings attended by:				
C.J. Banszky	8	–	–	–
A.C. Cates*	3	2	1	2
J.A. Kay	8	3	3	2
R. Laing*	6	2	2	–
D.C.P. McDougall	8	4	3	2
C. Smith	8	4	3	2

* A.C. Cates until 24 April 2012; R. Laing from 2 April 2012.

The board keeps under review the performance of the executive director, and the chairman formally appraises all the directors each year and implements any training or education needs that might be identified. The non-executive directors meet once each year (without the presence of the chairman) to review the chairman's performance, the results of the review being discussed with the chairman by the senior independent director ('SID'). The board evaluates its own performance and that of its committees during the annual strategic away day and considers these matters again after each AGM in the light of comments received from shareholders and other interested parties.

John Kay is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the chairman, managing director or chief financial officer.

The board – independence

At least half of the board, excluding the chairman, must be independent non-executive directors (“NEDs”). The board has concluded that as at the date of this report, excluding the chairman, three of the four other directors are independent NEDs. In judging independence, the board takes into account whether or not a director is independent of management and any material business or other relationship that could affect or interfere with the exercise of objective judgement by the director, or his/her ability to act in the best interests of the Corporation and its subsidiaries.

The chairman, Douglas McDougall, was independent at appointment and continued to be independent throughout the period in the view of the board. He has indicated that he will not stand for re-election at the forthcoming AGM and will therefore cease to be a director and chairman on 10 April 2013.

The board is satisfied that Douglas McDougall’s other commitments do not interfere with the discharge of his responsibilities to Law Debenture, and that he makes sufficient time available to discharge his duties as chairman.

John Kay was independent at appointment in September 2004 and remains so, having had no previous connections with the Corporation or any of its subsidiaries.

Christopher Smith was independent at appointment in March 2009 and remains so. Once he becomes chairman, the board is satisfied that he will make sufficient time available.

Robert Laing was independent at appointment in April 2012 and remains so, having had no current or previous connections with the Corporation or any of its subsidiaries.

Mark Bridgeman will become a NED on 15 March 2013 and the board is satisfied that he will be independent at appointment, having no current or previous connections with the Corporation or any of its subsidiaries.

The board – re-election and renewal

The nominations committee ensures that the board has in place arrangements for orderly and transparent appointments to the board. There are job descriptions in place for NEDs’ roles, and the board has written terms and conditions of appointment for NEDs, which are available for inspection at the AGM. Particular care is taken to ensure that NEDs have sufficient time to commit to the duties expected of them and as necessary, diversity issues are considered. No new NED is appointed without first being interviewed by each existing NED.

All new directors undergo an induction process, involving presentations by the managing director and each business head and meetings with the investment manager.

All directors are submitted for annual re-election, subject to continued satisfactory performance, which is assessed as described above. There is no maximum number of terms that a director may serve. The Corporation has not yet established a diversity policy but can report that 20% of the board is female, 50% of the senior executive team in the London independent fiduciary services business is female and globally, 50% of employees are female.

Directors’ remuneration

Details of the directors’ remuneration appear in the remuneration report on page 34.

Board committees

The board has established a nominations committee, an audit committee and a remuneration committee, to which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Corporation’s website (www.lawdeb.com/investment-trust/corporate-governance). Membership of the committees is kept under review, taking account of the Code’s acknowledgement of the position of investment trusts. The board is deliberately kept small in the best interests of shareholders. It is the expertise of directors that counts, not the number of them. The Corporation is not apologetic for the minor areas of non-compliance reported in the paragraphs below although the issues reported are formally considered at least annually.

A majority of members of board committees are independent NEDs as assessed by the board. The Code says that the chairman should not be a member of the audit committee. The Corporation's board has concluded that given the range and complexity of issues considered by the committee and the chairman's particular expertise in the financial management of investment trusts, it is appropriate to have four members including the chairman. Non-compliance with this part of the Code is in the shareholders' best interests.

The Code provides that the chairman may be a member of the remuneration committee but that he should not be its chairman. The Corporation's board has concluded that it is beneficial, given the size of the board, for the chairman to be on the remuneration committee and given his experience and knowledge, that he is best placed of the four committee members to chair it. Non-compliance with this part of the Code is, again, in the shareholders' best interests.

The board will review its committee memberships after the AGM.

A summary of each committee is set out below.

Nominations committee

Role
To keep under review the structure, size and composition of the board and make recommendations about adjustments that are deemed necessary, and to ensure effective succession planning in accordance with legal and corporate governance needs.

Key duties
- Identification and nomination for board approval of suitable candidates to fill vacancies;
- Succession planning (in particular of the chairman and managing director);
- Making recommendations about the re-appointment of non-executive directors; and
- Ensuring that the board and its committees are constituted to comply so far as practicable with the Code.

During the year, the committee considered how to replace Douglas McDougall as a director and chairman. The committee (led for this purpose by Christopher Smith) first identified the skills that were needed to ensure continued effectiveness – in this case, a NED with fund management experience. Rather than engaging a head hunter, soundings were taken in the marketplace to establish potential candidates using the Corporation's own existing contacts. After normal recruitment due process as described above – interviewing of potential candidates, taking of references etc – Mark Bridgeman was identified as the most suitable candidate and selected for appointment.

The committee (led for this purpose by the SID) discussed the appointment of a successor to the current chairman and resolved to recommend Christopher Smith.

Members
D.C.P. McDougall (chairman)
A.C. Cates (until 24 April)
J.A. Kay
R. Laing (from 2 April)
C. Smith

Audit committee

Role
To assist the board in the management of the group's finances and financial reporting structure.

Key duties
- Monitoring the independence and objectivity of the auditors, their performance and remuneration and making recommendations on the appointment of new auditors;
- Monitoring the statutory audit;
- Reviewing the annual and interim accounts before submission to the board, including particular focus on changes in accounting policy etc; and
- Reviewing the effectiveness of systems of internal control and risk management (including monitoring the internal audit function and consideration of country and currency risks).

Members
C. Smith (chairman)
D.C.P. McDougall
A.C. Cates (until 24 April)
J.A. Kay
R. Laing (from 2 April)

The board is satisfied that all members have the necessary recent and relevant financial experience to serve.

The committee reports as follows. During the period, the committee met three times. No significant issues arose during consideration and approval of the financial statements, or generally. New accounting standards were reviewed and their impact on Law Debenture assessed. The committee had regular meetings with both the external and internal auditors. The external auditors were appointed in October 2008 and the committee has no current plan to put the audit to tender, although the audit partner will be rotated during 2013, having completed five audits.

Remuneration committee

Role

To develop the Corporation's remuneration policy and oversee its implementation, monitoring the effectiveness of the policy as it relates to the group's executives.

Key duties

- Reviewing and agreeing the remuneration and benefits of the executive director and senior executives in the light, as relevant, of corporate performance against a range of measures;
- Development of total remuneration packages, taking account of factors set out in the Code, based in part on performance and subject to suitable performance measurements as set by the committee; and
- Making recommendations to the board for any changes to long term incentive arrangements.

Members

D.C.P. McDougall (chairman)
A.C. Cates (until 24 April)
J.A. Kay
R. Laing (from 2 April)
C. Smith

The committee reports as follows. It met four times during the period to take decisions on the remuneration and benefits of the executive director and senior staff. The Remuneration Report at pages 30 to 35 provides more detail on the Corporation's policies. No new long term incentive arrangements were introduced in the period. The committee has begun to consider the reporting changes that will be necessary next year to comply with the 2012 Code.

The board does not operate a management engagement committee, the duties of such a committee being undertaken directly by the board.

Accountability and audit

The statement of directors' responsibilities in relation to the financial statements appears on page 23 of the annual report and accounts. The independent auditors' report appears on pages 36 and 37. The directors confirm that the Corporation is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities.

The financial statements present a fair, balanced and understandable assessment of the financial position and prospects of the Corporation and the group. The financial statements are reviewed by the audit committee, then approved by the board, and signed by the chairman and managing director. The annual report, taken as a whole, is fair, balanced and understandable and provides the necessary information to assess the Corporation and group's performance, business model and strategy.

Non-audit services provided by the auditor are reviewed by the audit committee to ensure that independence is maintained. Non-audit fees are shown at note 3 on page 48. The board's policy is that non-audit work (which normally consists of taxation and other technical advice) will be carried out by the Corporation's auditors unless there is a conflict of interest or someone else is considered to have more relevant experience.

Internal controls

The following paragraphs describe the framework of internal controls in place to ensure that the Corporation complies with the Financial Reporting Council's guidance (formerly known as' the Turnbull guidance') which forms a part of the Code, and with the obligations of the UKLA's Disclosure and Transparency Rules which require a description of the main features of the internal control and risk management systems in relation to the financial reporting process. This section should be read in conjunction with the business review, from which shareholders will better understand the risks that our internal controls are in place to manage.

The board monitors the effectiveness of internal controls on a continuous basis and in a number of ways, both directly through main board general reviews and also by the more specific work carried out by the audit committee. The various mechanisms include:

- Board review of the group's matrix of key risks and controls;
- An internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- Testing by the compliance officer of the Financial Services Authority ('FSA') regulated business systems and controls;

- Periodic reports to the board by the compliance officer about legal and regulatory changes, and the steps that the board must take to comply; and
- Review of reports by the external auditors on their annual audit work, and specific checks carried out on behalf of treasury management clients.

The internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of process controls.

The board considers that the above measures constitute continuing application of the Financial Reporting Council guidance and form an important management tool in the monitoring and control of the group's operational risks.

An important element of the overall controls remains a continuous review of the quality and effectiveness of internal financial controls of the group. During the year, the board has continued to require that the group maintains proper accounting records, so that it can rely on the financial information it receives to make appropriate business decisions and also that the group's assets are safeguarded. In the current economic climate, this includes having data that allows the board to consider country and currency exposure and potential impairment of assets (both financial and non-financial). Key elements of the systems of internal control continue to be:

- Regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework;
- Preparation by management of a comprehensive and detailed budget, involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts;
- Systematic reporting to the board of matters relating to litigation, insurance, pensions, taxation, accounting, counterparty risk and cash management as well as legal, compliance and company secretarial issues;
- Review of internal audit reports by the appropriate fiduciary services company board and the audit committee;
- Review of the internal controls of those services, such as investment management, custody and registration, which have been delegated to third parties. This review was conducted during the initial contractual negotiations and on a regular basis, including annual discussions with the senior management and compliance staff of Henderson Global Investors Limited;
- Monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the global custodian and investment data services provider; and
- Receipt of frequent and detailed reports about the independent fiduciary services businesses, including the overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable assurance against material mis-statement or loss.

By means of the procedures set out above, the directors have established a process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2012 and will be reviewed by the board on a regular basis.

Arrangements are in place by which staff of the group may, in confidence, raise concerns under the Public Interest Disclosure Act 1998 about possible improprieties in matters of financial reporting or other matters. If necessary, any member of staff with an honest and reasonable suspicion about possible impropriety may raise the matter directly with the chairman of the audit committee. In addition, the executive staff have access to an external whistle blowing service. Arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

Relations with shareholders and institutional shareholder responsibilities

The Corporation's compliance with these aspects of the Code is described separately within the directors' report.

Information about share capital

The information that the Corporation is required to disclose about its share capital can be found in the directors' report (significant holders) and AGM notice (total voting rights). There are no other disclosures that need to be made about share capital.

Annual general meeting

Details of the AGM for 2013 are set out at pages 67 to 71.

The board recognises the value of the AGM as an opportunity to communicate with investors and encourage their participation. Separate resolutions are put to the AGM on each substantially separate issue. Except where a poll has been called, the number of proxies lodged for each resolution, and the balance for and against the resolution and the number of votes withheld is disclosed to the meeting. This information is published immediately after the AGM to the London Stock Exchange and on the Corporation's website. The notice of the AGM and related papers are sent to shareholders at least 21 working days before the meeting. Where requested by nominee holders, annual reports and related documentation are circulated to beneficial owners and the Corporation is happy for beneficial owners to attend the AGM and (where appropriate arrangements have been made with the nominee) to vote their shares in person.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Corporation has complied throughout 2012 with the requirements of the UK Corporate Governance Code or, where it has not complied, an explanation has been provided. Compliance is reported in respect of the entire Code.

Dear Shareholder

On behalf of the board I submit the remuneration report for The Law Debenture Corporation p.l.c. for 2012. The report contains specific and detailed information about the way directors of the Corporation are remunerated and the amounts they receive. Some of the information is historical, some forward looking. Those sections that have been audited in accordance with legislative requirements are shown at the top of each relevant paragraph.

The remuneration report will be put to shareholders for approval as an ordinary resolution at the annual general meeting.

Douglas McDougall
Chairman, remuneration committee

Remuneration committee – membership and advisers

The board has delegated responsibility for consideration of all matters relating to the executive director's remuneration to a remuneration committee. All of the members of the committee (listed at page 27) apart from the chairman have been assessed by the board as independent, non-executive directors. Each of these served throughout the year, save for Robert Laing who was appointed on 2 April; Armel Cates retired on 24 April.

The committee met four times during the year. The managing director attended all of the meetings at the invitation of the chairman (although she was not present when details of her own remuneration were discussed). The managing director, the chief financial officer and the company secretary provided advice when called upon to do so. As for external advisers, the committee appointed Lesley Pearson, a remuneration consultant, to undertake salary benchmarking exercises. Thrings Solicitors advised on the 2012 SAYE Plan.

To the extent required by statute, disclosures in this remuneration report have been audited – the independent auditors' report appears on pages 36 and 37.

The Corporation's remuneration policy

The Corporation and its subsidiaries work in competitive markets. The aim is to ensure that remuneration packages offered to the executive director and senior executives are competitive and designed to attract, retain and motivate individuals of the highest calibre.

The remuneration committee operates in accordance with certain key principles which are:

- Remuneration packages should be competitive but not extravagant and should broadly be in line with average packages in the markets in which Law Debenture operates;
- There should be a clear link between total remuneration (including a profit related element) and performance; and
- There should be no reward for failure but the executives should be rewarded for maintaining and increasing the profits of the fiduciary services businesses in the longer term and enhancing shareholder value.

The major components of Law Debenture's remuneration packages for the executive director and senior executives comprise: basic salary; general profit sharing scheme, calculated by reference to the success of the independent fiduciary services businesses; a senior executive discretionary profit sharing element, based upon independent fiduciary services business performance and the attainment of personal targets; a deferred share scheme for certain senior executives, designed to enhance retention of people key to the strategic growth of the independent fiduciary services business; pensions provision (partly in a contributory, funded, HMRC approved, final salary occupational pension scheme and partly in a defined contribution scheme); and participation in a SAYE Sharesave Scheme. Details of the policy applied in each component are outlined below. Non-executive directors receive fees as described at paragraphs 7 and 9, but do not receive any other benefits.

The sole executive director during the period of this report was Caroline Banszky (managing director).

The policy applied in respect of each component of the remuneration package is as follows:

1. Basic salary

Basic salary is set at levels consistent with individual performance and the market rates applicable to executive positions of similar complexity and responsibility. To measure this, the remuneration committee engages an independent remuneration consultant. The salary of the executive director, which is itemised at paragraph 9 below, is reviewed annually by the remuneration committee.

The managing director also received non-pensionable cash payments in the form of a pension allowance as detailed in paragraph 5 and a payment in lieu of private health cover (she is not a member of the group's scheme). This is included within salary/fees at paragraph 9. The non-cash benefit is life insurance cover.

2. General profit sharing scheme

This is payable to all eligible staff but not to the managing director.

A cash payment will be made in March 2013 in respect of performance of the independent fiduciary services businesses in 2012. The amount of the payment is not guaranteed from year to year and is calculated by reference to a number of factors relating to the independent fiduciary services businesses, including profitability and the growth in profits. The profit share is paid as a percentage of basic salary (normally expected to be between 5 and 15%), and all qualifying employees receive a share of the profits calculated at the same percentage. In 2013, the general profit share payment will be 8% of basic salary. There are no performance conditions specific to any individual in order to qualify for receipt of a general profit share payment, although certain length of service and qualification conditions do apply. Entitlement to the payment will be withdrawn if the participant is not employed as at 24 March 2013. Subject to applicable HMRC limits, participants are entitled to place their general profit sharing payment into a HMRC approved Share Incentive Plan.

3. Senior executive discretionary profit sharing scheme

This is payable to a number of senior executives, including the managing director.

In assessing what additional profit sharing payment should be made, account is taken of any factors that the remuneration committee reasonably consider appropriate, including the financial performance and position of the group, the performance of the individual and the performance of the individual's department. The board believes it is inappropriate to publish any individual's performance conditions as these relate directly to the independent fiduciary services business, meaning that publication could compromise the commercial competitiveness of the business. There is no contractual entitlement that says an additional profit sharing payment must be paid in any given year. There is a high element of deferment of such payments (see below). Entitlement is normally lost if, on the date that additional profit sharing payments are paid, a participant is no longer employed by the group, or either the participant or the employer has served notice to terminate employment. Additional profit sharing payments are not taken into account in calculating pension contributions. The discretionary profit share payable in 2013 to Caroline Banszky in respect of 2012 will be £142,100 (in respect of 2011: £149,250). Up to the allowable limit, her profit share will be eligible to be placed in the Corporation's Share Incentive Plan.

The Corporation's profit related performance arrangements are as follows. Eligible executives can receive a total profit related payment dependent on performance as measured by the remuneration committee, which except in exceptional circumstances is unlikely to exceed 75% of salary. The total profit related payment includes the general profit sharing scheme (but not for the managing director who is not entitled to participate), the senior executive discretionary profit sharing scheme and any awards made under the Deferred Share Plan. The purpose of the Deferred Share Plan, under which shares awarded as part of the profit related payment do not vest for three years, is to incentivise and retain staff deemed key to the future of the business. Deferred shares will make up at least one-third of the total profit related payment receivable by the participant.

No executive has a contractual entitlement to a profit related payment or to a Deferred Share Plan award, and the committee is not obliged to make an award to any individual in any year. Shares are purchased in the open market up to the amount of the award and held on trust, to be released to the executive on the third anniversary of grant of the award. The executive must pay PAYE and NI before the shares are released, otherwise they are forfeited. Entitlement to the award is lost if the executive gives notice to resign, or is put on notice of termination, before the award release date. Dividend rights and voting rights on shares held pending release to relevant executives are waived. The committee made awards of deferred shares to the executive director (details of which are at paragraph 12) and 41 members of the executive on 16 March 2012. Subject to eligibility, the shares will be released to award holders on 13 March 2015.

The remuneration committee has agreed an award of shares to the value of £71,050 under the plan to Caroline Banszky in respect of 2012, which will be purchased in March 2013 and subject to conditions, will be released in March 2016.

Non-executive directors are not entitled to be participants.

4. Save as you earn ('SAYE') sharesave plans 2002 and 2012 ('the Schemes').

Subject to eligibility conditions, the executive director (in common with all of the UK members of staff) is entitled to participate in the Corporation's Schemes. Details of her participation in the Schemes appear at paragraph 11.

The Schemes are approved by HMRC. The principal features of the Schemes are as follows. Eligible participants make monthly savings of up to £250 per month in aggregate direct from post tax pay, with a guaranteed tax-free return after five years. On joining the scheme, savers are given an option to acquire shares in the Corporation at the end of the five year saving period, at a price fixed at the beginning of the saving period. The fixed price has historically been the net asset value per ordinary share on the date when eligible participants are invited to join the plan but under the terms of the 2012 Scheme, the fixed price is the market price of the shares on the invitation date, or by an adopted policy of the board, the latest published NAV, whichever is higher.

At the end of the five year saving period, participants have historically received a tax free bonus as stipulated by HMRC, although during 2011, HMRC announced that no tax free bonus will be permitted for five year schemes like Law Debenture's. At the end of a saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contributions, plus the bonus (if any).

Caroline Banszky participated in the 2009 invitation to the maximum extent possible and was therefore ineligible to participate in the 2012 offering.

5. Pensions provision

Caroline Banszky was a member of the group's funded contributory, HMRC approved, final salary occupational scheme until 31 March 2006. Details of her membership of the scheme are contained in the table at paragraph 10. Pursuant to her service contract, since leaving the scheme the managing director has received 20% of base salary as compensation. This amount is paid monthly in arrears accruing from day to day after the deduction of income tax and national insurance.

Since 1 April 2009, all future pension benefits have accrued at 1/80ths (previously 1/60ths for some eligible employees) with a salary cap linked to increases in RPI, which is £45,074 from 1 January 2013 (2012:£43,932) for accrual purposes. Employee contributions to the scheme were increased by 1.6% from 1 January 2013 to 4.6%, with a further increase of 1.6% to 6.2% scheduled from 1 January 2014.

Employees earning more than the cap receive a cash sum which they may invest in a separate money purchase scheme. These changes have transferred some of the mortality and investment risks to employees, which in turn has reduced the risk to the Corporation of providing a final salary scheme.

6. Service contracts

Details of the executive director's service contract are as follows:

	Date of contract	Notice period
C.J. Banszky	9 November 2001	6 months

Her employment is not for a fixed term. There are no contractual provisions for compensation payable upon early termination (with notice) of the contract. There is an entitlement to receive salary and benefits during the period of notice, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that for cause the executive director's employment is summarily terminated.

In the event that the managing director is given notice of termination of employment within twelve months of any change in control of the company, she must be given not less than twelve months' written notice, and the same arrangements for receiving salary and benefits during this period (including payments 'in lieu') also apply as described above.

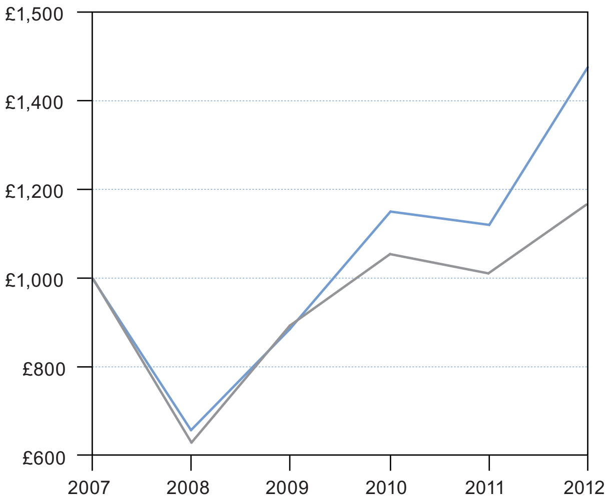
7. Remuneration of non-executive directors

The non-executive directors were paid fees for their services in 2012 as set out in paragraph 9. They may also reclaim travelling expenses.

The fees are reviewed by the board, on advice from the executive director, who from time to time undertakes comparative studies, using an independent remuneration consultant, to ensure that the Corporation's fee levels are consistent with the marketplace. The board concluded in December 2012 that there should be no increase in fees in 2013. All directors are expected to attend all meetings of the board and of any committee of which they are a member, barring unforeseen circumstances. The attendance record of the non-executive directors at meetings of the Corporation's board and committees is set out at page 24 as part of the corporate governance report.

Each non-executive director is appointed for an indefinite term, subject to annual re-election by the shareholders. There are no provisions in any of the non-executive directors' letters of appointment for compensation payable on early termination of the directorship.

8. Performance graph



Law Debenture share price total return, assuming the investment of £1,000 on 31 December 2007 and reinvestment of all dividends (excluding dealing expenses).

FTSE All-Share Index total return assuming notional investment of £1,000 into the index on 31 December 2007 and the reinvestment of all income (excluding dealing expenses).

Notes

1. The graph shows the total shareholder return of a nominal holding of £1,000 of Law Debenture's shares measured against the total shareholder return of a nominal holding of £1,000 invested in the FTSE All-Share Index over a five year period.
2. Dividends have been reinvested.

9. Directors' emoluments 2012 (audited)

	Total salary/fees £	Total profit related payment £	Benefits other than in cash £	**Total receivable for 2012 £**	Total receivable for 2011 £
C.J. Banszky	366,922	269,222	779	**636,923**	602,676
A.C. Cates	13,990	–	–	**13,990**	43,000
D.C.P. McDougall	65,500	–	–	**65,500**	62,500
J.A. Kay	49,250	–	–	**49,250**	48,250
R. Laing	33,000	–	–	**33,000**	–
C. Smith	63,000	–	–	**63,000**	60,000

Notes

1. Total salary/fees for Caroline Banszky comprises basic salary plus non-pensionable cash allowances of £62,422 as set out in paragraphs 1 and 5.
2. Total profit related payments for Caroline Banszky comprise the discretionary profit related element payable in respect of 2012 and the deferred shares vesting in 2012 as set out in paragraphs 3 and 12.
3. The fees in respect of Robert Laing were paid to Maclay, Murray & Spens LLP.
4. No compensation or fee was paid to any individual who had previously been a director.

10. Annual pension entitlements upon reaching retirement age (audited)

	Increase in accrued pension during 2012 £	**Accumulated total accrued pension at 31 December 2012 £**	Transfer value as at 31 December 2011 £000	**Transfer value as at 31 December 2012 £000**	**Increase in transfer value £000**
C.J. Banszky	**440**	**8,866**	173	**186**	**13**

Notes

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2012.
2. The increase in accrued pension during the year includes any increase for inflation.
3. The transfer value has been calculated using the actuarial assumptions currently in place for transfer values, as agreed by the Trustee of the scheme.
4. No previous directors are, or have been, in receipt of any excess retirement benefits.
5. Caroline Banszky ceased to be a member of the scheme from 31 March 2006.

11. Save as you earn share save plan 2002 (audited)

	Interest as at 31 December 2011	Interest acquired in 2012	Exercise price	Market price at invitation date	**Interest as at 31 December 2012**	Earliest exercise	Latest exercise
C.J. Banszky	7,399	–	211.50p	247.25p	**7,399**	01.08.14	31.01.15

None of the terms and conditions relating to any of the options held under this scheme was varied during the year.

12. Deferred share plan (audited)

	Interest at 31 December 2011	**Interest (vested)/ acquired in 2012**	Purchase price	**Interest at 31 December 2012**	Date shares to be released
C.J. Banszky					
2009	33,191	**(33,191)**	196.84p	**–**	–
2010	22,865	**–**	285.37p	**22,865**	25.02.13
2011	24,739	**–**	351.67p	**24,739**	02.03.14
2012	–	**18,884**	395.17p	**18,884**	13.03.15

The shares were purchased in the open market and are held under trust by a Law Debenture subsidiary until the release date.

Caroline Banszky received her allocation of 33,191 deferred shares issued in 2009 on 2 March 2012 and continues to hold the majority of them, although she did sell 16,000 shares at a price of 384.038p to meet the tax liability payable on receipt of the shares. The price at vesting was 383.00p. The value of the shares at vesting is included in directors' remuneration and PAYE and NI was paid on that basis. The price of the shares at 31 December 2012 was 425.00p per share.

13. Aggregate directors' remuneration (audited)

	2012 £	2011 £
Emoluments	**861,663**	816,426

Employers' national insurance in respect of directors' remuneration was £114,355 (2011: £106,723).

We have audited the financial statements of The Law Debenture Corporation p.l.c. for the year ended 31 December 2012 which comprise the group income statement and statement of comprehensive income, the group and Corporation's statement of financial position, the group and Corporation's statements of changes in equity, the group and Corporation's statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the Corporation's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 19, in relation to going concern;
- the part of the corporate governance statement relating to the company's compliance with the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Neil Fung-On (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
1 March 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group income statement for the year ended 31 December

	Notes	2012 Revenue £000	2012 Capital £000	2012 Total* £000	2011 Revenue £000	2011 Capital £000	2011 Total* £000
UK dividends		**11,431**	**–**	**11,431**	11,643	–	11,643
UK special dividends		**457**	**–**	**457**	140	–	140
Overseas dividends		**1,792**	**–**	**1,792**	1,755	–	1,755
Overseas special dividends		**51**	**–**	**51**	64	–	64
Interest from securities		**661**	**–**	**661**	524	–	524
		14,392	**–**	**14,392**	14,126	–	14,126
Interest income	5	**140**	**–**	**140**	446	–	446
Independent fiduciary services fees		**29,760**	**–**	**29,760**	30,948	–	30,948
Other income		**105**	**–**	**105**	94	–	94
Total income		**44,397**	**–**	**44,397**	45,614	–	45,614
Net gain/(loss) on investments held at fair value through profit or loss	2	**–**	**59,259**	**59,259**	–	(22,175)	(22,175)
Gross income and capital gains/(losses)		**44,397**	**59,259**	**103,656**	45,614	(22,175)	23,439
Cost of sales		**(3,761)**	**–**	**(3,761)**	(4,313)	–	(4,313)
Administrative expenses	3	**(18,638)**	**(193)**	**(18,831)**	(18,643)	(223)	(18,866)
Operating profit		**21,998**	**59,066**	**81,064**	22,658	(22,398)	260
Finance costs							
Interest payable	5	**(2,450)**	**–**	**(2,450)**	(2,450)	–	(2,450)
Profit/(loss) before taxation	6	**19,548**	**59,066**	**78,614**	20,208	(22,398)	(2,190)
Taxation	7	**(1,753)**	**–**	**(1,753)**	(1,977)	–	(1,977)
Profit/(loss) for year	6	**17,795**	**59,066**	**76,861**	18,231	(22,398)	(4,167)
Return/(loss) per ordinary share (pence)	9	**15.14**	**50.24**	**65.38**	15.52	(19.07)	(3.55)
Diluted return/(loss) per ordinary share (pence)	9	**15.13**	**50.21**	**65.34**	15.52	(19.07)	(3.55)

*See note 1.

Statement of comprehensive income for the year ended 31 December

	2012 Revenue £000	2012 Capital £000	2012 Total £000	2011 Revenue £000	2011 Capital £000	2011 Total £000
Group						
Profit/(loss) for the year	**17,795**	**59,066**	**76,861**	18,231	(22,398)	(4,167)
Foreign exchange on translation of foreign operations	**–**	**(204)**	**(204)**	–	(9)	(9)
Pension actuarial gains/(losses)	**336**	**–**	**336**	(3,145)	–	(3,145)
Taxation on pension	**(104)**	**–**	**(104)**	800	–	800
Total comprehensive income/(loss) for the year	**18,027**	**58,862**	**76,889**	15,886	(22,407)	(6,521)

		Group		Corporation	
	Notes	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Assets					
Non current assets					
Goodwill	10	**2,182**	2,218	**–**	–
Property, plant and equipment	11	**254**	320	**–**	–
Other intangible assets	12	**363**	199	**–**	–
Investments held at fair value through profit or loss	13	**479,521**	423,044	**479,256**	422,729
Investments in subsidiary undertakings	13	**–**	–	**50**	50
Amounts due from subsidiary undertakings		**–**	–	**60,000**	60,000
Deferred tax assets	7	**1,126**	1,416	**–**	–
Total non current assets		**483,446**	427,197	**539,306**	482,779
Current assets					
Trade and other receivables	14	**4,244**	4,940	**84**	182
Other accrued income and prepaid expenses		**5,980**	6,246	**1,914**	2,219
Cash and cash equivalents	15	**22,201**	18,063	**10,339**	9,145
Total current assets		**32,425**	29,249	**12,337**	11,546
Total assets		**515,871**	456,446	**551,643**	494,325
Current liabilities					
Amounts owed to subsidiary undertakings		**–**	–	**54,016**	56,203
Trade and other payables	16	**10,745**	11,674	**109**	163
Corporation tax payable		**1,005**	1,293	**192**	265
Other taxation including social security		**629**	559	**383**	378
Deferred income		**3,948**	3,902	**11**	10
Total current liabilities		**16,327**	17,428	**54,711**	57,019
Non current liabilities and deferred income					
Long term borrowings	20	**39,418**	39,391	**–**	–
Retirement benefit obligations	23	**2,227**	3,138	**–**	–
Deferred income		**6,035**	5,563	**204**	214
Total non current liabilities		**47,680**	48,092	**204**	214
Total net assets		**451,864**	390,926	**496,728**	437,092
Equity					
Called up share capital	17	**5,905**	5,905	**5,905**	5,905
Share premium		**8,122**	8,106	**8,122**	8,106
Capital redemption		**8**	8	**8**	8
Share based payments		**–**	201	**–**	–
Own shares	17	**(1,778)**	(1,684)	**–**	–
Capital reserves	18	**405,334**	346,268	**465,915**	406,849
Retained earnings		**33,964**	31,609	**16,778**	16,224
Translation reserve		**309**	513	**–**	–
Total equity		**451,864**	390,926	**496,728**	437,092

Approved and authorised for issue by the board on 1 March 2013 and signed on its behalf by:

D.C.P. McDougall Chairman
C.J. Banszky Managing director

Registered number 30397

Statement of changes in equity for the year ended 31 December

	Share capital £000	Share premium £000
Group		
Equity at 1 January 2011	5,904	8,066
Net (loss)	–	–
Foreign exchange	–	–
Actuarial (loss) on pension scheme (net of tax)	–	–
Total comprehensive (loss)	–	–
Issue of shares	1	40
Dividend relating to 2010	–	–
Dividend relating to 2011	–	–
Movement in own shares	–	–
Total equity at 31 December 2011	5,905	8,106
Equity at 1 January 2012	**5,905**	**8,106**
Profit	**–**	**–**
Foreign exchange	**–**	**–**
Actuarial gain on pension scheme (net of tax)	**–**	**–**
Total comprehensive income	**–**	**–**
Issue of shares	**–**	**16**
Dividend relating to 2011	**–**	**–**
Dividend relating to 2012	**–**	**–**
Movement in own shares	**–**	**–**
Transfer	**–**	**–**
Total equity at 31 December 2012	**5,905**	**8,122**

	Share capital £000	Share premium £000
Corporation		
Equity at 1 January 2011	5,904	8,066
Total comprehensive (loss)	–	–
Issue of shares	1	40
Dividend relating to 2010	–	–
Dividend relating to 2011	–	–
Total equity at 31 December 2011	5,905	8,106
Equity at 1 January 2012	**5,905**	**8,106**
Total comprehensive income	**–**	**–**
Issue of shares	**–**	**16**
Dividend relating to 2011	**–**	**–**
Dividend relating to 2012	**–**	**–**
Total equity at 31 December 2012	**5,905**	**8,122**

Capital reserves comprises realised and unrealised gains/(losses) on investments held at fair value through profit or loss (see note 18).

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(1,794)	8	201	522	368,666	30,993	412,566
–	–	–	–	(22,398)	18,231	(4,167)
–	–	–	(9)	–	–	(9)
–	–	–	–	–	(2,345)	(2,345)
–	–	–	(9)	(22,398)	15,886	(6,521)
–	–	–	–	–	–	41
–	–	–	–	–	(9,984)	(9,984)
–	–	–	–	–	(5,286)	(5,286)
110	–	–	–	–	–	110
(1,684)	8	201	513	346,268	31,609	390,926
(1,684)	8	201	513	346,268	31,609	390,926
–	–	–	–	59,066	17,795	76,861
–	–	–	(204)	–	–	(204)
–	–	–	–	–	232	232
–	–	–	(204)	59,066	18,027	76,889
–	–	–	–	–	–	16
–	–	–	–	–	(10,582)	(10,582)
–	–	–	–	–	(5,291)	(5,291)
(94)	–	–	–	–	–	(94)
–	–	(201)	–	–	201	–
(1,778)	8	–	309	405,334	33,964	451,864

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
–	8	–	–	429,247	15,397	458,622
–	–	–	–	(22,398)	16,097	(6,301)
–	–	–	–	–	–	41
–	–	–	–	–	(9,984)	(9,984)
–	–	–	–	–	(5,286)	(5,286)
–	8	–	–	406,849	16,224	437,092
–	8	–	–	406,849	16,224	437,092
–	–	–	–	59,066	16,427	75,493
–	–	–	–	–	–	16
–	–	–	–	–	(10,582)	(10,582)
–	–	–	–	–	(5,291)	(5,291)
–	8	–	–	465,915	16,778	496,728

Statements of cash flows for the year ended 31 December

	Group		Corporation	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Operating activities				
Operating profit/(loss) before interest payable and taxation	**81,064**	260	**78,492**	(3,312)
(Gains)/losses on investments	**(59,066)**	22,398	**(59,066)**	22,398
Foreign exchange	**39**	(12)	**–**	–
Depreciation of property, plant and equipment	**149**	164	**–**	–
Amortisation of intangible assets	**214**	76	**–**	–
Decrease/(increase) in receivables	**962**	(658)	**403**	(547)
(Decrease)/increase in payables	**(314)**	442	**(58)**	(267)
Transfer to capital reserves	**772**	126	**772**	126
Normal pension contributions in excess of cost	**(575)**	(883)	**–**	–
Cash generated from operating activities	**23,245**	21,913	**20,543**	18,398
Taxation	**(1,855)**	(1,548)	**(418)**	(470)
Interest paid	**(2,450)**	(2,450)	**(2,654)**	(2,647)
Operating cash flow	**18,940**	17,915	**17,471**	15,281
Investing activities				
Acquisition of property, plant and equipment	**(89)**	(289)	**–**	–
Expenditure on intangible assets	**(375)**	(157)	**–**	–
Purchase of investments	**(48,376)**	(96,508)	**(48,376)**	(96,458)
Sale of investments	**50,193**	92,275	**50,143**	92,275
Cash flow from investing activities	**1,353**	(4,679)	**1,767**	(4,183)
Financing activities				
Subsidiary undertakings	**–**	–	**(2,187)**	5,963
Dividends paid	**(15,873)**	(15,270)	**(15,873)**	(15,270)
Proceeds of increase in share capital	**16**	41	**16**	41
Purchase of own shares	**(94)**	110	**–**	–
Net cash flow from financing activities	**(15,951)**	(15,119)	**(18,044)**	(9,266)
Net increase/(decrease) in cash and cash equivalents	**4,342**	(1,883)	**1,194**	1,832
Cash and cash equivalents at beginning of period	**18,063**	19,953	**9,145**	7,311
Foreign exchange (losses)/gains on cash and cash equivalents	**(204)**	(7)	**–**	2
Cash and cash equivalents at end of period	**22,201**	18,063	**10,339**	9,145

1 | Summary of significant accounting policies

General information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom. The address of the registered office is given on page 18. The group's operations and its principal activities are as an investment trust and the provider of independent fiduciary services.

Basis of preparation

The financial statements of The Law Debenture Corporation p.l.c. and the group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies, January 2009 (SORP) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected component of the financial statements and associated critical judgements is as follows:

Defined benefit scheme

The estimation of the expected cash flows used in the calculation of the defined benefit scheme's liabilities includes a number of assumptions around mortality, discount rates, inflation rates applicable to defined benefits and the average expected service lives of the employees (see note 23). The directors have considered the sensitivity to the mortality assumption and determined that if life expectancy were to increase by one year then the deficit of the scheme would increase by approximately £1,100,000. The directors take advice from the Scheme Actuary when selecting these assumptions and when selecting the discount rate used to calculate the defined benefit scheme liabilities.

New IFRSs, interpretations and amendments not yet effective

None of the new standards, interpretations or amendments, which are effective for the first time in these financial statements has had a material impact on the financial statements.

None of the new standards, interpretations or amendments, but not yet effective are expected to have a material impact on the group's future financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and entities controlled by the Corporation (its subsidiaries) made up to the end of the financial period. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. The financial statements of subsidiaries are adjusted, where necessary, to ensure the accounting policies used are consistent with those adopted by the group.

Presentation of income statement and statement of comprehensive income

In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement and statement of comprehensive income between items of a revenue and capital nature has been presented. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in Sections 1158-1159 Corporation Tax Act 2010. As permitted by Section 408 of the Companies Act 2006, the Corporation has not presented its own income statement.

1 | Summary of significant accounting policies continued

Segment reporting
Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the directors in deciding how to allocate resources and in assessing performance. The group comprises two operating segments; the investment trust and independent fiduciary services. This is consistent with internal reporting.

Foreign currencies
Transactions recorded in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into sterling at the exchange rate ruling at that date. Gains and losses on translation are included in net profit or loss for the period, however exchange gains or losses on investments held at fair value through profit or loss are included as part of their fair value gain or loss.

The assets and liabilities of overseas subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expenses of overseas subsidiaries are translated at the average exchange rates for the period. Exchange differences arising from the translation of net investment in foreign subsidiaries are recognised in the statement of comprehensive income and transferred to the group's translation reserve.

Property, plant and equipment
All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives as follows:

Leasehold improvements	over the remaining lease period
Office furniture and equipment	3-10 years

Intangible assets
Computer software
Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between three and five years.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment would be recognised in profit or loss and is not subsequently reversed.

Impairment of assets
An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. Assets are reviewed on a regular basis and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial instruments
Investments
Listed investments, which comprise the investment trust portfolio, have been designated as investments held at fair value through profit or loss. Purchases and sales of listed investments are recognised on trade date, the date on which the group commits to purchase or sell the investment. Investments are initially recognised at fair value and transaction costs are expensed as incurred. Gains and losses arising from listed investments, as assets at fair value through profit or loss, are included in the income statement in the period in which they arise.

The fair value of listed investments is based on quoted market prices at the reporting date. The quoted market price used is the bid price.

Gains and losses on investments and direct transaction costs are analysed within the income statement as capital. All other costs of the investment trust are treated as revenue items.

1 | Summary of significant accounting policies continued

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held with banks and other short term highly liquid investments with original maturities of three months or less.

Borrowings
Borrowings are recognised initially at fair value, which is generally the proceeds net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method, so as to generate a constant rate of return on the amount outstanding.

Share capital
Ordinary shares are classified as equity. The ordinary shares of the Corporation which have been purchased by the Employee Share Ownership Trust to provide share based payments to employees are valued at cost and deducted from equity.

Taxation
Current tax is based on 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 which are either never taxable or deductible or are taxable or deductible in other periods. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realised based on tax rates that have been enacted or substantively enacted at the year end date.

Revenue recognition
Dividend income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income
Interest income is accrued on a time basis using the effective interest rate applicable.

Sales of services
Fees comprise the fair value of the sales of services net of value added tax and after eliminating sales within the group. Sales of services are recognised in the accounting period in which the services are rendered, provided that the outcome of the transaction can be estimated reliably. Where the outcome of a transaction can be estimated reliably, sales are assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Where payments are received in advance for trusteeships which extend beyond the period end then the amount relating to future periods is deferred using an appropriate discount rate.

1 | Summary of significant accounting policies continued

Employee benefits

Pension costs

The group operates a defined benefit pension plan. The cost of providing benefits is determined using the projected unit credit method, with independent actuarial calculations being carried out at each year end date. Actuarial gains and losses are recognised in full in the period in which they occur through other comprehensive income. Past service cost is recognised immediately to the extent that benefits are already vested and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the year end date less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

Profit share schemes

The group recognises provisions in respect of its profit share schemes when contractually obliged or when there is a past practice that has created a constructive obligation.

Share based plans

The group has awarded share options to executives and the group makes equity based awards to executives.

Share-based payments are measured at fair value at the date of grant using an appropriate option valuation technique, which is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Reserves

A description of each of the reserves follows:

Share premium

This reserve represents the difference between the issue price of shares and the nominal value of shares at the date of issue, net of related issue costs.

Capital redemption

This reserve was created on the cancellation and repayment of the Corporation's share capital.

Share based payments

This reserve represents the fair value cost of share based payments.

Own shares

This represents the cost of shares purchased by the ESOT.

Capital reserves

The following are dealt with through this reserve:

- Gains and losses on realisation of investments; and
- Changes in fair value investments which are readily convertible to cash.

Retained earnings

Net revenue profits and losses of the Corporation and its subsidiaries and the fair value costs of share based payments which are revenue in nature are dealt with in this reserve.

Translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

1 | Summary of significant accounting policies continued

Leases

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved.

2 | Total capital gains/(losses) from investments

	2012 £000	2011 £000
Realised gains based on historical cost	**19,484**	15,837
Amounts recognised as unrealised in previous years	**(15,138)**	(20,847)
Realised gains/(losses) based on carrying value at previous year end date	**4,346**	(5,010)
Unrealised gains/(losses) on investments	**54,141**	(17,291)
	58,487	(22,301)
Transfers from revenue	**772**	126
	59,259	(22,175)

3 | Administrative expenses

	2012 £000	2011 £000
Administrative expenses include:		
Salaries and directors' fees	**9,792**	9,733
Social security costs	**1,189**	1,046
Other pension costs	**701**	793
	11,682	11,572
Investment management fee	**1,208**	1,150
Depreciation – property, plant and equipment	**149**	164
Amortisation – intangible assets	**214**	76
Operating leases – land and buildings	**1,303**	1,330
Foreign exchange	**14**	(30)
Auditors' remuneration	**139**	132

During the year, the group employed an average of 115 staff (2011: 109). All staff are engaged in the provision of independent fiduciary services. The Corporation has no employees.

Details of the terms of the investment management agreement are provided on page 22 of the directors' report.

3 | Administrative expenses continued

Administrative expenses charged to capital are transaction costs and foreign exchange differences on the purchase of investments held at fair value through profit or loss.

A more detailed analysis of the auditors' remuneration on a worldwide basis is provided below:

	2012 £000	2011 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	**127**	122
– audit related regulatory	**6**	5
Tax services	**6**	5
Other services	**–**	–
	139	132

* Including the Corporation £35,000 (2011: £35,000).

These figures do not include fees receivable by the auditors for work undertaken by them in connection with the audits of special purpose vehicles administered by the group as part of its independent fiduciary services business.

A description of the work of the audit committee is set out in the corporate governance report on page 26 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4 | Remuneration of directors (key management personnel)

The remuneration of the directors, who are the key management personnel of the group comprises the following:

	2012 £	2011 £
Short term benefits including fees in respect of non-executive directors	**734,541**	723,426
Deferred share bonus scheme	**127,122**	93,000
	861,663	816,426

Details for each individual director are shown in the remuneration report starting on page 30.

5 | Interest

	2012 £000	2011 £000
Interest income		
Interest on bank deposits	**24**	30
Returns on money market funds	**56**	78
Returns on pension scheme (net)	**60**	338
	140	446
Interest payable		
Interest on debenture stock	**2,450**	2,450
Interest (net)	**(2,310)**	(2,004)

6 | Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	31 December 2012 £000	31 December 2011 £000	**31 December 2012 £000**	31 December 2011 £000	**31 December 2012 £000**	31 December 2011 £000
Revenue						
Segment income	**14,392**	14,126	**29,760**	30,948	**44,152**	45,074
Other income	**12**	76	**93**	18	**105**	94
Cost of sales	**–**	–	**(3,761)**	(4,313)	**(3,761)**	(4,313)
Administration costs	**(1,917)**	(1,915)	**(16,721)**	(16,728)	**(18,638)**	(18,643)
	12,487	12,287	**9,371**	9,925	**21,858**	22,212
Interest (net)	**(2,534)**	(2,566)	**224**	562	**(2,310)**	(2,004)
Return, including profit on ordinary activities before taxation	**9,953**	9,721	**9,595**	10,487	**19,548**	20,208
Taxation	**–**	–	**(1,753)**	(1,977)	**(1,753)**	(1,977)
Return, including profit attributable to shareholders	**9,953**	9,721	**7,842**	8,510	**17,795**	18,231
Revenue return per ordinary share	**8.47**	8.27	**6.67**	7.25	**15.14**	15.52
Assets	**491,643**	434,325	**24,228**	22,121	**515,871**	456,446
Liabilities	**(54,915)**	(57,233)	**(9,092)**	(8,287)	**(64,007)**	(65,520)
Total net assets	**436,728**	377,092	**15,136**	13,834	**451,864**	390,926

The capital element of the income statement is wholly attributable to the investment trust. Details regarding the segments are included on page (i) – Group summary and in note 1 – Segment reporting.

	Investment trust		Independent fiduciary services		Total	
	31 December 2012 £000	31 December 2011 £000	**31 December 2012 £000**	31 December 2011 £000	**31 December 2012 £000**	31 December 2011 £000
Other information						
Capital expenditure	**–**	–	**464**	446	**464**	446
Depreciation/amortisation	**–**	–	**363**	240	**363**	240

7 | Taxation

	2012 £000	2011 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 24.5% (2011: 26.5%)	**1,199**	1,340
Adjustments in respect of prior years	**–**	1
	1,199	1,341
Overseas tax		
Current tax on income for the year	**374**	383
Total current tax charge	**1,573**	1,724
Deferred tax	**180**	253
	1,753	1,977

7 | Taxation continued

Taxation

The charge for the year can be reconciled to the profit per the income statement as follows:

	2012 £000	2011 £000
Profit/(loss) before taxation	**78,614**	(2,190)
Tax on ordinary activities at standard rate 24.5% (2011: 26.5%)	**19,260**	(580)
Effects of:		
Expenses not deductible for tax purposes	**9**	10
Higher rates of tax on overseas income	**133**	83
Non taxable capital (gains)/losses	**(14,471)**	5,935
Tax credit on dividend income	**(3,248)**	(3,470)
Adjustment in respect of prior periods	**–**	1
Change in tax rate for deferred tax	**70**	–
Other differences	**–**	(2)
	1,753	1,977

The group expects that a substantial portion of its future income will continue to be in the form of dividend receipts and capital gains and losses, which constitute non-taxable income. On this basis, the group tax charge is expected to remain significantly different to the standard UK rate.

Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

Deferred tax assets

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Other employee benefits £000	Total £000
At 1 January 2011	569	245	57	871
(Charge) to income	(24)	(229)	–	(253)
Credit to other comprehensive income	–	800	–	800
Foreign exchange	(2)	–	–	(2)
At 1 January 2012	543	816	57	1,416
(Charge)/credit to income	55	(178)	(57)	(180)
(Charge) to other comprehensive income	–	(104)	–	(104)
Foreign exchange	(6)	–	–	(6)
At 31 December 2012	**592**	**534**	**–**	**1,126**

8 | Dividends on ordinary shares

	2012 £000	2011 £000
Dividends on ordinary shares comprise the following:		
2012 Interim 4.5p (2011: 4.5p)	**5,291**	5,286
2011 Final 9.0p (2010: 8.5p)	**10,582**	9,984
Total for year	**15,873**	15,270
Proposed final dividend for the year ended 31 December 2012	**11,464**	

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

Set out below is the total dividend payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered.

	2012 £000	2011 £000
2012 Interim 4.5p (2011: 4.5p)	**5,291**	5,286
2012 Final 9.75p (2011: 9.0p)	**11,464**	10,582
	16,755	15,868

On this basis The Law Debenture Corporation p.l.c. satisfies the requirements of Sections 1158-1159 of the Corporation Tax Act 2010, as an approved investment trust company.

Dividends have been waived in respect of the 518,195 shares owned by the Employee Share Ownership Trust (‘ESOT’) (see note 17).

9 | Earnings per share from continuing operations

Revenue return is based on profits attributable of £17,795,000 (2011: £18,231,000).

Capital return per share is based on net capital gain for the year of £59,066,000 (2011: loss £22,398,000).

Total return per share is based on net gain for the year of £76,861,000 (2011: net loss £4,167,000).

The calculations of returns per share are based on 117,568,771 (2011: 117,459,408) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2012 total, revenue and capital diluted returns per share were calculated using 117,648,092 shares (2011: 117,544,561 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 5,320 (2011: 16,110) antidilutive shares.

10 | Goodwill

	2012 £000	2011 £000
Cost		
At 1 January	**2,218**	2,211
Foreign exchange	**(36)**	7
At 31 December	**2,182**	2,218

The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £763,000). At 31 December 2012 the goodwill in relation to the operating companies was reviewed. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 2013, assumed annual growth based on current expectations of 5% and a discount rate of 5%. On this basis the goodwill is not considered to be impaired.

11 | Property, plant and equipment

Group

	Leasehold improvements 2012 £000	Office furniture & equipment 2012 £000	Total 2012 £000	Leasehold improvements 2011 £000	Office furniture & equipment 2011 £000	Total 2011 £000
Cost						
At 1 January	**777**	**1,319**	**2,096**	777	1,030	1,807
Additions at cost	**–**	**89**	**89**	–	289	289
At 31 December	**777**	**1,408**	**2,185**	777	1,319	2,096
Accumulated depreciation						
At 1 January	**721**	**1,055**	**1,776**	700	917	1,617
Foreign exchange	**–**	**6**	**6**	–	(5)	(5)
Charge	**24**	**125**	**149**	21	143	164
At 31 December	**745**	**1,186**	**1,931**	721	1,055	1,776
Net book value at 31 December	**32**	**222**	**254**	56	264	320

The Corporation holds no property, plant and equipment.

12 | Other intangible assets

Group

	Computer software 2012 £000	Computer software 2011 £000
Cost		
At 1 January	**1,016**	859
Additions at cost	**375**	157
At 31 December	**1,391**	1,016
Accumulated amortisation		
At 1 January	**817**	741
Foreign exchange	**(3)**	–
Charge	**214**	76
At 31 December	**1,028**	817
Net book value at 31 December	**363**	199

The Corporation holds no other intangible assets.

13 | Investments

Investments held at fair value through profit or loss

	2012 Listed £000	2012 Unlisted £000	2012 Total £000	2011 Listed £000	2011 Unlisted £000	2011 Total £000
Group						
Opening cost at 1 January	**335,739**	**315**	**336,054**	315,944	265	316,209
Gains at 1 January	**86,990**	**–**	**86,990**	125,128	–	125,128
Opening fair value at 1 January	**422,729**	**315**	**423,044**	441,072	265	441,337
Purchases at cost	**48,376**	**–**	**48,376**	96,458	50	96,508
Cost of acquisition	**(193)**	**–**	**(193)**	(225)	–	(225)
Sales – proceeds	**(50,143)**	**(50)**	**(50,193)**	(92,275)	–	(92,275)
– realised gains on sales	**19,484**	**–**	**19,484**	15,837	–	15,837
Gains/(losses) in the income statement	**39,003**	**–**	**39,003**	(38,138)	–	(38,138)
Closing fair value at 31 December	**479,256**	**265**	**479,521**	422,729	315	423,044
Closing cost at 31 December	**353,263**	**265**	**353,528**	335,739	315	336,054
Gains	**125,993**	**–**	**125,993**	86,990	–	86,990
Closing fair value at 31 December	**479,256**	**265**	**479,521**	422,729	315	423,044

	2012 Listed £000	2012 Unlisted £000	2012 Total £000	2011 Listed £000	2011 Unlisted £000	2011 Total £000
Corporation						
Opening cost at 1 January	**340,837**	**–**	**340,837**	321,042	–	321,042
Gains at 1 January	**81,892**	**–**	**81,892**	120,030	–	120,030
Opening fair value at 1 January	**422,729**	**–**	**422,729**	441,072	–	441,072
Purchases at cost	**48,376**	**–**	**48,376**	96,458	–	96,458
Cost of acquisition	**(193)**	**–**	**(193)**	(225)	–	(225)
Sales – proceeds	**(50,143)**	**–**	**(50,143)**	(92,275)	–	(92,275)
– realised gains on sales	**19,484**	**–**	**19,484**	15,837	–	15,837
Gains/(losses) in the income statement	**39,003**	**–**	**39,003**	(38,138)	–	(38,138)
Closing fair value at 31 December	**479,256**	**–**	**479,256**	422,729	–	422,729
Closing cost at 31 December	**358,361**	**–**	**358,361**	340,837	–	340,837
Gains	**120,895**	**–**	**120,895**	81,892	–	81,892
Closing fair value at 31 December	**479,256**	**–**	**479,256**	422,729	–	422,729

Listed investments are all traded on active markets and as defined by IFRS 7 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices.

13 | Investments continued

Investments in subsidiary undertakings – Corporation

	2012 £000	2011 £000
Cost		
At 1 January	**50**	50
At 31 December	**50**	50

The Corporation, or a subsidiary thereof, owns all the issued share capital of the following principal subsidiaries. All subsidiaries are registered in England and Wales unless otherwise stated. All of the subsidiaries listed below are included in the consolidated financial statements. Other than Law Debenture Finance p.l.c., a group financing company, all subsidiaries are engaged in the provision of independent fiduciary services.

† Delaware Corporate Services Inc. (incorporated in Delaware)

† L.D.C. Trust Management Limited

† Law Debenture Corporate Services Limited

† Law Debenture Corporate Services Inc. (incorporated in New York)

Law Debenture Finance p.l.c.

† Law Debenture Governance Services Limited

† Law Debenture Guarantee Limited

† Law Debenture Holdings Inc. (incorporated in New York)

† Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)

† Law Debenture Trust Company of New York (incorporated in New York)

† Law Debenture Trustees Limited

† Law Debenture Agency Solutions Limited

† LDC (NCS) Limited

† The Law Debenture Corporation (Deutschland) Limited

† The Law Debenture Corporation (H.K.) Limited (incorporated in Hong Kong)

† The Law Debenture Intermediary Corporation p.l.c.

† The Law Debenture Pension Trust Corporation p.l.c.

† The Law Debenture Trust Corporation p.l.c.

† The Law Debenture Trust Corporation (Cayman) Limited (incorporated in the Cayman Islands)

† The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated in Jersey)

† Safecall Limited

† Shares held by a subsidiary.

All the above mentioned subsidiaries operate in the United Kingdom with the exception of those subsidiaries incorporated overseas, which operate in their country of incorporation.

14 | Trade and other receivables

No allowance has been made during the year for the estimated irrecoverable amounts from the sale of services. Allowances are determined by reference to past experience.

15 | Cash and cash equivalents

These comprise cash held at bank by the group, short term bank deposits with an original maturity of three months or less and money market funds with immediate access. The carrying amount of these assets approximates to their fair value.

16 | Trade and other payables

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

17 | Called up share capital

	2012 £000	2011 £000
Allotted, issued and fully paid share capital		
Value		
As at 1 January	**5,905**	5,904
Issued in year	**–**	1
As at 31 December	**5,905**	5,905
Shares		
As at 1 January	**118,094,577**	118,079,737
Issued in year	**5,990**	14,840
As at 31 December	**118,100,567**	118,094,577

During the year to 31 December 2012, 5,990 shares were allotted under the SAYE Scheme for a total consideration of £15,516 which includes a premium of £15,216.

During the year, 16,181 options were granted under the Corporation's SAYE scheme. At 31 December 2012, options under the SAYE Scheme and Executive Share Option Scheme exercisable from 2012 to 2016 at prices ranging from 211.50p to 398.50p per share were outstanding in respect of 270,498 ordinary shares (2011: 276,102 ordinary shares). During 2012, 6,055 options lapsed or were cancelled (2011: 16,843) and 15,730 (2011: 41,550) were exercised.

Further details of options outstanding are given in the directors' report on page 22.

Own shares held

	2012 £000	2011 £000
Own shares held – cost	**1,778**	1,684

The own shares held represent the cost of 518,195 (2011: 612,527) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Deferred Share Plan. The dividends relating to the shares have been waived. The market value of the shares at 31 December 2012 was £2,202,329 (2011: £2,042,778).

18 | Capital reserves

	2012			2011		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation £000	Realised reserves £000	Total £000
Group						
At 1 January	**83,009**	**263,259**	**346,268**	121,244	247,422	368,666
Transfer on disposal of investments	**(15,138)**	**15,138**	**–**	(20,847)	20,847	–
Net gains/(losses) on investments	**54,141**	**4,346**	**58,487**	(17,291)	(5,010)	(22,301)
Cost of acquisition	**(193)**	**–**	**(193)**	(225)	–	(225)
Foreign exchange	**–**	**–**	**–**	2	–	2
Transfers from revenue	**772**	**–**	**772**	126	–	126
At 31 December	**122,591**	**282,743**	**405,334**	83,009	263,259	346,268

	2012			2011		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation £000	Realised reserves £000	Total £000
Corporation						
At 1 January	**78,273**	**328,576**	**406,849**	116,508	312,739	429,247
Transfer on disposal of investments	**(15,138)**	**15,138**	**–**	(20,847)	20,847	–
Net gains/(losses) on investments	**54,141**	**4,346**	**58,487**	(17,291)	(5,010)	(22,301)
Cost of acquisition	**(193)**	**–**	**(193)**	(225)	–	(225)
Foreign exchange	**–**	**–**	**–**	2	–	2
Transfers to revenue	**772**	**–**	**772**	126	–	126
At 31 December	**117,855**	**348,060**	**465,915**	78,273	328,576	406,849

19 | Financial instruments

The group's investment objective is to achieve long term capital growth through investing in a diverse portfolio of investments spread both geographically and by sector. In pursuit of this objective, the group has the power to deploy the following financial instruments:

- Equities and fixed interest securities
- Cash, short term investments and deposits, and working capital arising from the group's operations
- Debentures, term loans and bank overdrafts to allow the group to raise finance
- Derivative transactions to manage any of the risks arising from the use of the above instruments

It remains the group's policy that no trading in derivatives is undertaken. Information in respect of the investment portfolio is included on pages 6 to 11.

Capital management

The Corporation is not allowed to retain more than 15% of its income from shares and securities each year and has a policy to increase dividends. However revenue profits are calculated after all expenses. Distributions will not be made if they inhibit the investment strategy. The investment strategy of the Corporation is disclosed on page 1 and includes a ceiling on effective gearing of 150%, with a typical range of 90% to 120%.

19 | Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2012.

Group

	2012 £000	2011 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	**436,946**	370,200
Debt investments	**42,575**	52,844
	479,521	423,044
Loans and receivables:		
Trade and other receivables	**4,244**	4,940
Cash and cash equivalents	**22,201**	18,063
	26,445	23,003
Total financial assets	**505,966**	446,047
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Trade and other payables	**10,745**	11,674
Long term borrowings	**39,418**	39,391
Total financial liabilities	**50,163**	51,065

Corporation

	2012 £000	2011 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	**436,681**	369,885
Debt investments	**42,575**	52,844
	479,256	422,729
Loans and receivables:		
Amounts due from subsidiary undertakings	**60,000**	60,000
Trade and other receivables	**84**	182
Cash and cash equivalents	**10,339**	9,145
	70,423	69,327
Total financial assets	**549,679**	492,056
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Amounts owed to subsidiary undertakings	**54,016**	56,203
Trade and other payables	**109**	163
Total financial liabilities	**54,125**	56,366

19 | Financial instruments continued

The principal risks facing the group in respect of its financial instruments remain unchanged from 2011 and are:

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains strategy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2012 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £48.0 million (2011: £42.3 million). Corresponding 10% changes in the valuation of the investment portfolio on the Corporation's total profit or loss for the year would have been the same.

- **foreign currency risk**, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

	2012			2011		
	Investments £m	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
Group						
US Dollar	**26.8**	**3.7**	**30.5**	24.1	3.3	27.4
Canadian Dollar	**4.7**	**–**	**4.7**	3.8	–	3.8
Euro	**24.1**	**0.3**	**24.4**	18.4	0.4	18.8
Danish Krone	**0.7**	**–**	**0.7**	–	–	–
Swedish Krona	**2.1**	**–**	**2.1**	1.8	–	1.8
Swiss Franc	**11.6**	**–**	**11.6**	11.0	–	11.0
Hong Kong Dollar	**–**	**0.6**	**0.6**	–	0.4	0.4
Japanese Yen	**1.9**	**–**	**1.9**	1.5	–	1.5
	71.9	**4.6**	**76.5**	60.6	4.1	64.7

	2012			2011		
	Investments £m	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
Corporation						
US Dollar	**26.8**	**0.2**	**27.0**	24.1	0.3	24.4
Canadian Dollar	**4.7**	**–**	**4.7**	3.8	–	3.8
Euro	**24.1**	**0.3**	**24.4**	18.4	0.3	18.7
Danish Krone	**0.7**	**–**	**0.7**	–	–	–
Swedish Krona	**2.1**	**–**	**2.1**	1.8	–	1.8
Swiss Franc	**11.6**	**–**	**11.6**	11.0	–	11.0
Japanese Yen	**1.9**	**–**	**1.9**	1.5	–	1.5
	71.9	**0.5**	**72.4**	60.6	0.6	61.2

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, Baillie Gifford Pacific and First State Asia Pacific OEICs and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £43.2 million (2011: £43.3 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2012 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £11.5 million (2011: £10.4 million). Corresponding 10% changes in currency values on the Corporation's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective year end dates and are not representative of the year as a whole.

19 | Financial instruments continued

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's strategy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 20.

- **interest rate risk**, arising from movements in interest rates on borrowing, deposits and short term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile at 31 December 2012 was:

	Group				Corporation		
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m	Euro £m
Floating rate assets	**17.6**	**0.6**	**3.7**	**0.3**	**9.8**	**0.2**	**0.3**
Fixed rate assets							
Bonds							
SSE 5.75% 05/02/14	**2.4**				**2.4**		
National Grid 6.125% 15/04/14	**5.7**				**5.7**		
	8.1				**8.1**		
Gilts							
UK Treasury 4.5% 07/03/13	**19.7**				**19.7**		
UK Treasury 2.25% 07/03/14	**14.8**				**14.8**		
	34.5				**34.5**		
Total	**42.6**				**42.6**		

Weighted average fixed rate to maturity based on fair value 1.53%.

Fixed rate liabilities*	**39.4**
Weighted average fixed rate	**6.125%**

*Fixed until 2034.

The group holds cash and cash equivalents on short term bank deposits and money market funds. Interest rates tend to vary with bank base rates. The investment portfolio is not directly exposed to interest rate risk.

If interest rates during the year were 1.0% higher the impact on the group's total profit or loss for the year would have been £152,000 (2011: £140,000). It is assumed that interest rates are unlikely to fall below the current level.

The Corporation holds cash and cash equivalents on short term bank deposits and money market funds. Amounts due from subsidiary undertakings are for a term of five years and carry interest at a fixed rate. Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. A 1.0% increase in interest rates would have affected the Corporation's profit or loss for the year by £74,000 (2011: £60,000). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

- **credit risk**, arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £26.4 million (2011: £23.0 million). The Corporation's maximum exposure to credit risk arising from financial assets is £70.4 million (2011: £69.3 million).

19 | Financial instruments continued

Trade and other receivables

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

	Group		Corporation	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Between 31 and 60 days	**623**	637	**–**	–
Between 61 and 90 days	**273**	240	**–**	–
More than 91 days	**560**	700	**23**	181
Total	**1,456**	1,577	**23**	181

Trade and other payables

	Group		Corporation	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Due in less than one month	**10,237**	11,200	**109**	163
Due in more than one month	**508**	474	**–**	–
	10,745	11,674	**109**	163

Fair value

The directors are of the opinion that the fair value of financial assets and liabilities of the group are not materially different to their carrying values, with the exception of the 6.125% guaranteed secured bonds 2034 (see note 20).

20 | Long term borrowings

	Group		Corporation	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Borrowings are repayable as follows:				
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	**39,418**	39,391	**–**	–

The 6.125% bonds were issued by Law Debenture Finance p.l.c. and guaranteed by the Corporation. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by Trust Deed dated 12 October 1999 and the Corporation's guarantee is secured by a floating charge on the undertaking and assets of the Corporation. The stock is redeemable at its nominal amount on 12 October 2034. Interest is payable semi-annually in equal instalments on 12 April and 12 October in each year.

The 6.125% bonds are stated in the statement of financial position at book value. Restating them at a fair value of £47.3 million at 31 December 2012 has the effect of decreasing the year end NAV by 6.69p. The estimated fair value is based on the redemption yield of the reference gilt (UK Treasury 4.5% 2034) plus a margin derived from the spread of BBB UK corporate bond yields over UK gilt yields. At 31 December 2011 the estimate of fair value was not materially different to book value.

21 | Contingent liabilities

In order to facilitate the activities of one of its US subsidiaries, a UK subsidiary of the Corporation has provided a guarantee in the amount of US$50 million.

The group is also from time to time party to legal proceedings and claims, which arise in the ordinary course of the independent fiduciary services business. The directors do not believe that the outcome of any of the above proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the group's financial position.

The Corporation has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme (see note 23). The Corporation has provided surety for the lease of the group's main property which is held by a subsidiary undertaking. The annual rental is currently £907,000 and its full term ends in 2020.

22 | Lease commitments

At the year end date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2012 £000	2011 £000
Less than one year	**1,306**	1,262
Two to five years	**4,776**	4,738
More than five years	**2,302**	3,243
	8,384	9,243

Lease payments represent rentals payable by the group for its office properties. The lease for the main property was negotiated for a term of 16 years and rentals are fixed for an average of five years.

23 | Pension commitments

The group operates a funded, defined benefit pension plan ('The Law Debenture Pension Plan') with pension benefits related to final pensionable pay. The assets of the plan are held in a separate trustee administered fund.

Actuarial gains and losses are recognised in full in the period in which they occur. The liability recognised in the statement of financial position represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method.

At 31 December 2012, the expected rate of return on assets is 5.5% pa (2011: 5.5% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at 31 December 2012.

The estimated employer and employee contributions expected to be paid to the plan during 2013 is £1.3 million. The next triennial actuarial valuation is due as at 31 December 2014.

23 | Pension commitments continued

The major assumptions in the 31 December 2012 disclosure under IAS19 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2012 %	2011 %
Principal actuarial assumptions:		
Consumer Price Inflation	**2.4**	2.5
Discount rate	**4.6**	4.9
5% limited RPI pension increases in payment	**3.0**	3.1
General salary increases	**4.7**	4.7
Expected return on assets	**5.5**	5.5

	Years	Years
Life expectancy of male aged 65 in 2012	**23.6**	23.3
Life expectancy of male aged 65 in 2031	**25.4**	26.3

	2012 £000	2011 £000
Present value of defined benefit obligation	**38,292**	35,906
Fair value of plan assets	**(36,065)**	(32,768)
Deficit in statement of financial position	**2,227**	3,138

	2012 £000	2011 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	**438**	426
Interest cost	**1,750**	1,767
Expected return on plan assets	**(1,810)**	(2,105)
Total expense recognised in profit or loss	**378**	88

	2012		2011	
	Allocation %	**£000**	Allocation %	£000
The current allocation of plan assets is as follows:				
Equities	**64**	**23,142**	60	19,736
Bonds	**10**	**3,609**	10	3,165
Gilts	**24**	**8,536**	28	9,126
Pensioner annuities	**2**	**688**	2	626
Other	**–**	**90**	–	115
Total	**100**	**36,065**	100	32,768

23 | Pension commitments continued

	2012 £000	2011 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	**35,906**	33,525
Employer's part of current service cost	**438**	426
Interest cost	**1,750**	1,767
Contributions by plan participants	**74**	78
Actuarial losses	**1,004**	994
Benefits paid	**(880)**	(884)
At 31 December	**38,292**	35,906

	2012 £000	2011 £000
Reconciliation of fair value of plan assets		
At 1 January	**32,768**	32,649
Expected return on plan assets	**1,810**	2,105
Actuarial gains/(losses)	**1,340**	(2,151)
Contributions by the employer	**953**	971
Contributions by plan participants	**74**	78
Benefits paid	**(880)**	(884)
At 31 December	**36,065**	32,768

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Principal actuarial assumptions					
Present value of defined benefit obligation	**38,292**	35,906	33,525	30,717	29,244
Fair value of plan assets	**(36,065)**	(32,768)	(32,649)	(28,789)	(23,766)
Deficit	**2,227**	3,138	876	1,928	5,478
Experience adjustments on plan assets					
Amount of gain/(loss)	**1,340**	(2,151)	1,734	3,083	(5,351)
Percentage of plan assets	**4%**	(7%)	5%	11%	(23%)
Experience adjustments on plan liabilities					
Amount of gain/(loss)	**169**	(127)	(61)	691	7
Percentage of the present value of the plan liabilities	**–**	–	–	2%	–
Amount to be recognised immediately in comprehensive income					
Actuarial gains/(losses)	**336**	(3,145)	283	2,279	(6,032)

24 | Share based payments

The group operated a share option scheme for the executive director and senior members of staff. The scheme was discontinued in 2005.

Details of the share options outstanding were:

	2012		2011	
	Number of share options	**Weighted average price Pence**	Number of share options	Weighted average price Pence
Outstanding at 1 January	**9,740**	**228.20**	36,450	210.07
Exercised during the year	**(9,740)**	**228.20**	(26,710)	366.32
Outstanding at 31 December	**–**	**–**	9,740	228.20
Exercisable at 31 December	**–**	**–**	9,740	228.20

	2012 Pence	2011 Pence
Weighted average share price at date of exercise	**378.62**	366.32

During the year the Deferred Share Plan made awards in respect of 166,889 shares. The shares were acquired in the market with a cost of £659,496 and will be released to executives in March 2015. The shares are held in the ESOT. The cost of the shares is being charged to the income statement over the vesting period. The charge in 2012 was £489,000 (2011: £559,000).

The charge in the income statement in respect of share options was £nil (2011: £nil).

25 | Related party transactions

Group

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation.

Corporation

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

	2012 £000	2011 £000
Dividends from subsidiaries	**1,950**	1,850
Interest on intercompany balances charged by subsidiaries	**2,654**	2,647
Management charges from subsidiaries	**400**	400
Interest on intercompany balances charged to subsidiaries	**4,950**	4,950

The key management personnel are the directors of the Corporation, details of their compensation are included in note 4 to the accounts and in paragraphs 9 to 13 of the remuneration report on pages 34 and 35.

Investment trust status

The Corporation carries on business as an investment trust company as defined in Sections 1158-1159 of the Corporation Tax Act 2010. The directors will endeavour to conduct its affairs so as to enable it to maintain HM Revenue & Customs approval of the Corporation's status in this respect. So far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

Capital gains tax

For shareholders who have purchased their shares through a share savings scheme on a monthly basis and who wish to apply HM Revenue & Customs' optional basis of valuing holdings as if they had all been purchased in July, guidance notes have been prepared by the AIC and are available from the company secretary on request.

Company share information

Information about the Corporation can be found on its web site **http://www.lawdeb.com**. The market price of its ordinary shares is published daily in a number of newspapers.

Individual savings account ('ISA')

For investors seeking a tax efficient method of investing in the shares of the Corporation. The Plan Manager is National Westminster Bank Plc and can be contacted at:

National Westminster Bank Plc
Client Investment Operations
Premier Place
2½ Devonshire Square
London EC2M 4BA

Telephone – **0845 601 5600**

References to services provided by members of the Royal Bank of Scotland Group have been approved by National Westminster Bank Plc, which is authorised and regulated by the FSA.

Registrars

Our registrars, Computershare Investor Services PLC, operate a dedicated telephone service for Law Debenture shareholders – **0870 707 1129**. Shareholders can use this number to access holding balances, dividend payment details, share price data, or to request that a form be sent to their registered address.

Share dealing

Computershare Investor Services PLC offers shareholders a share dealing service via the internet or by telephone, details of which are as follows:

Internet –
www.computershare.com/sharedealingcentre

Telephone – **0870 703 0084**

Commission for the internet service is 1% with a minimum charge of £30 and 1% for the telephone service, plus £35.

The service is available only to those shareholders who hold their shares on the register and is not available to those who hold their shares via a nominee.

Shareholders using the internet service will need their Shareholder Reference Number (SRN) and post code to complete their trade. The SRN can be found printed on your proxy card.

The share dealing service is controlled and operated by Computershare Investor Services PLC and the Corporation is not responsible or liable for anything arising from a shareholder's decision to use the service. The Corporation is not acting as an introducer for the share dealing service and receives no financial benefit, either from making shareholders aware of the service or from any share deals conducted by shareholders who use the service.

Dividend and interest payments

Ordinary shares:

Interim announced July	Paid September
Final announced February/March	Paid April
6.125% guaranteed secured notes	Paid April and October

Group results

First Quarter Interim Statement	Announced in April
Half year results	Announced in July
Third Quarter Interim Statement	Announced in October
Full year results	Announced in February/March
Report and accounts	Published in March
Annual general meeting	Held in London in April
Factsheets	Published monthly on the Corporation's website

Payment methods for dividends

Dividends and interest can be paid to shareholders by means of BACS. Mandate forms for this purpose are available on request from the Corporation's Registrars.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the 123rd annual general meeting of the Corporation will be held on 10 April 2013 at 11.00am at the Brewers Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. **To receive the report of the directors and the audited accounts for the year ended 31 December 2012.**
2. **To receive and approve the directors' remuneration report for the year ended 31 December 2012.**
3. **To declare a final dividend of 9.75p per share in respect of the year ended 31 December 2012.**
4. **To re-elect Caroline Banszky as a director.**
5. **To re-elect John Kay as a director.**
6. **To re-elect Christopher Smith as a director.**
7. **To re-elect Robert Laing as a director.**
8. **To elect Mark Bridgeman as a director.**
9. **To re-appoint BDO LLP as auditors of the Corporation to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.**

Special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

10. **General authority to buy back shares**
    THAT the Corporation be and is generally and unconditionally authorised in accordance with sections 693 and 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of any of its issued ordinary shares of 5p each in the capital of the Corporation, in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

    (a) the maximum number hereby authorised to be purchased shall be limited to 17,703,415 shares, or if less, that number of shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;

    (b) the minimum price which may be paid for a share shall be 5p;

    (c) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the day on which the share is purchased;

    (d) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the date of the Corporation's next annual general meeting provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of Shares may be made in pursuance of any such contract.

11. General authority to allot shares
THAT:

(a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Act to exercise for the period ending on the date of the Corporation's next annual general meeting, all the powers of the Corporation to allot shares in the Corporation or to grant rights to subscribe for or to convert any security into shares in the Corporation up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £295,253;

(b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

12. Disapplication of statutory pre-emption rights
THAT:

(a) in exercise of the authority given to the directors by resolution 11 above, the directors be empowered pursuant to section 570 of the Act to allot shares or grant rights to subscribe for or to convert any security into shares in the Corporation for the period ending on the date of the Corporation's next annual general meeting wholly for cash generally up to an aggregate nominal amount of £295,253 as if section 561 of the Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period;

(b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

13. Authority to convene a general meeting – notice
THAT: a general meeting of the Corporation, other than an annual general meeting, may be called on not less than 14 clear days' notice.

By order of the board

Law Debenture Corporate Services Limited
Secretary
1 March 2013

Registered office:
Fifth Floor
100 Wood Street
London EC2V 7EX
Registered No. 30397

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place (or in the case of a corporation, to appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member). A proxy need not be a member of the Corporation. Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy. In addition to instructing a proxy to vote for or against a resolution, the form enables shareholders to instruct a 'vote withheld' if preferred. A vote withheld is not a vote in law and will not be counted in the calculation of votes. It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either.
2. Shareholders who hold shares on the register of members (as opposed to holding them in a nominee) will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged electronically by accessing www.investorcentre.co.uk/eproxy, or by post at the office of the Corporation's registrar, Computershare Investor Services PLC, Bristol BS99 6ZY. CREST members can register votes electronically by using the service provided by Euroclear. Proxies must be received not less than 48 hours before the time appointed for the holding of the meeting. This is also the voting record date by which a person must be entered on the register in order to have a right to attend and vote at the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. The register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividend payments will be made on 18 April 2013 to shareholders on the register on the record date on 22 March 2013.
5. **Resolution 2** is to receive and approve the directors' remuneration report for the year ended 31 December 2012. The remuneration report is set out at pages 30 to 35 of the annual report of the Corporation.
6. **Resolution 4:** Caroline Banszky offers herself for re-election. The board supports her re-election. She continues to be a very effective managing director, improving profitability of the independent fiduciary services business and thus enhancing shareholder value. Her biography is included on page 12 of the annual report.
7. **Resolution 5**: Professor John Kay offers himself for re-election. The board supports his re-election. He provides a valuable insight into economic events and trends. His biography is included on page 12 of the annual report.
8. **Resolution 6:** Christopher Smith offers himself for re-election. The board supports his re-election. He brings a wealth of corporate finance experience to the board along with a thorough knowledge of the investment trust sector and regulatory matters and is an effective audit committee chairman. He also chairs with skill the board of the principal holding company for the independent fiduciary services businesses. His biography is included on page 12 of the annual report.
9. **Resolution 7:** Robert Laing offers himself for re-election. The board supports his election. The board believes that its effectiveness is greatly enhanced by having a non-executive director with a legal background and experience of one or more of the fiduciary services sectors where Law Debenture operates. Robert Laing matches this requirement. His biography is included on page 12 of the annual report.
10. **Resolution 8:** Mark Bridgeman offers himself for election. The board supports his election. Following the retirement of Douglas McDougall, the board believes that it is essential to appoint a non-executive director with fund management experience. Mark Bridgeman is an experienced fund manager. He spent 19 years with Schroder plc as an analyst and then fund manager, rising to become Global Head of Research. Previous roles at Schroders included Head of Pan European Research, Head of Global Sector Research and Emerging Markets Fund Manager. He now manages a rural estate and farming business in Northumberland. He is a non-executive director of JP Morgan Brazil Investment Trust, The Eastern European Trust plc and North East Finance (Holdco) Limited. He is also on the boards of two charities.

11. **Resolution 9** is to re-appoint BDO LLP as the Corporation's auditors. BDO LLP were first appointed on 31 October 2008.
12. **Special resolution 10** renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at a premium to net asset value.
13. **Special resolution 11** renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,905,075 shares, being 5% of the issued share capital. This authority is sought principally to allow the directors to satisfy demand for shares from participants in the Save as You Earn Scheme and would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than market price or net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting.
14. **Special resolution 12** is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 11 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,905,075 shares other than on a pre-emptive basis. The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period.
15. **Special resolution 13** seeks authority to convene a general meeting (but not the annual general meeting) by giving not less than 14 clear days' notice. While the directors have no current intention to call a general meeting in the year ahead, circumstances might arise when such a meeting might become necessary and the directors deem it in the best interest of shareholders that it be held as quickly as possible. Such circumstances might include, for example, a decision to make a significant amendment to the investment strategy (shareholder approval for such a change being a regulatory stipulation).
16. **Meeting notice requirements** – the Corporation is required under the Act to make a number of additional disclosures as follows. The Corporation's website – www.lawdeb.com/investment-trust/investor-information – contains a copy of this notice, which includes the current total voting rights, as set out below. Should the required number of members requisition the Corporation to publish any statement about the audit or related matters that the relevant members propose to raise at the AGM (in accordance with section 527 of the Act), this would be published at the Corporation's expense on the website and forwarded to the auditor. Similarly, any shareholder statements, resolutions and matters of business connected with the meeting received after publication of this notice will be published on the website subject to compliance by the submitting party with the Act. At the AGM, the Corporation will cause to be answered any question relating to the business being dealt with at the meeting put by a shareholder in attendance.

Total voting rights and share information

The Corporation has an issued share capital at 1 March 2013 of 118,101,503 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Corporation. There are no other classes of share capital and none of the Corporation's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p.l.c. is 118,101,503.

AGM Venue
Brewers Hall
Aldermanbury Square
London EC2V 7HR

RAILWAY
Main line stations within one mile include:
Holborn Viaduct, Blackfriars, Cannon Street, London Bridge, Fenchurch Street, Farringdon and Liverpool Street.

Main line stations within two miles are:
Charing Cross, Waterloo, King's Cross, St Pancras and Euston.

UNDERGROUND
Moorgate (Circle, Metropolitan, Hammersmith & City, Thames Link)
Bank (Central, Northern, Waterloo & City)
Monument (Circle, District, Docklands)
St Paul's (Central)

BUSES
From Cheapside the 501 service connects London Bridge and Waterloo via Holborn, from Moorgate the 43 and 133 buses go to Liverpool Street, from London Wall the 172 goes to Blackfriars.

PARKING
There is limited meter parking in business hours near the hall. Underground parking is available beneath London Wall, entrance being by the corner of Coleman Street and on the North side of London Wall immediately before Bastion House. There is multi-storey parking in Aldersgate Street just North of the intersection with London Wall.

www.lawdeb.com

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