Lowland Investment Company plc

Annual Report and Financial Statements for the year ended 30 September

2013

Lowland Investment Company plc

Objective

The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long term.

Policy

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

Benchmark

The FTSE All-Share Total Return.

History

The Company was launched in 1963 and the enclosed brochure celebrates the Company's first fifty years.

A factsheet which is updated each month may be accessed on www.lowlandinvestment.com

Key data

Per ordinary share	30 September 2013	30 September 2012	Change %
Net asset value*	**1,306.9p**	1,008.4p	+29.6
Share price	**1,325.0p**	991.5p	+33.6
Net revenue return	**36.7p**	31.1p	+18.0
Total return	**330.1p**	229.9p	
Total dividend	**34.0p**	30.5p	+11.5
Gearing*	**13.9%**	13.8%	
Premium/(discount)*	**1.4%**	(1.7%)	
Ongoing charges*			
– excluding the performance fee	**0.57%**	0.62%	
– including the performance fee	**0.87%**	0.89%	

* A glossary of the terms used can be found on page 51.

Total return performance

To 30 September 2013	1 year %	5 years %	10 years %
Net asset value(1)	33.3	134.9	240.6
Share price(1)	37.5	159.4	247.3
Peer group net asset value(2)	26.4	90.7	171.3
FTSE All-Share Index(3)	18.9	66.2	140.2

Source:
(1) Morningstar for the AIC. Using cum income fair value net asset value for one and five years and capital net asset value plus income reinvested for 10 years.
(2) Morningstar for the AIC. The performance of the AIC UK Income & Growth Sector (size weighted average).
(3) Morningstar for the AIC (gross income reinvested).

Dividend

A final dividend, if approved by the shareholders at the Annual General Meeting, of 9.0p per ordinary share will be paid on 31 January 2014 to shareholders on the register of members at the close of business on 10 January 2014. This will take the total dividends for the year to 34.0p (2012: 30.5p). The Company's shares will be traded ex-dividend on 8 January 2014.

Historical record

Year ended 30 September	Total return/(loss) per ordinary share in pence	Net revenue return per ordinary share in pence	Dividend in pence	Total net assets in £'000	Net asset value per ordinary share in pence
2013	**330.1**	**36.7**	**34.00**	**347,202**	**1,306.9**
2012	229.9	31.1	30.50	266,401	1,008.4
2011	68.3	28.8	28.00	214,251	811.0
2010	139.5	22.5	27.00	203,484	770.3
2009	8.4	22.7	26.50	173,633	657.3
2008	(344.4)	33.0	26.50	178,411	675.4
2007	138.7	27.9	23.50	275,868	1,044.3
2006	150.3	20.8	20.75	222,217	915.7
2005	200.2	18.2	19.25	190,695†	785.8†
2004	89.5	17.3	18.00	126,746†	603.5†
2003	133.0	15.6	17.00	107,721	520.5

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

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Financial Calendar

Key dates for 2014 are set out below:

Annual General Meeting	22 January 2014
Final dividend payable	31 January 2014
First interim dividend payable	30 April 2014
Half-year results announced	May 2014
Second interim dividend payable	31 July 2014
Third interim dividend payable	31 October 2014
Final results announced	December 2014

Strategic Report
Chairman's Statement

Performance for the year to 30 September 2013

I am pleased to report that your Company had a satisfactory year with the net asset value ('NAV') on a total return basis rising 33.3%, while the FTSE All-Share Index return was 18.9%. The share price total return was 37.5% over the year with the Company moving to a small premium to net asset value. The long-term record is illustrated on page 16. The analysis of the main individual stock contributors is shown on page 6. A reasonable level of gearing at around 14% also contributed to the outperformance.

The weighting in Lowland's portfolio is significantly different to the make-up of the weighting of individual sectors and stocks in the benchmark index. It is this attribute that makes outperformance possible. We believe that over the medium term this will continue to add value. It can lead to underperformance at times, if some of the favoured stocks and sectors fall out of favour with investors.

Dividend

The total dividend for the year will, subject to shareholder approval, be 34.0p which compares with 30.5p last year, an increase of 11.5%. Lowland's long-term dividend record is covered later in the report and the first fifty years of the Company's life is discussed in the separate document which accompanies these financial statements.

Ongoing charges and Fees

A performance fee of £938,000 (wholly charged to capital) was paid in respect of the year to 30 September 2013. This fee, and the basic management fee of 0.5% of net assets, are together capped at a total of 0.75% of net chargeable assets. Total ongoing charges, which are the management fee and other non-interest expenses as a percentage of shareholders' funds were 0.57% (2012: 0.62%) excluding the performance fee and 0.87% (2012: 0.89%) including the performance fee.

Investment Review

The equity market was supported as much by central bank policies as by investors' response to improving corporate earnings. Quantitative easing continued to encourage investors to increase their exposure to riskier assets in their search for capital growth and income; equities in particular benefited from the high level of corporate profitability and impressive cash generation – applicable to many of the companies we have held in our portfolio. Cash generation is benefiting shareholders through dividend increases and special dividends. More fundamentally, it suggests that companies are well placed to deal with possible economic volatility.

Board Activity

The level of investment activity has been relatively low during the year as the Portfolio Manager believes it is wise to retain exposure to strong growth companies in the portfolio. This does not mean however that we are not continually looking at fresh ideas. We have examined capitalising management charges, buying market downside protection and fixing borrowings. We have decided in all these cases that on balance they will not add sufficient value at present but we will keep them under review. We need to be convinced to move away from a plain and simple structure where an expense is a revenue item, where the best downside protection is to raise cash and where flexibility with our borrowings is better than having them fixed. We have issued 475,000 shares at a premium which very marginally enhances net asset value. We have done it to provide some liquidity, we will keep further selective issuance under review, subject to there being no detriment in terms of total return to existing shareholders.

Regulatory

The Board has noted that the Alternative Investment Fund Managers Directive has been written into UK legislation with effect from 22 July 2013. There is a transition period within which the Company must comply with the provisions of this Directive, which include either acting as an Alternative Investment Fund Manager ('AIFM') or appointing an external party to be the AIFM and appointing a depositary, by 22 July 2014. The Board has agreed in principle that its Manager will be appointed as AIFM and will take the necessary actions to ensure that all documentation and processes to enable the Company to comply with these regulations are in place within the transition period.

Annual General Meeting

The Annual General Meeting will be held at the offices of Henderson Global Investors, 201 Bishopsgate, London on 22 January 2014 at 12.30 pm. Full details of the business to be conducted at the meeting are set out in the Notice of Meeting which has been sent to shareholders with this report. As usual our Portfolio Manager, James Henderson, will be making a presentation and all shareholders are most welcome to attend.

Outlook

There are companies quoted on the UK stock market that offer exciting potential for capital growth and with a capacity to grow dividends. It is the job of the Portfolio Manager to select them in line with our objectives. This is best achieved with a straightforward approach of focusing on what the companies are doing and what their managements are saying. It may become more difficult to find attractively priced investments as the bull market matures and adjusts at some point to the unwinding of quantitative easing. The Board will work to ensure the Portfolio Manager remains focused and when he cannot find appropriate opportunities, we will reduce our exposure to equities.

Peter Troughton
Chairman
11 December 2013

Strategic Report
Portfolio Manager's Report

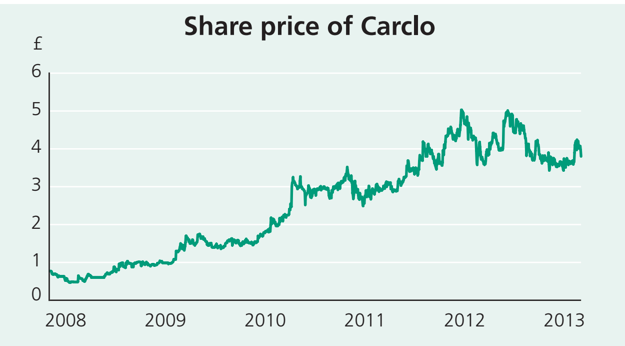
Investment Review

The outperformance of the portfolio over the index has mainly been fuelled by the strength of medium-sized and smaller companies. Investors had become very risk averse after the 2007/8 bear market. The desire for liquidity meant investors sold shares that are less frequently traded. They fell to bargain basement levels.

The subsequent recovery is partially just a return to more normal levels of valuation. At the same time it reflects the action companies took to improve their underlying operations, even as their share prices were falling. The banking crisis forced company management teams to focus on tackling inefficiencies to improve cash generation. This has resulted in better operating margins and low levels of corporate debt. The global economy has recovered to grow at a reasonable pace, which has meant companies are often producing more products than before, but on a reduced cost base. Margins have risen further to historically high levels.

Given this background industrial companies with globally competitive products have experienced strong share price appreciation. The portfolio has been well positioned in these stocks.

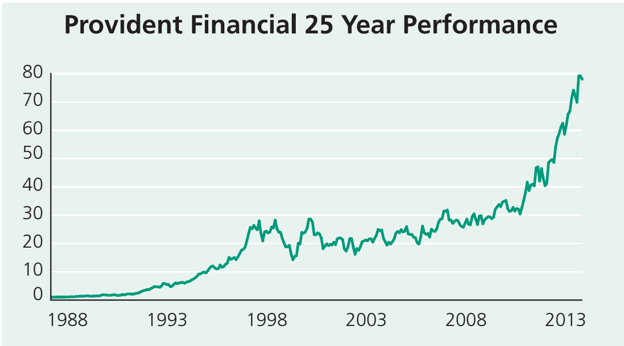
At a stock level the analysis of the five largest contributors and the five largest detractors are shown on page 6.



Source: Henderson Global Investors Limited

The largest detractor from performance during the year was **Carclo**, which had been the biggest positive contributor in 2012. We had already used the strength in 2012 to reduce our holding in the company. The consideration realised by the sale was more than the original purchase cost of the holding. Carclo's subsidiary CIT is developing an electronic printing business. The progress over the last year has been slower than some shareholders had hoped. We remain confident about the medium-term prospects.

The largest contributor to performance was **International Personal Finance**, which is an unsecured lender in several developing countries. The company was originally a spin out of **Provident Financial**, which has been in the portfolio for over 25 years. With the spin out and the income it has distributed, Provident Financial will be the largest individual contributor that Lowland has had over the 50 years of its existence.



Source: Henderson Global Investors Limited, total return (rebased to 1)

Investment Background

Although the dividend has risen 11.5% this year, the yield relative of the portfolio to the index has fallen as the capital outperformance has outstripped the income growth. The problem for the income-focused fund manager is that currently some of the better growth opportunities reside among the lower yielding shares. The discipline of selling the lower yielding shares and buying the higher yielding shares works when the higher yielding shares have been dismissed by investors as boring or too cyclical. But this is not the case at the moment. Given low interest rates there has been a concentrated effort by fund managers to find good high dividend companies. The space is in danger of becoming overcrowded. In this rush, the exciting smaller company has until recently been more neglected. The best chance the investment manager has of adding value is to pay attention to areas others are not, hence the smaller company area has proved fruitful.

The portfolio has always been a blend of large, medium and small companies. The mix allows diversification in the activities of the underlying holdings as does having 115 holdings.

Strategic Report

Portfolio Manager's Report

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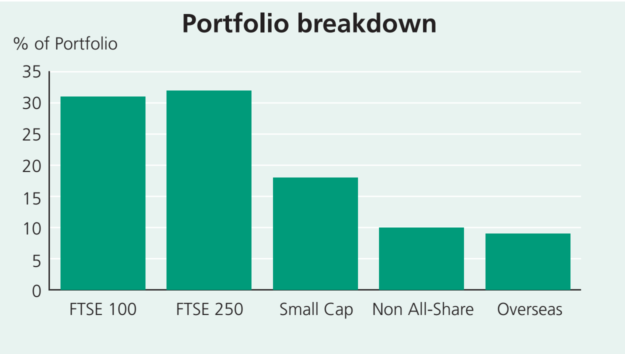
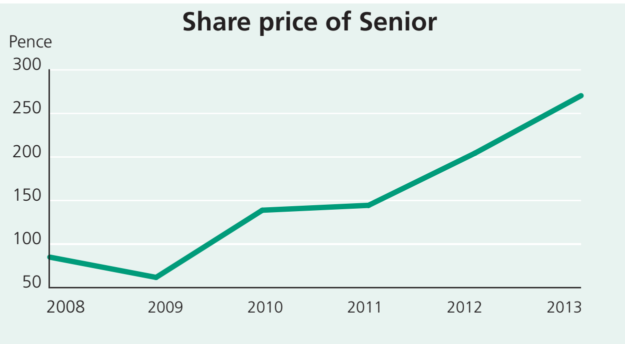


Source: Henderson Global Investors Limited (adjusted for gearing)

The broad spread of underlying activities in the companies held acts as a means of reducing risk in a period of economic volatility, while even the industrial exposure comprises companies with very different end markets. The portfolio would not have such broad spread of business types if there was not a large exposure to small companies.

Investment Activity

The amount of both buying and selling of shares during the year has been low with turnover at 14.8%. Some of the larger holdings have been trimmed, such as **Senior** and **GKN** for portfolio balance reasons.



Source: Henderson Global Investors Limited (rebased to 1)

Their shares remain good value but the cash raised allowed us to add some new names to the list such as an interesting smaller company **Conviviality Retail** whose main trading subsidiary is Bargain Booze. The convenience store operator under a new management team is making impressive progress in a challenging retail environment.

We will keep looking for opportunities but it has been important to retain shares that are making good operational progress and not be tempted to sell prematurely. Good companies selling excellent products that are genuinely competitive are benefiting from the growing global economy. The products need to have an edge – usually associated with technology or service – that makes them better than others. There is no place for 'me too' type products and companies. Therefore it would be wrong to rotate the portfolio from the strong to weaker companies on valuation arguments unless the weak company is going to radically change. For the income-orientated investor it has never been easier to fall into 'a value trap'. For instance the weighting in the Utility sector is very low. The regulatory and pricing environment will only get increasingly difficult for many of these companies and they are often trading above their regulatory asset value. The industrial companies we own have a greater control of their destiny. If they remain focused and competitive they will continue to prosper.

Outlook

The valuations on the shares in our portfolio are higher now than they were when we last reported. However, we are retaining a reasonable level of gearing at around 14%, which is similar to the level we have maintained in recent years.

The reason is that valuations remain undemanding given the operational progress in many of the underlying holdings. The level of borrowings in the companies held has fallen due to the strong cash generation, while costs remain well controlled and sales are growing. The shareholders are benefiting with good dividend growth, as well as more frequent special dividends. We will concentrate on what companies are doing, reporting and saying.

We will raise cash when valuations become overly demanding. It will not be an economic view that will drive activity within the portfolio but rather concerns driven by observing individual businesses. At the moment we remain excited by the prospects of many of the companies held and this potential is not reflected in their valuations.

James Henderson
Portfolio Manager
11 December 2013

Strategic Report

Portfolio Manager's Report

continued

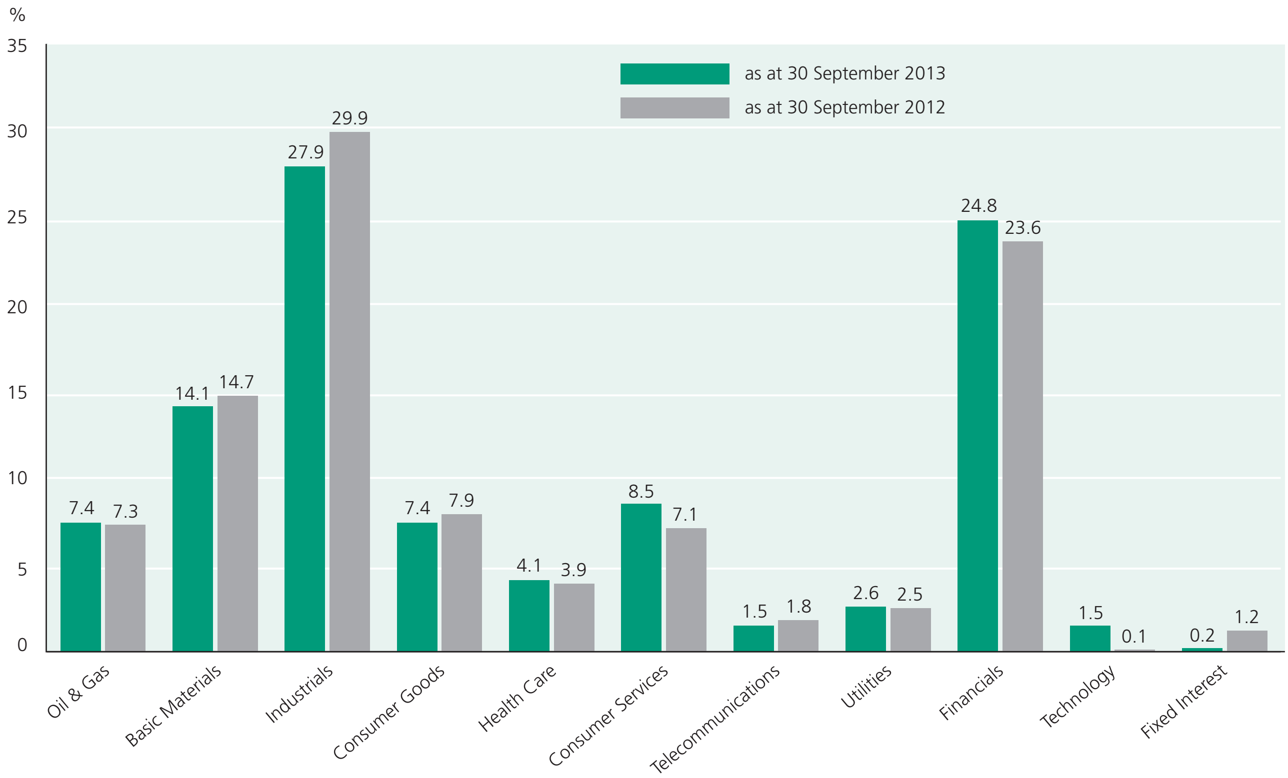
Attribution Analysis

The table below shows the top five active contributors to and the bottom five detractors from the Company's relative performance.

Top five contributors to relative performance	12 month absolute return %	Relative contribution %	Top five detractors from relative performance	12 month absolute return %	Relative contribution %
International Personal Finance	+108.4	+1.4	Carclo	-11.1	-1.7
Interserve	+59.2	+0.9	H & T	-46.5	-0.8
Velocys	+78.4	+0.8	Vodafone (underweight)	+30.2	-0.5
Phoenix Group	+64.7	+0.8	Modern Water	-13.2	-0.4
Royal Dutch Shell (underweight)	+2.2	+0.8	Amlin	+6.3	-0.2

Source: Henderson Global Investors Limited

Portfolio by Sector



Source: Henderson Global Investors Limited

Strategic Report

Twenty Largest Holdings

at 30 September 2013

Rank (2013)	Rank (2012)	Company	Valuation 2012 £'000	Purchases £'000	Sales £'000	Appreciation £'000	**Valuation 2013 £'000**
1	(2)	Senior	14,301	–	(3,467)	4,444	**15,278**
2	(1)	Carclo	15,554	–	(127)	(1,789)	**13,638**
3	(3)	Royal Dutch Shell	10,441	2,285	–	(453)	**12,273**
4	(15)	Phoenix	4,963	949	–	2,766	**8,678**
5	(4)	Hiscox	8,543	–	(1,230)	1,344	**8,657**
6	(13)	International Personal Finance	5,287	–	(1,374)	4,720	**8,633**
7	(*)	FBD	3,531	2,093	–	2,978	**8,602**
8	(5)	GlaxoSmithKline	7,851	–	–	715	**8,566**
9	(6)	Interserve	7,630	–	(2,805)	3,598	**8,423**
10	(10)	GKN	5,585	–	(1,041)	3,288	**7,832**
11	(*)	Velocys	3,740	1,250	(1,021)	3,006	**6,975**
12	(9)	BP	5,675	1,400	–	(145)	**6,930**
13	(11)	Amlin	5,557	1,004	–	33	**6,594**
14	(7)	DS Smith	5,992	–	(2,273)	2,617	**6,336**
15	(14)	Provident Financial	5,149	–	–	1,084	**6,233**
16	(19)	IMI	4,730	–	(1,488)	2,949	**6,191**
17	(8)	Hill & Smith	5,808	–	(1,053)	1,432	**6,187**
18	(18)	Aviva	4,781	–	–	1,171	**5,952**
19	(20)	Weir	4,420	–	–	1,405	**5,825**
20	(17)	Diageo	4,836	–	–	626	**5,462**
			134,374	8,981	(15,879)	35,789	**163,265**

At 30 September 2013 these investments totalled £163,265,000 or 41.3% of the portfolio.

* Not in the top 20 largest investments last year.

Strategic Report

Investment Portfolio

at 30 September 2013

Investments	Sector	Market Value £'000	% of Portfolio
Senior	*Aerospace & Defence*	15,278	3.9
Carclo	*Chemicals*	13,638	3.4
Royal Dutch Shell	*Oil & Gas Producers*	12,273	3.1
Phoenix	*Life Insurance*	8,678	2.2
Hiscox	*Non-life Insurance*	8,657	2.2
International Personal Finance	*Financial Services*	8,633	2.2
* FBD	*Non-life Insurance*	8,602	2.2
GlaxoSmithKline	*Pharmaceuticals & Biotechnology*	8,566	2.1
Interserve	*Support Services*	8,423	2.1
GKN	*Automobiles & Parts*	7,832	2.0
10 largest		**100,580**	**25.4**
† Velocys	*Chemicals*	6,975	1.8
BP	*Oil & Gas Producers*	6,930	1.7
Amlin	*Non-life Insurance*	6,594	1.7
DS Smith	*General Industrials*	6,336	1.6
Provident Financial	*Financial Services*	6,233	1.6
IMI	*Industrial Engineering*	6,191	1.6
Hill & Smith	*Industrial Engineering*	6,187	1.6
Aviva	*Life Insurance*	5,952	1.5
Weir	*Industrial Engineering*	5,825	1.5
Diageo	*Beverages*	5,462	1.3
20 largest		**163,265**	**41.3**
Croda	*Chemicals*	5,310	1.3
Elementis	*Chemicals*	5,273	1.3
* Infineon Technologies	*Technology Hardware & Equipment*	5,241	1.3
Daily Mail & General	*Media*	4,953	1.3
Avon Rubber	*Aerospace & Defence*	4,950	1.3
Clarkson	*Industrial Transportation*	4,823	1.2
Greene King	*Travel & Leisure*	4,806	1.2
Consort Medical	*Health Care Equipment & Services*	4,785	1.2
* Canfor Pulp	*Forestry & Paper*	4,671	1.2
† Scapa	*Chemicals*	4,600	1.2
30 largest		**212,677**	**53.8**
Balfour Beatty	*Construction & Materials*	4,569	1.2
RPC	*General Industrials*	4,550	1.1
Castings	*Industrial Engineering*	4,469	1.1
St Modwen	*Real Estate*	4,382	1.1
Standard Life	*Life Insurance*	4,317	1.1
BAE Systems	*Aerospace & Defence*	4,317	1.1
HSBC	*Banks*	4,184	1.1
Synthomer	*Chemicals*	4,167	1.1
Low & Bonar	*Construction & Materials*	4,049	1.0
Marstons	*Travel & Leisure*	3,964	1.0
40 largest		**255,645**	**64.7**
Rolls-Royce	*Aerospace & Defence*	3,892	1.0
Reed Elsevier	*Media*	3,749	1.0
Renold	*Industrial Engineering*	3,724	0.9
Bellway	*Household Goods & Home Construction*	3,616	0.9
* Gibson Energy	*Oil & Gas Producers*	3,598	0.9
Tesco	*Food & Drug Retailers*	3,590	0.9
Pearson	*Media*	3,457	0.9
Morgan Advanced Materials	*Electronic & Electrical Equipment*	3,423	0.9
Findel	*General Retailers*	3,335	0.8
Vodafone	*Mobile Telecommunications*	3,240	0.8
50 largest		**291,269**	**73.7**
AstraZeneca	*Pharmaceuticals & Biotechnology*	3,216	0.8
IP Group	*Financial Services*	3,195	0.8
Herald Investment	*Equity Investment Instruments*	3,185	0.8
Novae	*Non-life Insurance*	3,130	0.8
Mondi	*Forestry & Paper*	3,129	0.8
† Conviviality Retail	*Food & Drug Retailers*	3,082	0.8
Mucklow	*Real Estate*	2,944	0.8
Legal & General	*Life Insurance*	2,943	0.7
Barclays	*Banks*	2,857	0.7
Inmarsat	*Mobile Telecommunications*	2,835	0.7
60 largest		**321,785**	**81.4**

Strategic Report

Investment Portfolio continued

at 30 September 2013

Investments	Sector	Market Value £'000	% of Portfolio
BHP Billiton	*Mining*	2,730	0.7
Scottish & Southern Energy	*Electricity*	2,580	0.6
Stobart	*Industrial Transportation*	2,500	0.6
Marshalls	*Construction & Materials*	2,467	0.6
Unilever	*Food Producers*	2,440	0.6
† Johnson Service	*Support Services*	2,398	0.6
Chesnara	*Life Insurance*	2,344	0.6
Segro	*Real Estate*	2,325	0.6
Anglo American	*Mining*	2,277	0.6
Centrica	*Gas, Water & Multiutilities*	2,218	0.6
70 largest		**346,064**	**87.5**
Henderson Opportunities Trust	*Equity Investment Instruments*	2,165	0.6
Dairy Crest	*Food Producers*	2,164	0.6
Greencore	*Food Producers*	2,109	0.5
Cape	*Oil Equipment Services & Distribution*	2,082	0.5
† Modern Water	*Gas, Water & Multiutilities*	2,004	0.5
† Park	*Financial Services*	1,895	0.5
Shanks	*Support Services*	1,860	0.5
National Grid	*Gas, Water & Multiutilities*	1,826	0.5
Pennon	*Gas, Water & Multiutilities*	1,747	0.4
† H & T	*Financial Services*	1,741	0.4
80 largest		**365,657**	**92.5**
Headlam	*Household Goods & Home Construction*	1,641	0.4
† Abbey Protection	*Non-life Insurance*	1,636	0.4
† Churchill China	*Household Goods & Home Construction*	1,606	0.4
Carr's Milling Industries	*Food Producers*	1,565	0.4
† Circle Oil	*Oil & Gas Producers*	1,560	0.4
Rio Tinto	*Mining*	1,512	0.4
Wincanton	*Industrial Transportation*	1,508	0.4
CRH	*Construction & Materials*	1,478	0.4
Goldenport	*Industrial Transportation*	1,428	0.4
† Providence Resources	*Oil & Gas Producers*	1,417	0.3
90 largest		**381,008**	**96.4**
UTV Media	*Media*	1,203	0.3
† Xcite Energy	*Oil & Gas Producers*	1,168	0.3
† Revolymer	*Chemicals*	1,100	0.3
TT Electronics	*Electronic & Electrical Equipment*	967	0.3
† Industrial Gas	*Oil & Gas Producers*	917	0.2
† Somero Enterprises	*Industrial Engineering*	913	0.2
† Infrastructure India	*Equity Investment Instruments*	893	0.2
Topps Tiles	*General Retailers*	884	0.2
Parity	*Software & Computer Services*	860	0.2
† Chamberlin & Hill	*Industrial Engineering*	800	0.2
100 largest		**390,713**	**98.8**
Firstgroup	*Travel & Leisure*	747	0.2
# Wadworth – Ordinary shares	*Fixed Interest*	720	0.2
† Eleco	*Construction & Materials*	631	0.2
† Airea	*Personal Goods*	557	0.2
Hornby	*Leisure Goods*	533	0.1
Clarke (T)	*Construction & Materials*	406	0.1
Severfield-Rowen	*Industrial Engineering*	284	0.1
† Augean	*Support Services*	275	0.1
† Tawa	*Non-life Insurance*	148	0.0
# Wadworth – Preference shares	*Fixed Interest*	126	0.0
† Begbies Traynor	*Support Services*	78	0.0
† Pan European Terminals	*Industrial Transportation*	66	0.0
† IPSA	*Electricity*	63	0.0
Quarto	*Media*	47	0.0
* Endeavour Mining	*Mining*	28	0.0
Total Investments		**395,422**	**100.0**

† AIM stocks. *Overseas quoted stocks (Canada, Ireland and the Netherlands). #Unquoted investments.

Strategic Report
Portfolio Analysis
at 30 September 2013

		United Kingdom %	Overseas %	Total 30 Sept 2013 %	FTSE All-Share 2013 %	Total 30 Sept 2012 %
Oil & Gas	Oil & Gas Producers	6.0	0.9	**6.9**	13.6	6.6
	Oil Equipment Services & Distribution	0.5	–	**0.5**	0.6	0.7
		6.5	0.9	**7.4**	14.2	7.3
Basic Materials	Chemicals	10.4	–	**10.4**	0.7	12.1
	Forestry & Paper	0.8	1.2	**2.0**	0.2	1.8
	Industrial Metals & Mining	–	–	**–**	0.1	–
	Mining	1.7	–	**1.7**	7.2	0.8
		12.9	1.2	**14.1**	8.2	14.7
Industrials	Aerospace & Defence	7.3	–	**7.3**	2.4	9.2
	Construction & Materials	3.5	–	**3.5**	0.8	2.8
	Electronic & Electrical Equipment	1.2	–	**1.2**	0.5	1.1
	General Industrials	2.8	–	**2.8**	0.7	3.4
	Industrial Engineering	7.2	–	**7.2**	1.0	7.7
	Industrial Transportation	2.6	–	**2.6**	0.1	2.3
	Support Services	3.3	–	**3.3**	4.5	3.4
		27.9	–	**27.9**	10.0	29.9
Consumer Goods	Automobiles & Parts	2.0	–	**2.0**	0.3	1.8
	Beverages	1.3	–	**1.3**	4.2	1.6
	Food Producers	2.1	–	**2.1**	2.1	1.8
	Household Goods & Home Construction	1.7	–	**1.7**	2.3	2.5
	Leisure Goods	0.1	–	**0.1**	–	0.1
	Personal Goods	0.2	–	**0.2**	0.4	0.1
	Tobacco	–	–	**–**	4.3	–
		7.4	–	**7.4**	13.6	7.9
Health Care	Health Care Equipment & Services	1.2	–	**1.2**	0.4	1.3
	Pharmaceuticals & Biotechnology	2.9	–	**2.9**	6.8	2.6
		4.1	–	**4.1**	7.2	3.9
Consumer Services	Food & Drug Retailers	1.7	–	**1.7**	2.3	–
	General Retailers	1.0	–	**1.0**	2.0	0.7
	Media	3.4	–	**3.4**	3.1	3.7
	Travel & Leisure	2.4	–	**2.4**	3.2	2.7
		8.5	**–**	**8.5**	10.6	7.1
Telecommunications	Fixed Line Telecommunications	–	–	**–**	1.5	–
	Mobile Telecommunications	1.5	–	**1.5**	5.4	1.8
		1.5	–	**1.5**	6.9	1.8
Utilities	Electricity	0.6	–	**0.6**	0.8	0.8
	Gas Water & Multiutilities	2.0	–	**2.0**	2.9	1.7
		2.6	–	**2.6**	3.7	2.5
Financials	Banks	1.8	–	**1.8**	12.0	1.5
	Equity Investment Instruments	1.6	–	**1.6**	3.2	1.6
	Financial Services	5.5	–	**5.5**	2.0	5.4
	Life Insurance	6.1	–	**6.1**	3.9	5.8
	Non-life Insurance	5.1	2.2	**7.3**	1.0	7.1
	Real Estate	2.5	–	**2.5**	1.9	2.2
		22.6	2.2	**24.8**	24.0	23.6
Technology	Software & Computer Services	0.2	–	**0.2**	0.7	0.1
	Technology Hardware & Equipment	–	1.3	**1.3**	0.9	–
		0.2	1.3	**1.5**	1.6	0.1
	Equities	94.2	5.6	**99.8**	–	98.8
	Fixed Income	0.2	–	**0.2**	–	1.2
	Total at 30 September 2013	**94.4**	**5.6**	**100.0**	**100.0**	–
	Total at 30 September 2012	96.1	3.9	**–**	–	100.0

Strategic Report
Strategic Review

The following report is designed to provide information primarily about the Company's business and results for the year ended 30 September 2013. The Strategic Review should be read in conjunction with the Chairman's Statement on page 3 and the Portfolio Manager's Report on pages 4 to 6, which give a detailed review of the investment activities for the year and an outlook for the future.

Status

The Company, (registered in England and Wales with company registration number 670489), was active throughout the year. It is an investment company as defined in Section 833 of the Companies Act 2006 and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010. The Company is subject to the rules of the UK Listing Authority and is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company. The Company has obtained approval from HM Revenue & Customs of its status as an investment trust under the above-mentioned Section 1158. The directors are of the opinion that the Company has continued to conduct its affairs in a manner that will enable it to continue to gain such approval.

The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

Business Model

The business model of the Company as required by Code provision C.1.2 of the UK Corporate Governance Code, is presented below.

Investment Objective

The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long term through a broad spread of predominantly UK companies.

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

Investment Policy

- *Asset allocation*
  The Company will invest in all sizes of companies. It is not hindered by the weightings of an index but rather seeks value in a diversified range of companies with normally not more than half by value coming from the largest 100 UK companies and the balance from small and medium sized companies.

- *Dividend*
  The Company aims to provide shareholders with dividend growth. This will be achieved by investing in shares that usually have a reasonable dividend yield and prospects for dividend growth some time in the future.

- *Gearing*
  The Company will at times borrow money both short and longer term in order to enhance performance. The gearing will not exceed 29.9% of equity shareholders' funds other than in exceptional circumstances, nor will equities represent less than 70% of the Company's net asset value.

- *General*
  It is the stated investment policy of the Company to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

Lowland is a company listed on the London Stock Exchange. It was created in 1960 and began trading on the London Stock Exchange in 1963. It has since inception, been managed by a representative of Henderson Global Investors. The Board is independent of the management company.

Principal risks and uncertainties

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

- *Investment and Strategy*
  An inappropriate investment strategy, for example, in terms of asset allocation or level of gearing, may result in underperformance against the Company's

Strategic Report

Strategic Review

continued

benchmark index and the companies in its peer group, and also in the Company's shares trading on a wider discount. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. The Manager operates in accordance with investment limits and restrictions and policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and the Manager confirms adherence to them every month. The Manager provides the Board with management information, including performance data and reports and shareholder analysis. The directors monitor the implementation and results of the investment process with the Portfolio Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

- *Market*
  Market risk arises from uncertainty about the future prices of the Company's investments. This is commented on in note 14.1.1 on page 40.

- *Accounting, legal and regulatory*
  In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010. A breach of Section 1158 could result in the Company losing investment trust status and, as a consequence, realised gains in the Company's portfolio would be subject to Corporation Tax. Compliance with the requirements of Section 1158 are monitored by the Manager and the results are reported at each Board meeting.

  The Company must comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Rules. A breach of the Companies Act could result in the Company and/or the directors being fined or the subject of criminal proceedings. A breach of the UKLA Rules could result in the suspension of the Company's shares; which in turn would breach Section 1158. The Board relies on its Company Secretary and advisers to ensure adherence to the Companies Act and the UKLA Rules.

- *Operational*
  Disruption to, or the failure of, the Manager's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. The Manager contracts some of the operational functions (principally those relating to trade processing, investment administration and accounting), to BNP Paribas Securities Services UK Limited.

  Details of how the Board monitors the services provided by the Manager and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section on page 24.

- *Financial*
  The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk, currency risk and credit and counterparty risk. Details of these risks and how they are managed are disclosed in note 14 to the financial statements on pages 40 to 44.

Management arrangements

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

- *Management Fee*

The management fee is calculated at the rate of 0.5% of the average of the aggregate net chargeable assets on the last day of the relevant quarter and the last day of the corresponding quarter in the preceding year. Net chargeable assets are defined as total assets less current liabilities and short-term borrowings for investment

Strategic Report

Strategic Review

continued

purposes but excludes the value of any investment in any funds managed by Henderson.

- *Performance Fee*

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

In the year to 30 September 2013, the performance fee was based on the average of the previous three years performance and will continue on this basis in the future (2012: average of previous two years performance).

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

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

Custody arrangements

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

Related party transactions

Other than the relationship between the Company and its directors, the provision of services by Henderson Global Investors Limited ('Henderson' or the 'Manager') is the only related party arrangement currently in place. Other than fees payable by the Company in the ordinary course of business, there have been no material transactions with this related party affecting the financial position or performance of the Company during the year under review. See note 23 on page 47.

Financial review

- *Assets*

  Total net assets at 30 September 2013 amounted to £347,202,000 compared with £266,401,000 at 30 September 2012, and the net asset value per ordinary share increased from 1,008.4p to 1,306.9p an increase of 29.6%.

  At 30 September 2013 the Company held 115 (2012: 109) investments, as detailed on pages 8 and 9.

- *Revenue and Total Return*

  The net revenue after taxation for the year was £9,710,000, or 36.7p per share (2012: £8,226,000 or 31.1p per share) an increase of 18.0% from the previous year. The total return per share for the year was 330.1p (2012: 229.9p).

- *Dividend*

  For the financial year under review, a first interim dividend of 8.0p together with the second and third interim dividends of 8.5p each have been paid. A final dividend of 9.0p for the year, to be paid on 31 January 2014, will, subject to shareholder approval, provide a total dividend of 34.0p per ordinary share for the year (2012: 30.5p), an increase of 11.5% compared to last year.

  The revenue reserve at 30 September 2013 was £8,575,000 (2012: £7,318,000).

- *Bank facility*

  The Company has put in place facilities which allow it to borrow as and when appropriate. At 30 September 2013 the Company had two committed unsecured short term facilities totalling £53 million, which were increased to £63m after the year end. The facilities are subject to regular review. Actual borrowing at 30 September 2013 was £49.7 million (30 September 2012: £38.3 million). The Company borrows for investment purposes where it is believed that returns for shareholders can be generated which exceed the cost of borrowing.

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Strategic Review

continued

- *Future developments*
  While the future performance of the Company is dependent, to a large degree, on the performance of financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with its investment policy. Further comments on the outlook for the Company for the next twelve months are set out in both the Chairman's Statement on page 3 and the Portfolio Manager's Report on pages 4 to 6.

Performance measurement and key performance indicators

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

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

- *Discount/premium to net asset value ('NAV')*
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant Association of Investment Companies ('AIC') sector.

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

  The Board also considers the issuance of new shares, but only when they trade at a premium to NAV and the cost of such issuance is included in the price paid for the new shares, such that there is no detriment in terms of total return to existing shareholders.

  The Company publishes an NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and since 1 June 2008 includes current financial year revenue items.

- *Performance against the Company's peer group*
  The Company is included in the AIC 'UK Growth and Income' sector. In addition to comparison against the stated benchmark, the Board also considers the performance against its AIC peer group at each Board meeting.

- *Ongoing Charges*
  The ongoing charges are a measure of the total expenses incurred by the Company expressed as a percentage of the average shareholders' funds over the year. The Board regularly reviews the ongoing charges and monitors all Company expenses.

	Year ended 30 September 2013	Year ended 30 September 2012
NAV total return	**33.3%**	29.1%
FTSE All-Share total return (the benchmark)	**18.9%**	17.3%
AIC Sector NAV total return	**26.4%**	19.8%
Share price total return	**37.5%**	35.3%
AIC Sector share price total return	**26.5%**	19.6%
Premium/(discount) to NAV*	**1.4%**	(1.7%)
Ongoing charges		
– excluding the performance fee	**0.57%**	0.62%
– including the performance fee	**0.87%**	0.89%
AIC Sector average ongoing charges excluding performance fees	**0.79%**	0.77%

*As at 30 September. Source: AIC, Henderson Global Investors Limited

Corporate Responsibility

- *Responsible Investment*

The Manager is responsible for managing the Company's investments and reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical ('SEE') issues) in the companies in which it invests on its clients' behalf, across all funds. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under

Strategic Report
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the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance ('ESG') issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy and the UK Stewardship Code*

Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the UK Stewardship Code. The Company has delegated responsibility for voting to the Manager. The Board will receive a report, at least annually, on the voting undertaken by the Manager on behalf of the Company.

The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders.

Depending on the nature of the resolution, the Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefore are fed back to the investee company prior to voting.

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

- *Employees, social, community, human rights and environmental matters*

The Company has no employees and its core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues.

Henderson's corporate responsibility statement is included on the website www.henderson.com. For 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015. The Company's annual and half year reports are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity.

- *Gender representation*

As set out on page 17, all of the Company's Directors are male. Their appointment to the Board was based on their skills and experience. More information on the Board's consideration of diversity is given in the Corporate Governance Statement on page 23. The Company has no employees and therefore, there is nothing further to report in respect of gender representation within the Company.

On behalf of the Board

Peter Troughton
Chairman
11 December 2013

Historical Record

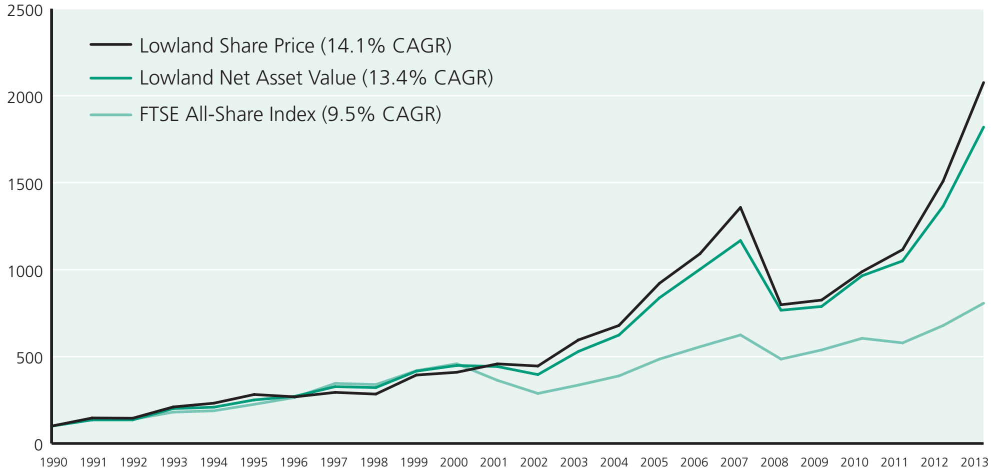
Year to 30 September	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Gross revenue £'000	5,810	6,634	7,653	8,514	9,726	12,326	8,135	8,410	9,888	10,774	**12,457**
Per ordinary share (pence):											
Net revenue	15.6	17.3	18.2	20.8	27.9	33.0	22.7	22.5	28.8	31.1	**36.7**
Dividend paid (net)*	17.00	18.00	19.25	20.75	23.50	26.50	26.50	27.00	28.00	30.50	**34.00**
Imputed tax	1.89	2.00	2.14	2.31	2.61	2.94	2.94	3.00	3.11	3.39	**3.78**
Total dividend (gross)	18.89	20.00	21.39	23.06	26.11	29.44	29.44	30.00	31.11	33.89	**37.78**
Net assets attributable to ordinary shares £'m	107.7	126.7†	190.7†	222.2	275.9	178.4	173.6	203.5	214.3	266.4	**347.2**
Net asset value per ordinary share (pence)	520.5	603.5†	785.8†	915.7	1,044.3	675.4	657.3	770.3	811.0	1,008.4	**1,306.9**
Share price (pence)	533.0	587.5	775.0	895.5	1,091.0	625.0	610.0	699.5	762.5	991.5	**1,325.0**

Indices 2003 =100	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Net Asset Value Capital Return	100	116	151	176	201	130	126	148	156	194	**251**
Ordinary Share Price Capital Return	100	110	145	168	205	117	114	131	143	186	**249**
Net Dividend	100	106	113	122	138	156	156	159	165	179	**200**
FTSE All-Share Index Capital Return	100	112	135	150	164	122	130	141	131	148	**170**
Retail Prices Index	100	103	106	110	114	120	118	124	130	134	**138**

Source: Thomson Financial, Datastream and Henderson Global Investors, capital returns only.
*Represents the total amount paid in respect of each financial year.
†Restated for changes in accounting policies. Years prior to 2004 have not been restated.

Share price, net asset value and the FTSE All-Share Index (total return) since 1990 to 30 September 2013 (1990 = 100)

This chart illustrates how the share price, net asset value and benchmark index have changed over a long period of time.



CAGR – Compound Annual Growth Rate.
Source: Thomson Financial, Datastream.
1990 is the year that James Henderson was appointed Portfolio Manager.

Directors

Peter Troughton* (Chairman), is Vice-Chairman of Archant Limited. He is also a Director of Waverton Investment Funds PLC and of JOHIM Global Investment Funds plc. He was formerly a director of WH Smith Group plc and chief executive of Rothschild Asset Management. He was appointed to the Board in 1990. He became Chairman at the conclusion of the 2012 AGM.

Kevin Carter*†, is Chairman of Murray International Trust Plc and is Chairman of the Investment Committee and a trustee director of the BBC Pension Scheme. He is a director of the Centrica Combined Common Investment Fund Limited, a trustee director of Universities Superannuation Scheme Limited and Chairman of its Investment Committee. He was formerly the Head of European Investment Practice of Watson Wyatt Limited and Chief Executive Officer of Old Mutual Asset Managers. He was appointed to the Board in October 2009.

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

Robert Robertson*†, is a Director of BlackRock Smaller Companies Trust plc, Metallon Corporation plc and a number of private companies. He was previously Chairman of West China Cement and Chief Executive of Tarmac Group and Anglo American's Industrial Minerals division. He was appointed to the Board in May 2011.

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

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

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

The terms of the appointment of the directors are given in the Report of the Directors on page 18.

Management

Henderson Global Investors Limited ('Henderson') (which is authorised and regulated by the Financial Conduct Authority) and its subsidiaries undertake investment management, administration and company secretarial services.
James Henderson, supported by Laura Foll, is appointed to manage the investment portfolio in furtherance of the Company's objective.

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

Laura Foll is the Deputy Portfolio Manager.

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

Henderson Global Investors Limited
201 Bishopsgate
London EC2M 3AE

Telephone: 020 7818 1818
Facsimile: 020 7818 1819

Authorised and regulated by the Financial Conduct Authority.

Report of the Directors

The directors present the audited financial statements of the Company and their report for the year from 1 October 2012 to 30 September 2013.

Directors

Board composition and independence

The Company's Articles of Association provide that the total number of directors shall not be less than two nor more than nine. The Board currently consists of five non-executive directors. The directors review annually their independence. All current directors are considered independent of the Manager. Peter Troughton and Rupert Barclay have served on the Board for over nine years and, based on the AIC Code, they would not automatically be deemed independent. The Nominations Committee, excluding Peter Troughton and Rupert Barclay, has considered their continued appointment. Peter Troughton and Rupert Barclay have no other links to the Manager; in addition, they have a wide range of other interests and are not dependent in any way on the Company itself. The Nominations Committee concluded that they continue to make a valuable contribution to the Board. The Chairman's other significant commitments are detailed on page 17 and have not changed during the year. All the current directors served on the Board throughout the year.

Directors' appointment, retirement and rotation

The Board may appoint directors to the Board without shareholder approval. All directors are appointed for an initial term of three years, subject to re-appointment and Companies Act provisions, and, in accordance with the Articles of Association, any director so appointed must stand for election by the shareholders at the next Annual General Meeting ('AGM').

The AIC Code requires that every director retires by rotation at least every three years and the Company's Articles of Association provide that one third of directors retire by rotation each year. Directors may then offer themselves for re-appointment. Peter Troughton and Rupert Barclay offer themselves for annual re-appointment by shareholders in accordance with the AIC Code. Robert Robertson is retiring by rotation and offers himself for re-appointment by shareholders at the forthcoming AGM.

Directors' conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate.

Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively.

Share Capital and Shareholders

- *Share capital*
  The Company's share capital comprises ordinary shares of 25p nominal value each. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares and there are no shares which carry specific rights with regards to control of the Company.

  At 30 September 2013, there were 26,567,427 (2012: 26,417,427) shares in issue. Since 30 September 2013 and up to the date of this document, a further 325,000 shares have been issued and the share capital or voting rights of the Company is now 26,892,427. The Company seeks shareholder authority annually to buy-back its shares in the market for cancellation. During the year the Company did not buy-back any shares.

- *Substantial Share Interests/Voting Rights*
  There were no declarations of interests in the share capital and voting rights of the Company.

  The Board is aware that, at 30 September 2013, 9.9% of the issued share capital was held on behalf of participants in the Halifax Share Dealing products run by Halifax Share Dealing Limited ('HSDL'). In accordance with the arrangements made between HSDL and Henderson, participants in the Halifax Share Dealing products are given the opportunity to instruct the nominee company of HSDL to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. HSDL has

Report of the Directors

continued

undertaken to instruct its nominee company to exercise the voting rights of any shares held through the Halifax Share Dealing products that have not been exercised by the individual participants in them. It will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

Dividend

The directors have declared a final dividend of 9.0p per ordinary share which will be paid on 31 January 2014 to shareholders on the register of members on 10 January 2014.

Going Concern

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

Portfolio Manager's Interests

James Henderson, the Portfolio Manager, has a beneficial interest in 410,183 (2012: 460,183) ordinary shares of the Company.

Annual General Meeting ('AGM')

The AGM will be held on Wednesday 22 January 2014 at 12.30 pm. Separate resolutions will be proposed for each substantive issue. The formal notice of the AGM as well as full details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this Annual Report.

Amendment to the Articles of Association

The Board are seeking to make certain changes to the Company's Articles of Association for the following reasons:

i) They are seeking to appoint a new director and in order to do so will need to ensure that they can attract a candidate of sufficient calibre, and to ensure that the Company's Remuneration Policy has taken into account future requirements, the Board is seeking to increase the aggregate total annual amount of directors fees, as specified in article 97 of the Company's existing Articles of Association, from £150,000 to £250,000. The Board have recently increased their directors' fees and have no intention to increase them further at the present time.

ii) The Company is an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive ('AIFMD'). The Company's Articles of Association have been amended in order to provide the Board with the ability to prescribe, vary or revoke the management and governance rules that the Company must comply with as a result of the implementation of the AIFMD. In particular, the Articles have been amended so that the Board may authorise a depositary appointed in respect of the Company to, in certain circumstances, discharge itself of liability.

Directors' Statement as to Disclosure of Information to Auditors

The directors who were members of the Board at the time of approving this Report are listed on page 17. Each of those directors confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of their Report of which the Company's auditors are unaware; and
- he has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Global greenhouse gas emissions

As an externally managed company, the Company has no greenhouse gas emissions to report from its operations for the year to 30 September 2013 (2012: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

By order of the Board

Wendy King FCIS
For and on behalf of Henderson Secretarial Services Limited
Company Secretary
11 December 2013

Corporate Governance Statement

The directors present the Corporate Governance Statement for the year ended 30 September 2013.

Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the directors are all non-executive. Thus not all the provisions of the UK Corporate Governance Code (the 'UK Code') issued by the FRC are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2013 (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

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

Statement of compliance

The directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to smaller companies (those below the FTSE 350) during the year under review and up to the date of this report, except as noted below.

- *Senior independent director*
  The Board considers that the fact that all directors are non-executive, and that there is a Chairman and a Chairman of the Audit Committee amongst them, makes the appointment of a Senior Independent Director superfluous.

- *The role of chief executive*
  Since all directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive.

- *Executive directors' remuneration*
  As the Board has no executive directors, it is not required to comply with the principles of the UK Code of Corporate Governance in respect of executive directors' remuneration and does not have a Remuneration Committee. Directors' fees are detailed in the Directors' Remuneration Report on page 28.

- *Internal audit function*
  As the Company delegates its day-to-day operations to third parties, has no employees and receives regular reports from the Manager, the Board has determined that there is no requirement for an internal audit function. The directors annually review whether a function equivalent to an internal audit is needed and will continue to monitor the Company's and the Manager's systems of internal controls in order to provide assurance that they operate as intended.

Directors

- *Terms of appointment and retirement*

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

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

The directors' biographies, set out on page 17, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors. The Board believes that retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders.

The Board believes that each of the directors exercises independent judgement and that length of service does not automatically diminish the contribution from a director; indeed, a director's experience and extensive knowledge of the Company can be a positive benefit to the Board. Further, the Board is conscious of the need to maintain continuity, particularly given the cyclical nature of the Company's markets. It believes that retaining

Corporate Governance Statement
continued

some directors with experience of past cycles, of both the Company and the markets, is of great benefit to shareholders. This view is supported by the AIC Code.

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

No director has a service contract with the Company. No director is entitled to compensation for loss of office on the takeover of the Company or otherwise.

Directors' professional development
When a new director is appointed he or she is offered a training seminar which is held by the Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

Directors' Insurance and Indemnification
Directors' and officers' liability insurance cover is in place in respect of the directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgement is given in their favour by the Court.

The Board
Responsibilities of the Board and its Committees
The Board meets formally at least six times a year, with additional Board or committee meetings arranged when required. The directors have regular contact with the Portfolio Manager and Company Secretary between formal meetings. The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings including strategy, management and structure, gearing, financial reporting and other communications, Board membership and other appointments, contracts, internal control, corporate governance and miscellaneous.

The Board is responsible for the approval of annual and half year results, interim management statements and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects. The directors, after consideration, confirm that they are satisfied that the annual report and financial statements for the year ended 30 September 2013, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Audit Committee
The Audit Committee comprises Rupert Barclay, Kevin Carter, Karl Sternberg and Robert Robertson. The Chairman of the Committee is Rupert Barclay. Collectively the members of the Audit Committee are considered to have the necessary recent and relevant financial experience (see page 17).

The Audit Committee reports that it met twice during the year under review and the main duties undertaken were:

- a review of the half year results and the annual financial statements, including the disclosures made therein in relation to internal controls and risk management, going concern and related parties and consideration of whether the annual report is fair, reasonable and balanced;
- a review of the performance fee calculation;
- consideration of the appropriate level of dividend to be paid by the Company for recommendation to the Board;
- consideration of the internal controls in place at Henderson, as described on page 24, and Henderson's policies in relation to cyber risk and business continuity;
- consideration of the Company's key risks and risk map;
- consideration of the nature and scope of the external audit and the findings therefrom and whether there is a need for an internal audit function, as described on page 20;
- consideration of the terms of appointment of the auditor, its performance and remuneration;
- consideration of the auditor's independence and objectivity and any non-audit services provided; and

Corporate Governance Statement

continued

- consideration of the 'whistle blowing' policy that the Manager has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow-up action.

In relation to the annual report and financial statements for the year ended 30 September 2013, the following significant issues were considered by the Committee;

Significant Issue	How the issue was addressed
Valuation and ownership of the Company's investments	Actively traded investments are valued using stock exchange prices provided by third parties pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value. As set out in the accounting polices note on page 33 all such valuations are carefully reviewed by both the Manager's fair value pricing committee and by the directors.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 33) and is reviewed by the Committee at each meeting.
Compliance with section 1158 of the Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times.
Correct calculation of the performance-related fee	The year end performance related fee calculation is prepared by the Administrator (BNP Paribas) and reviewed by the Manager and reviewed in depth by the Committee, all with reference to the Management Agreement.
Maintaining internal controls	The Committee receives regular reports on internal controls from the Manager and Administrator and has access to the relevant personnel of the Manager who have a responsibility for risk management and internal audit.

All of the above were satisfactorily addressed through consideration of reports provided by, and discussed with the Manager.

To assist with these duties, the Audit Committee met with representatives of the Manager, including individuals from Henderson's internal audit and risk departments, and the auditor and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company and the systems of internal controls in place. Representatives of the Manager's internal audit and risk departments regularly attend meetings to report on the system.

In accordance with changes made by the Auditing Practices Board and the Financial Reporting Council to the APB's Ethical Standards for Auditors and the FRC's Guidance on Audit Committees, audit committees are required to formulate a written policy on the provision of non-audit services by the Company's statutory independent auditors. The Audit Committee has reviewed the guidance and has formulated a policy on the provision of non-audit services by the Company's auditors. The Audit Committee has determined that the Company's appointed auditors will never be considered for the provision of certain non-audit services, including accounting and preparation of the financial statements, internal audit and custody. The auditors may, if required, provide non-audit services relating to a review of the Company's Half Year Report. All other non-audit services will be judged on a case-by-case basis and will be approved by a member of the Audit Committee.

During the year under review, PricewaterhouseCoopers LLP have not provided any non-audit services for the Company. Details of the audit fee for the year can be found in note 6 on page 36.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Audit Committee is satisfied that the auditors are independent of the Company. The appointment of the auditors is not regularly put out to tender, and as the Company is not in the FTSE 350 it is not required to put the contract out to tender at least every ten years. The audit appointment has not been put to tender in the last ten years. However, the performance of the Auditor is regularly reviewed by the Audit Committee, taking into

Corporate Governance Statement

continued

consideration the services and advice provided to the Company and the fees charged for their services. On the basis of the auditors' performance the Audit Committee recommended their continuing appointment to the Board with no tender necessary.

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

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

Nominations Committee

During the year the Nominations Committee comprised all the directors. The Chairman of the Committee is Peter Troughton. The Nominations Committee meets at least annually and considers Board succession planning, the review of the performance of the Board as a whole and the Board Committees, and the appointment of new directors. The Nominations Committee met once during the year and reviewed the directors retiring at the forthcoming AGM and recommended their re-appointment be put forward to shareholders.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience, gender and diversity existing on the Board. The Nominations Committee considers diversity as part of the annual performance evaluation and it is considered that the directors have a range of backgrounds and each director brings different qualities to the Board and its discussions. It is not considered appropriate for the Company to have set targets in relation to diversity; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment. The Nominations Committee will make recommendations to the Board when the recruitment of additional non-executive directors is required.

Once a decision is made to recruit additional directors to the Board, a formal job description is drawn up. The Committee may use external agencies as and when the requirement to recruit an additional Board member becomes necessary. All appointments to the Board are based on merit and the skills needed to fill any gaps.

The Committee met in September 2013 to carry out its annual review of the Board, its composition, size and its Committees. The results of the performance evaluation can be found later in this statement.

Management Engagement Committee

All the directors are members of the Management Engagement Committee. The Chairman of the Committee is Peter Troughton. The Committee meets at least annually to review the Management Agreement with the Company's Manager and to review the services provided by the Manager. Details of Henderson's responsibilities as Manager can be found on pages 12 and 13.

Remuneration Committee

Directors' fee levels are set in line with the remuneration policy, as set out in the Directors' Remuneration Report on page 27, which is subject to shareholder approval.

Board attendance

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

Number of meetings	**Board 6**	**Audit Committee 2**	**Nominations Committee 1**	**Management Engagement Committee 1**
Peter Troughton	6	n/a	1	1
Rupert Barclay	6	2	1	1
Kevin Carter	6	2	1	1
Robert Robertson	6	2	1	1
Karl Sternberg	6	2	1	1

Corporate Governance Statement

continued

Performance Evaluation

- *The Company*
  The performance of the Company is considered in detail at each Board meeting.
- *The Board and the Board Committees*
  The work of the Board as a whole and of the Board Committees was reviewed by the Nominations Committee in September 2013 and no areas of concern were identified.
- *Individual directors*
  The Chairman reviews each individual director's contribution on an annual basis, and the work of the Board as a whole and of the Board Committees is also reviewed annually through a formal process by the Nominations Committee. The Board meets annually without the Chairman present in order to review the performance of the Chairman.

  At the Nominations Committee meeting in 2013 it was agreed that the Chairman continued to promote effective leadership and that each of the directors contributed valuable experience and skills to the Board.

Internal Controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process has been in place since 2 March 2000 and is subject to regular review by the Board and up to the date of this report accords with the FRC Guidance ('Turnbull guidance').

The Board is responsible overall for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objective and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, has undertaken an annual review of the effectiveness of the Company's system of internal control. The business risks have been analysed and recorded in a risk map, which is reviewed regularly. The Board receives each quarter, from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. The Board receives each year from the Manager a report on its own internal controls which includes a report from the Manager's reporting accountants on the control policies and procedures in operation. The Board confirms that in the event of any significant failings or weakness identified from the annual review of the effectiveness of the Company's system of internal control, necessary actions would be taken to remedy them.

Accountability and relationship with the Manager

The Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements is set out on page 26, the Independent Auditors' Report on pages 48 to 50 and the Statement of Going Concern on page 14.

The Board has delegated contractually to external third parties, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

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

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

Corporate Governance Statement
continued

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

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

Continued Appointment of the Manager
The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are contained on pages 12 and 13.

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

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

Share Capital
Please see the Report of the Directors on pages 18 and 19.

Relations with Shareholders
Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the Half Year Update and Annual Report and Financial Statements, which aim to provide shareholders with a clear understanding of the Company's activities and their results. In addition, Interim Management Statements are issued twice per annum. This information is supplemented by the daily calculation and publication at the London Stock Exchange of the net asset value of the Company's ordinary shares and by a monthly fact sheet. Information can also be found on **www.lowlandinvestment.com**. In addition to publishing various reports, the Portfolio Manager regularly meets with shareholders and, in particular, private client stockbrokers. During the meetings with shareholders, the Portfolio Manager has an opportunity to discuss the Company's investment approach.

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

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

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

By order of the Board

Wendy King FCIS
For and on behalf of Henderson Secretarial Services Limited
Company Secretary
11 December 2013

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Statement of Directors' Responsibilities under DTR 4.1.12

Each of the directors, who are listed on page 17 confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report in this Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Peter Troughton
Chairman
11 December 2013

The financial statements are published on the **www.lowlandinvestment.com** website, which is a website maintained by the Company's Manager, Henderson Global Investors Limited ('Henderson').

The maintenance and integrity of the website maintained by Henderson or any of its subsidiaries is, so far as it relates to the Company, the responsibility of Henderson. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 ('the Regulations'). The report also meets the relevant requirements of the Companies Act 2006 ('the Act') and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by Section 439 of the Act, an ordinary resolution to approve the report will be proposed at the Annual General Meeting on 22 January 2014.

The Company's Remuneration Policy will be put to shareholders for approval by ordinary resolution for the first time this year under section 439 of the Act and the policy is expected to continue in force until the Annual General Meeting in 2017.

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

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

The whole Board fulfils the function of the Remuneration Committee and therefore there is no separate Remuneration Committee. No advice or services were provided by any external person in respect of the consideration of Directors' remuneration.

Remuneration policy

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Directors personally. In accordance with the Company's Articles of Association the aggregate remuneration of the directors may not currently exceed £150,000 per annum. Subject to this overall limit, the Company's policy is that remuneration payable to the directors should reflect the time spent by the Board on the Company's affairs, and the responsibilities borne by the directors, and be sufficient to enable candidates of high calibre to be recruited and retained. They should be comparable to that of other investment trusts of a similar size and with a similar capital structure and investment objective. All directors, including any new appointments to the Board, are paid at the same rate, apart from the Chairman of the Board and the Chairman of the Audit Committee who are paid a higher fee in recognition of their additional responsibilities. The whole Board considers matters relating to directors' remuneration and was not provided with advice or services by any external person in respect of its consideration of the directors' remuneration. The level of remuneration paid to each director is reviewed annually, and account is taken of fees paid to directors of other investment trust companies of similar type and size, although such review will not necessarily result in any change to the rate; any feedback from shareholders would be taken into account when setting remuneration levels. In respect of the year under review, no feedback has been received from shareholders.

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

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

Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

This remuneration policy has been in place since 1 October 2012 and will remain in place until the Annual General Meeting in 2017 unless it is amended by way of ordinary resolution put to shareholders at a general meeting. The Board may amend the level of remuneration paid to individual directors within the parameters of the remuneration policy.

Annual Statement

As Chairman, Peter Troughton reports that directors fees were increased on 1 October 2012 and also on 1 October 2013, being the start of the Company's financial year. These increases were made after consideration of the fees paid to other investment trusts in the sector of an equivalent size and also in relation to the fees paid to other Henderson managed trusts. These increases were to ensure that the directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new directors. Shareholder authority will be sought at the Annual General Meeting to increase the total aggregate limit of fees which can be paid to directors as specified in the Articles of Association from £150,000 to £250,000. This is to ensure that the Company is not unduly hindered when seeking new directors in the future. There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual director in the year under review.

Annual Report on Remuneration

Directors' interest in shares (Audited)

The interests of the directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the following table.

	Ordinary shares of 25p each	
	30 September 2013	1 October 2012
Beneficial:		
Peter Troughton	**15,464**	13,021
Rupert Barclay	**11,000**	10,993
Kevin Carter	**2,500**	2,500
Robert Robertson	**34,225**	29,225
Karl Sternberg	**4,100**	4,100
Non-beneficial:		
Robert Robertson	**12,000**	11,000

Since the end of the financial year Peter Troughton purchased an additional 59 shares in the Company bringing his total beneficial holding to 15,523.

Directors' Remuneration Report

continued

Directors' Fees (Audited)

The fees and expenses paid to the Directors who served during the years ended 30 September 2013 and 30 September 2012 were as follows:

	Year ended 30 September 2013 Total salary and fees £	Year ended 30 September 2012 Total salary and fees £	**Year ended 30 September 2013 Total expenses and taxable benefits £**	Year ended 30 September 2012 Total expenses and taxable benefits £	**Year ended 30 September 2013 Total £**	Year ended 30 September 2012 Total £
Peter Troughton [1]	**32,000**	26,736	**20**	0	**32,020**	26,736
Rupert Barclay [2]	**23,000**	22,000	**0**	0	**23,000**	22,000
Kevin Carter	**20,000**	19,000	**0**	47	**20,000**	19,047
John Hancox [3]	**–**	8,982	**–**	36	**–**	9,018
Robert Robertson	**20,000**	19,000	**0**	481	**20,000**	19,481
Karl Sternberg	**20,000**	19,000	**519**	0	**20,519**	19,000
TOTAL	**115,000**	114,718	**539**	564	**115,539**	115,282

Notes:

The table above omits other columns because no payments of other types such as, performance related pay, vesting performance related pay and pension related benefits were made.

[1] Chairman and highest paid Director. [2] Chairman of the Audit Committee. [3] Retired on 18 January 2012.

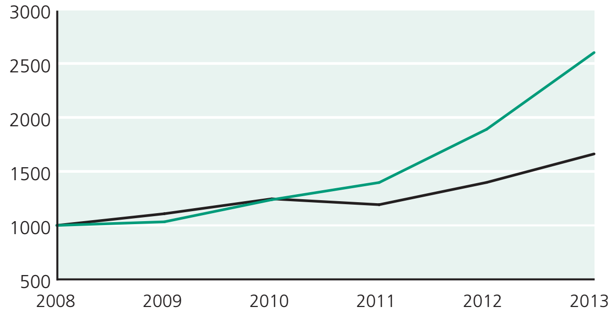
No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors or third parties.

Since 1 October 2013 the fees have increased as follows (previous rates are shown in brackets): Chairman £34,000 (£32,000), Audit Committee Chairman £24,000 (£23,000) and director £21,000 (£20,000); the previous increase was from 1 October 2012.

Performance graph

The Company's performance is measured against the FTSE All Share Index on a total return basis in sterling terms ('the Benchmark Index'). The graph below compares the mid-market price of the Company's ordinary shares over the five year period ended 30 September 2013 with the Benchmark Index over the same period.

Performance graph



Source: Datastream

Lowland share price total return, assuming the investment of £1,000 on 1 October 2008 and the reinvestment of all dividends (excluding dealing expenses).

FTSE All-Share Index total return, assuming the notional investment of £1,000 on 1 October 2008 and the reinvestment of all income (excluding dealing expenses). This Index is the Company's benchmark index.

Relative importance of spend on pay

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

	30 September 2013 £'000	30 September 2012 £'000
Total remuneration	**115,539**	115,282
Ordinary dividend paid	**8,453,000**	8,587,000
Buy-backs of ordinary shares	**–**	–

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

At the 2013 AGM 7,536,846 votes (95.1%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 257,203 (3.2%) were against 132,334 (1.7%) were discretionary and 168,272 were withheld. The % of votes excludes votes withheld. This will be the first year shareholders will be asked to vote on the Company's Remuneration Policy.

By order of the Board

Wendy King FCIS
For and on behalf of
Henderson Secretarial Services Limited, Company Secretary
11 December 2013

Income Statement

for the year ended 30 September 2013

Notes		**Year ended 30 September 2013** Revenue Return £'000	Capital Return £'000	Total £'000	Year ended 30 September 2012 Revenue Return £'000	Capital Return £'000	Total £'000
2	Gains on investments held at fair value through profit or loss	**–**	**78,491**	**78,491**	–	53,157	53,157
3	Income from investments	**12,342**	**–**	**12,342**	10,677	–	10,677
4	Other interest receivable and similar income	**115**	**–**	**115**	97	–	97
	Gross revenue and capital gains	**12,457**	**78,491**	**90,948**	10,774	53,157	63,931
5	Management fee	**(1,362)**	**–**	**(1,362)**	(1,173)	–	(1,173)
5	Performance fee	**–**	**(938)**	**(938)**	–	(646)	(646)
6	Other administrative expenses	**(472)**	**–**	**(472)**	(402)	–	(402)
	Net return on ordinary activities before finance charges and taxation	**10,623**	**77,553**	**88,176**	9,199	52,511	61,710
7	Finance charges	**(875)**	**–**	**(875)**	(911)	–	(911)
	Net return on ordinary activities before taxation	**9,748**	**77,553**	**87,301**	8,288	52,511	60,799
8	Taxation on net return on ordinary activities	**(38)**	**–**	**(38)**	(62)	–	(62)
	Net return on ordinary activities after taxation	**9,710**	**77,553**	**87,263**	8,226	52,511	60,737
9	**Return per ordinary share – basic and diluted**	**36.7p**	**293.4p**	**330.1p**	31.1p	198.8p	229.9p

The total columns of this statement represent the Profit and Loss Account of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. The Company had no recognised gains or losses other than those disclosed in the Income Statement. There is no material difference between the net return on ordinary activities before taxation and the net return for the financial years stated above and their historical cost equivalents.

The notes on pages 33 to 47 form part of these financial statements

Reconciliation of Movements in Shareholders' Funds

for the years ended 30 September 2013 and 30 September 2012

Note	Year ended 30 September 2013	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 October 2012	**6,604**	**53,561**	**1,007**	**197,911**	**7,318**	**266,401**
	Net return on ordinary activities after taxation	**–**	**–**	**–**	**77,553**	**9,710**	**87,263**
	Share issue proceeds	**38**	**1,953**	**–**	**–**	**–**	**1,991**
10	**Second interim dividend (7.5p) for the year ended 30 September 2012 paid 31 October 2012**	**–**	**–**	**–**	**–**	**(1,981)**	**(1,981)**
10	**Final dividend (8.0p) for the year ended 30 September 2012 paid 31 January 2013**	**–**	**–**	**–**	**–**	**(2,113)**	**(2,113)**
10	**First Interim dividend (8.0p) for the year ended 30 September 2013 paid 30 April 2013**	**–**	**–**	**–**	**–**	**(2,113)**	**(2,113)**
10	**Second Interim dividend (8.5p) for the year ended 30 September 2013 paid 31 July 2013**	**–**	**–**	**–**	**–**	**(2,246)**	**(2,246)**
	At 30 September 2013	**6,642**	**55,514**	**1,007**	**275,464**	**8,575**	**347,202**

Note	Year ended 30 September 2012	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 October 2011	6,604	53,561	1,007	145,400	7,679	214,251
	Net return on ordinary activities after taxation	–	–	–	52,511	8,226	60,737
10	Second interim dividend (17.5p) for the year ended 30 September 2011 paid 21 December 2011	–	–	–	–	(4,624)	(4,624)
10	First Interim dividend (15.0p) for the year ended 30 September 2012 paid 19 June 2012	–	–	–	–	(3,963)	(3,963)
	At 30 September 2012	6,604	53,561	1,007	197,911	7,318	266,401

The notes on pages 33 to 47 form part of these financial statements

Balance Sheet

at 30 September 2013

Notes		2013 £'000	2012 £'000
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	**335,913**	270,813
	Quoted at market value on AIM	**36,523**	19,844
	Listed at market value overseas	**22,140**	11,572
	Unquoted	**846**	914
		395,422	303,143
	Current assets		
12	Debtors	**1,725**	1,900
22	Cash at bank	**1,310**	2,177
		3,035	4,077
13	**Creditors:** amounts falling due within one year	**(51,255)**	(40,819)
	Net current liabilities	**(48,220)**	(36,742)
	Net assets	**347,202**	266,401
	Capital and reserves		
15	Called up share capital	**6,642**	6,604
16	Share premium account	**55,514**	53,561
17	Capital redemption reserve	**1,007**	1,007
17	Other capital reserves	**275,464**	197,911
18	Revenue reserve	**8,575**	7,318
	Total shareholders' funds	**347,202**	266,401
19	**Net asset value per ordinary share – basic and diluted**	**1,306.9p**	1,008.4p

The financial statements on pages 29 to 47 were approved and authorised for issue by the Board of directors on 11 December 2013 and signed on their behalf by:

Peter Troughton
Chairman

The notes on pages 33 to 47 form part of these financial statements

Cash Flow Statement

for the year ended 30 September 2013

Notes		2013 £'000	2013 £'000	2012 £'000	2012 £'000
21	**Net cash inflow from operating activities**		**10,199**		8,133
	Servicing of finance				
	Interest paid	**(941)**		(903)	
	Net cash outflow from servicing of finance		**(941)**		(903)
	Taxation				
	Tax recovered	**26**		29	
	Net tax recovered		**26**		29
	Financial investment				
	Purchases of investments	**(53,646)**		(38,088)	
	Sales of investments	**38,463**		35,532	
	Net cash outflow from financial investment		**(15,183)**		(2,556)
	Equity dividends paid		**(8,453)**		(8,587)
	Net cash outflow before financing activities		**(14,352)**		(3,884)
	Financing				
	Proceeds from issue of ordinary shares	**1,991**		–	
	Loans drawn down	**11,485**		4,759	
			13,476		4,759
	(Decrease)/increase in cash		**(876)**		875

Notes		2013 £'000	2012 £'000
22	**Reconciliation of net cash flow to movement in net debt**		
	(Decrease)/increase in cash as above	**(876)**	875
	Net cash inflow from movement in loans	**(11,485)**	(4,759)
	Exchange movements	**9**	5
	Movement in net debt	**(12,352)**	(3,879)
	Net debt at 1 October	**(36,082)**	(32,203)
	Net debt at 30 September	**(48,434)**	(36,082)

The notes on pages 33 to 47 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments at fair value. The financial statements have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice ('the SORP') for investment trusts issued by the Association of Investment Companies ('the AIC') in January 2009. The Company's accounting policies are consistent with the prior year.

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

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

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

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as 'gains or losses on investments held at fair value through profit or loss'. Transaction costs incurred on the purchase and disposal of investments are included within the cost or deducted from the proceeds of the investment. All purchases and sales are accounted for on a trade date basis.

(c) Foreign currency

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

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

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

(d) Income

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

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

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

Notes to the Financial Statements

continued

1 Accounting policies (continued)

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

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

(f) Taxation

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

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

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

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

(g) Borrowings

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

(h) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Reconciliation of Movements in Shareholders' Funds.

(i) Issue and repurchase of ordinary shares and associated costs

The proceeds from the issue of new ordinary shares (including those relating to the sale of shares out of treasury) and the aggregate cost of repurchasing ordinary shares (including those to be held in treasury) are taken directly to the share premium account and dealt with in the Reconciliation of Movements in Shareholders' Funds. Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and dealt with in the share premium account. Issue costs incurred in respect of shares sold out of treasury are offset against proceeds received and dealt with in the share premium account. Share issue and repurchase transactions are accounted for on a trade date basis.

Notes to the Financial Statements
continued

1 Accounting policies (continued)

(j) Capital reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

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

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

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

2 Gains on investments held at fair value through profit or loss

	2013 £'000	2012 £'000
Gains on the sale of investments based on historical cost	**16,975**	4,275
(Less)/add: Revaluation (gains)/losses recognised in previous years	**(9,106)**	2,389
Gains on investments sold in the year based on carrying value at previous balance sheet date	**7,869**	6,664
Revaluation gains on investments held at 30 September	**70,613**	46,488
Exchange gains	**9**	5
	78,491	53,157

3 Income from investments

	2013 £'000	2012 £'000
UK dividends:		
Listed investments	**9,707**	8,967
Unlisted	**35**	44
	9,742	9,011
Non UK dividends:		
Overseas dividend income	**2,288**	1,335
Property income dividends	**200**	131
Interest income	**112**	200
Non UK dividends	**2,600**	1,666
	12,342	10,677

Notes to the Financial Statements

continued

4	Other interest receivable and similar income	2013 £'000	2012 £'000
	Stock lending commission	**81**	47
	Income from underwriting	**34**	50
		115	97

At 30 September 2013 the total value of securities on loan by the Company for stock lending purposes was £29,012,000 (2012: £16,188,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2013 was £54,723,000 (2012: £23,500,000). The Company's agent holds collateral comprising FTSE 100 stocks with a collateral value of £31,142,000 (2012: £17,157,000) amounting to a minimum of 107% (2012: minimum 105%) of the market value of any securities on loan. Stock lending commission has been shown net of brokerage fees of £35,000 (2012: £20,000).

5	Management and Performance fees	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
	Management fee	**1,362**	**–**	**1,362**	1,173	–	1,173
	Performance fee	**–**	**938**	**938**	–	646	646
	Total fee	**1,362**	**938**	**2,300**	1,173	646	1,819

A description of the basis for calculating the management fee and performance fees is given in the Strategic Review on pages 12 and 13. For the year ended 30 September 2013, a performance fee of £938,000 is payable (2012: £646,000). This is based on Lowland's 3 year average NAV total return to 30 September 2013 of 29.1% compared to the FTSE All-Share Index total return (plus a 10% hurdle rate) of 12.2%. Total fees, including the basic fee of 0.5% are capped at 0.75% per annum so the performance fee has been capped at 0.25% of average net chargeable assets for the year.

6	Other administrative expenses	2013 £'000	2012 £'000
	Directors' fees (see Directors' Remuneration Report on pages 27 and 28)	**115**	115
	Auditors' remuneration – for audit services	**22**	21
	AIC subscriptions	**25**	23
	Directors' and Officers' liability insurance	**7**	8
	Listing fees (Stock Exchange, newspapers and internet)	**32**	24
	Safe custody and bank charges	**27**	21
	Loan facility fees	**97**	74
	Printing and postage	**21**	23
	Registrar's fees	**21**	16
	Legal fees	**11**	–
	General expenses and marketing expenses payable to Henderson	**51**	43
	Other expenses	**15**	12
	Irrecoverable VAT	**28**	22
		472	402

7	Finance charges	2013 £'000	2012 £'000
	On bank loans and overdrafts repayable within one year	**875**	911

Notes to the Financial Statements

continued

8	Taxation on net return on ordinary activities	2013 Revenue return £'000	2013 Capital return £'000	2013 Total £'000	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
	(a) Analysis of tax charge for the year						
	Overseas tax suffered	**42**	**–**	**42**	73	–	73
	Overseas tax reclaimable	**(4)**	**–**	**(4)**	(2)	–	(2)
	Prior year adjustment on withholding tax recoverable	**–**	**–**	**–**	(9)	–	(9)
	Total taxation for the year	**38**	**–**	**38**	62	–	62

(b) Factors affecting the tax charge for the year	2013 Revenue return £'000	2013 Capital return £'000	2013 Total £'000	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
Return on ordinary activities before taxation	**9,748**	**77,553**	**87,301**	8,288	52,511	60,799
Corporation tax at 23.5% (2012: 25%)*	**2,291**	**18,225**	**20,516**	2,072	13,128	15,200
Effects of:						
Non-taxable UK dividends	**(2,274)**	**–**	**(2,274)**	(2,237)	–	(2,237)
Other non-taxable income	**(554)**	**–**	**(554)**	(349)	–	(349)
Overseas tax suffered	**38**	**–**	**38**	71	–	71
Prior year adjustment on withholding tax recoverable	**–**	**–**	**–**	(9)	–	(9)
Excess expenses/non-trading deficits for the year	**757**	**–**	**757**	675	–	675
Expenses charged to capital	**(220)**	**220**	**–**	(161)	161	–
Non-taxable/deductible capital gains	**–**	**(18,445)**	**(18,445)**	–	(13,289)	(13,289)
	38	**–**	**38**	62	–	62

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

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

The Company has not recognised a deferred tax asset totalling £7,578,000 (2012: £7,559,000) arising as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised if the Company has profits chargeable to Corporation Tax in the future.

*The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 23.5%.

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 23.5% (2012: 25%).

Notes to the Financial Statements

continued

9 Return per ordinary share – basic and diluted

The return per ordinary share is based on the net return attributable to the ordinary shares of £87,263,000 (2012: £60,737,000) and on 26,433,043 ordinary shares (2012: 26,417,427) being the weighted average number of ordinary shares in issue during the year. The return per ordinary share can be further analysed between revenue and capital, as below.

	2013 £'000	2012 £'000
Net revenue return	**9,710**	8,226
Net capital return	**77,553**	52,511
Net total return	**87,263**	60,737
Weighted average number of ordinary shares in issue during the year	**26,433,043**	26,417,427
Revenue return per ordinary share	**36.7p**	31.1p
Capital return per ordinary share	**293.4p**	198.8p
Total return per ordinary share	**330.1p**	229.9p

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

10 Dividends paid and payable on the ordinary shares

Dividends on ordinary shares	**Record date**	**Payment date**	**2013 £'000**	2012 £'000
Second interim dividend (17.5p) for the year ended 30 September 2011	2 December 2011	21 December 2011	**–**	4,624
First interim dividend (15.0p) for the year ended 30 September 2012	1 June 2012	19 June 2012	**–**	3,963
Second interim dividend (7.5p) for the year ended 30 September 2012	12 October 2012	31 October 2012	**1,981**	–
Final dividend (8.0p) for the year ended 30 September 2012	4 January 2013	31 January 2013	**2,113**	–
First interim dividend (8.0p) for the year ended 30 September 2013	5 April 2013	30 April 2013	**2,113**	–
Second interim dividend (8.5p) for the year ended 30 September 2013	5 July 2013	31 July 2013	**2,246**	–
			8,453	8,587

The third interim dividend and the final dividend for the year ended 30 September 2013 have not been included as a liability in these financial statements. The total dividends payable in respect of the financial year, which form the basis of the retention test under Section 1158 of the Corporation Tax Act 2010, are set out below.

	2013 £'000
Revenue available for distribution by way of dividend for the year	**9,710**
First interim dividend (8.0p) for the year ended 30 September 2013	**(2,113)**
Second interim dividend (8.5p) for the year ended 30 September 2013	**(2,246)**
Third interim dividend (8.5p) for the year ended 30 September 2013	**(2,267)**
Final dividend (9.0p) for the year ended 30 September 2013 (based on 26,892,427 ordinary shares in issue at 11 December 2013)	**(2,420)**
Revenue surplus	**664**

For Section 1158 purposes the Company's undistributed revenue represents 5.4% of the income from investments.

Notes to the Financial Statements

continued

11	Investments held at fair value through profit or loss	2013 Total £'000	2012 Total £'000
	Valuation at start of year	**303,143**	246,055
	Investment holding gains at start of year	**(56,508)**	(7,631)
	Cost at start of year	**246,635**	238,424
	Additions at cost	**52,260**	39,468
	Disposals at cost	**(21,488)**	(31,257)
	Cost at end of year	**277,407**	246,635
	Investment holding gains at end of year	**118,015**	56,508
	Valuation at end of year	**395,422**	303,143

Included in the total investments are unquoted investments shown at the directors fair value of £846,000 (2012: £914,000).

Purchase transaction costs for the year ended 30 September 2013 were £264,000 (2012: £191,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2013 were £50,000 (2012: £43,000).

The Company has interests of 3% or more of any class of capital in 20 (2012: 17) investee companies. At 30 September 2013, of the 20 investee companies, the following represented more than 1% of investments.

Company	Valuation £'000	% of voting rights
Carclo	**13,638**	**5.5**
Velocys	**6,975**	**4.0**
Scapa	**4,600**	**3.4**

12	Debtors	2013 £'000	2012 £'000
	Prepayments and accrued income	**1,721**	1,874
	Taxation recoverable	**4**	26
		1,725	1,900

13	**Creditors:** amounts falling due within one year	2013 £'000	2012 £'000
	Unsecured sterling bank loans	**49,744**	38,259
	Purchases for future settlement	**–**	1,386
	Other creditors	**1,511**	1,174
		51,255	40,819

The Company entered into a one year £10m loan facility with ING Bank N.V. on 29 October 2012 and a two year £43m loan facility with National Australia Bank on 15 May 2013. Since the year end the Company has entered into a one year £20m loan facility with ING Bank N.V. which replaces the previous facility with them.

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on page 11. In pursuing its investment objective and policy, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks; including market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk, and the directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and the Manager manage the Company's risk management.

14.1 Market risk

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

14.1.1 Market price risk

Market price risk (ie, changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of quoted and unquoted investments.

The Company's exposure to market price risk at 30 September 2013 is represented by its investments held on the Balance Sheet under the heading 'Investments held at fair value through profit or loss' on page 31.

Management of the risk

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

Concentration of exposure to market price risks

An analysis of the Company's investment portfolio is shown on pages 8 and 9. This shows that the majority of the investments' value is in UK listed companies. Accordingly, there is a concentration of exposure to market price risk, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity

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

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

Sensitivity analysis – Market prices

If prices change by 40% (2012: 40%)

	2013 If prices go up £'000	**2013 If prices go down £'000**	2012 If prices go up £'000	2012 If prices go down £'000
Investments	**395,422**	**395,422**	303,143	303,143
Impact on income statement:				
Revenue return (0.5% management fee rate)	**(791)**	**791**	(606)	606
Capital return	**158,169**	**(158,169)**	121,257	(121,257)
Impact on net assets and total return (excluding gearing)	**157,378**	**(157,378)**	120,651	(120,651)

14.1.2 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and presentational currency). As a result, movements in exchange rates may affect the sterling value of those items. As the Company's investments are predominantly in sterling denominated securities its exposure to currency risk is not considered material. Investments held in currencies other than sterling was £22,140,000 (2012: £11,572,000) representing 5.5% (2012: 3.8%) of the total assets of the Company.

Management of the risk

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

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

14.1.3 Interest rate risk

Interest rate movements may affect:

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

Management of the risk

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

Interest rate exposure

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

Notes to the Financial Statements
continued

14 Financial risk management policies and procedures (continued)

Interest receivable and finance costs are at the following rates:

- Interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR (2012: same)
- Interest paid on borrowings under the loan facility is at a margin over LIBOR for the type of loan. The weighted average interest rate of these is 2.1% as at 30 September 2013 (2012: 2.5%).

The Company had fixed interest rate asset exposures at 30 September 2013 on holdings in Barclays Bank 6% at £nil (2012: £3,578,000) and Wadworth at £126,000 (2012: £126,000).

Interest rate risk sensitivity

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

- Borrowings vary throughout the year as a result of the Board's borrowing policy. Borrowings (net of cash at bank) at the year end were £48,434,000 (2012: £36,082,000) and if that level of borrowings was maintained for a full year, then a 200 basis points change in LIBOR (up or down) would decrease or increase net revenue and total net return on ordinary activities after taxation by approximately £964,000 (2012: £717,000).

14.2 Liquidity risk

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

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company had unsecured sterling loan facilities totalling £53,000,000 (2012: £43,000,000) and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review.

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

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

	2013		2012	
	Due within 3 months £'000	**Due between 3 months and one year £'000**	Due within 3 months £'000	Due between 3 months and one year £'000
Bank loans and interest	**49,915**	**–**	38,466	–
Other creditors	**1,438**	**–**	2,421	–
	51,353	**–**	40,887	–

14.3 Credit and counterparty risk

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

Notes to the Financial Statements
continued

14 Financial risk management policies and procedures (continued)

Management of the risk

The risk is managed as follows:

– investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker.

– cash at bank is held only with reputable banks with high quality external credit ratings.

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

	2013 £'000	2012 £'000
Fixed interest securities	**126**	3,704
Cash	**1,310**	2,177
Debtors:		
– accrued income	**1,721**	1,874
– taxation recoverable	**4**	26
	3,161	7,781

14.4 Fair values of financial assets and financial liabilities

Except as noted below, the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts and amounts due under the loan facility).

14.5 Fair value hierarchy disclosures

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

Fair value hierarchy	2013 £'000	2012 £'000
Equity investments		
Level 1	**394,576**	302,229
Level 2	–	–
Level 3	**846**	914
	395,422	303,143

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

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

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

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

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

Notes to the Financial Statements

continued

14 Financial risk management policies and procedures (continued)

A reconciliation of movements within Level 3 is set out below:	**2013 £'000**	2012 £'000
Opening balance	**914**	1,281
Disposal proceeds	**–**	–
Transfers in	**–**	263
Total (loss)/gains included in the Income Statement		
– on investments written off	**–**	(5,734)
– on investments held	**(68)**	5,104
Closing balance	**846**	914

The Company's holdings in Wadworth were revalued downwards by £68,000 during the year (2012: £367,000).

14.6 Capital management policies and procedures

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

The Company's capital at 30 September 2013 comprises its equity share capital, reserves and loans that are shown in the balance sheet at a total of £396,946,000 (2012: £304,660,000).

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

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

The Company is subject to several externally imposed capital requirements:

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

The Company has complied with these requirements.

15 Called up share capital	**2013 £'000**	2012 £'000
Allotted and fully paid		
26,567,427 (2012: 26,417,427) ordinary shares of 25p each	**6,642**	6,604

During the year, the Company issued 150,000 ordinary shares for total proceeds of £1,991,000 (2012: £nil).

Notes to the Financial Statements

continued

16	**Share premium account**	**2013 £'000**	2012 £'000
	At the start of the year	**53,561**	53,561
	Shares issued during the year	**1,953**	–
	At the end of the year	**55,514**	53,561

17	**Capital redemption reserve and other capital reserves**	**Capital redemption reserve £'000**	**Capital reserve arising on revaluation of investments held £'000**	**Capital reserve arising on investments sold £'000**	**Other capital reserves total £'000**
	At 1 October 2012	**1,007**	**56,508**	**141,403**	**197,911**
	Transfer on disposal of investments	**–**	**(9,106)**	**9,106**	**–**
	Net gains on investments	**–**	**70,613**	**7,869**	**78,482**
	Performance fee taken to capital	**–**	**–**	**(938)**	**(938)**
	Exchange differences	**–**	**–**	**9**	**9**
	At 30 September 2013	**1,007**	**118,015**	**157,449**	**275,464**

The capital reserve arising on revaluation of investments held at 30 September 2013 includes a gain of £795,000 (2012: gain of £863,000) based on historical book cost, in respect of the revaluation of unquoted investments.

Capital redemption reserve and other capital reserves	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2011	1,007	7,631	137,769	145,400
Transfer on disposal of investments	–	2,389	(2,389)	–
Net gains on investments	–	46,488	6,664	53,152
Performance fee taken to capital	–	–	(646)	(646)
Exchange differences	–	–	5	5
At 30 September 2012	1,007	56,508	141,403	197,911

The capital reserve arising on revaluation of investments held at 30 September 2012 includes a gain of £863,000 (2011: gain of £1,230,000) based on historical book cost, in respect of the revaluation of unquoted investments.

Notes to the Financial Statements
continued

18	**Revenue reserve**	**2013 £'000**	2012 £'000
	At 1 October	**7,318**	7,679
	Net revenue return for the year after tax	**9,710**	8,226
	Net dividends paid (note 10)	**(8,453)**	(8,587)
	At 30 September	**8,575**	7,318

19 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £347,202,000 (2012: £266,401,000) and on 26,567,427 (2012: 26,417,427) shares in issue on 30 September 2013.

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

	2013 £'000	2012 £'000
Total net assets at 1 October	**266,401**	214,251
Total net return on ordinary activities after taxation	**87,263**	60,737
Share issue proceeds	**1,991**	–
Net dividends paid in the year:		
Ordinary shares	**(8,453)**	(8,587)
Net assets attributable to the ordinary shares at 30 September	**347,202**	266,401

20 Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities as at 30 September 2013 (2012: £nil).

21	**Reconciliation of operating revenue to net cash inflow from operating activities**	**2013 £'000**	2012 £'000
	Net return on ordinary activities before finance charges and taxation	**88,176**	61,710
	Less net capital return before finance charges and taxation	**(77,553)**	(52,511)
	Net revenue return before finance charges and taxation	**10,623**	9,199
	Decrease/(increase) in prepayments and accrued income	**153**	(333)
	Expenses charged to capital	**(938)**	(646)
	Increase in other creditors and accruals	**403**	12
	Income tax suffered on property income dividends	**(1)**	(26)
	Overseas withholding tax suffered	**(41)**	(73)
	Net cash inflow from operating activities	**10,199**	8,133

Notes to the Financial Statements

continued

22 Analysis of changes in net debt	1 October 2012 £'000	Cash flow £'000	Exchange Movements £'000	**30 September 2013 £'000**
Cash at bank	2,177	(876)	9	**1,310**
Debt falling due within one year	(38,259)	(11,485)	–	**(49,744)**
Net debt	(36,082)	(12,361)	9	**(48,434)**

Analysis of changes in net debt	1 October 2011 £'000	Cash flow £'000	Exchange Movements £'000	30 September 2012 £'000
Cash at bank	1,297	875	5	2,177
Debt falling due within one year	(33,500)	(4,759)	–	(38,259)
Net debt	(32,203)	(3,884)	5	(36,082)

23 Transactions with the management company

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

Details of the fee arrangements for these services are given in the Strategic Review on pages 12 and 13. The total of the management fees paid or payable to Henderson under this agreement in respect of the year ended 30 September 2013 was £1,362,000 (2012: £1,173,000). The management fee excludes the management fee on investments held in other Henderson managed investment trusts. The amount outstanding at 30 September 2013 was £374,000 (2012: £293,000). The total of the performance fee paid or payable to Henderson under this agreement in respect of the year ended 30 September 2013 was £938,000 (2012: £646,000). The amount outstanding at 30 September 2013 was £938,000 (2012: £646,000).

In addition to the above services, Henderson has provided the Company with marketing services. The total fees paid or payable for these services for the year ended 30 September 2013 was £51,000 (2012: £43,000), of which £13,000 was outstanding at 30 September 2013 (2012: £9,000).

The Company currently has a holding in Henderson Opportunities Trust plc, which is also managed by Henderson. The value of the holding at 30 September 2013 was £2,164,735 (2012: £1,299,994) and represents 0.55% of the portfolio (2012: 0.43%). The Company has not made any purchases or sales in Henderson Opportunities Trust plc during the year (2012: same) but it has received income of £26,807 from the investment (2012: £23,060).

Independent Auditors' Report

to the members of Lowland Investment Company plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 30 September 2013 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements, which are prepared by Lowland Investment Company plc (the 'Company'), comprise:

- the balance sheet as at 30 September 2013;
- the income statement for the year then ended;
- the reconciliation of movements in shareholders' funds for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

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

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined an overall materiality for the financial statements as a whole of £3.5m which is approximately 1% of Net Assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £174,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Company is a standalone Investment Trust Company managed by an independent investment manager, Henderson Global Investors Limited (the 'Manager').

The financial statements, which remain the responsibility of the directors, are prepared on their behalf by the Manager. The Manager has, with the consent of the directors, delegated the provision of certain administrative functions to BNP Paribas Securities Services UK Limited (the 'Company Administrator').

In establishing the overall approach to our audit we assessed the risks of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the Company's interaction with the Manager and Company Administrator, and we assessed the control environment in place at both organisations to the extent relevant to our audit of the Company.

Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Independent Auditors' Report

continued

Areas of particular audit focus

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 22.

Area of focus	*How the scope of our audit addressed the area of focus*
Valuation and existence of investments We focused on this area because investments represent the principal element of the financial statements.	The majority of the investment portfolio comprised listed equity investments. We tested the valuation of this investment portfolio by agreeing the valuation of investments to independent third party sources. We tested the existence of the investment portfolio by agreeing the holdings to an independent custodian confirmation.
Performance fee We focused on this area because it is based on a complex calculation as set out in the terms of the investment management agreement.	A performance fee was payable in respect of the year. We compared the performance fee calculation with the terms included in the investment management agreement and we re-performed the calculation.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider management override of controls.	We tested journal entries to determine whether adjustments were supported by evidence and appropriately authorised. We also built an element of 'unpredictability' into our detailed testing.

Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on page 19, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Opinions on matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements;
- 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 Corporate Governance Statement set out on pages 24 and 25 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

Independent Auditors' Report

continued

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 21 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy. On page 22, as required by C3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

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

London
11 December 2013

Glossary of Terms

AIC
The Association of Investment Companies.

Benchmark
The FTSE All-Share Total Return.

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

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

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

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

Investment Trusts
Investment trusts are public limited companies, quoted on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments. Income, net of expenses and tax, is substantially distributed to shareholders.

Net Asset Value ('NAV') per Ordinary Share
The value of the Company's assets (investments and cash held) less any liabilities (bank loans) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV per share is published daily.

Performance Attribution Analysis
A performance attribution analysis shows how the Company achieved its recorded performance relative to its benchmark. This is broken down to show the effect of stock selection, gearing, expenses and any changes in share capital made during the year.

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

Ongoing charges
Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. Ongoing charges are based on actual costs incurred in the year as being the best estimate of future costs.

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

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

Warning to Shareholders

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

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

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FCA can be contacted by completing an online form at www.fca.gov.uk.

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

General Investor Information

Disability Discrimination Act
Copies of this Annual Report and Financial Statements and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, either Braille or on audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator, by dialling 0870 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

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

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

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

Shareholder Details
Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**. Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

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

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

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

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

Keeping up to date with Lowland Investment Company plc

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

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

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

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General Investor Information

continued

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

Manager
Henderson Global Investors Limited,
authorised and regulated by the Financial Conduct Authority
Portfolio Manager: James Henderson
Deputy Portfolio Manager: Laura Foll

Company Secretary
Henderson Secretarial Services Limited,
represented by Wendy King FCIS

Registered Office
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
Fax: 020 7818 1819
Email: help@henderson.com

Registered Number
Registered in England and Wales, Number 670489

The Company is a member of

The Association of
Investment Companies

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

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

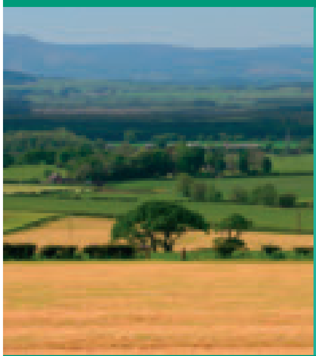
Custodian
JPMorgan Chase Bank, N.A.
60 Victoria Embankment
London EC4Y 0JP

Independent Auditors
Chartered Accountants and Statutory Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Stockbroker
JPMorgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Henderson ISAs
ISA Department
Henderson Global Investors
PO Box 10665
Chelmsford CM99 2BF
Telephone: 0800 856 5656

Halifax Share Dealing Limited
Lovell Park Road
Leeds LS1 1NS
Telephone: 0845 609 0408
Email: henderson@halifax.co.uk
Website: www.halifax.co.uk



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