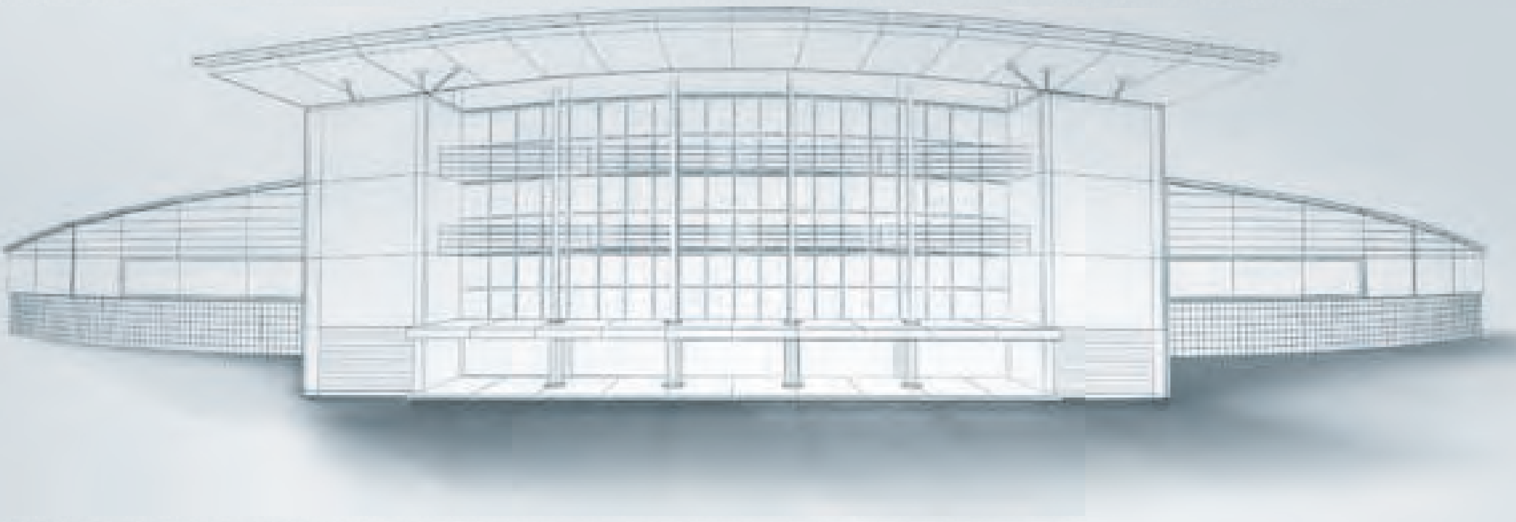
LOWLAND INVESTMENT COMPANY PLC

Annual Report 2014



MANAGED BY
Henderson
GLOBAL INVESTORS

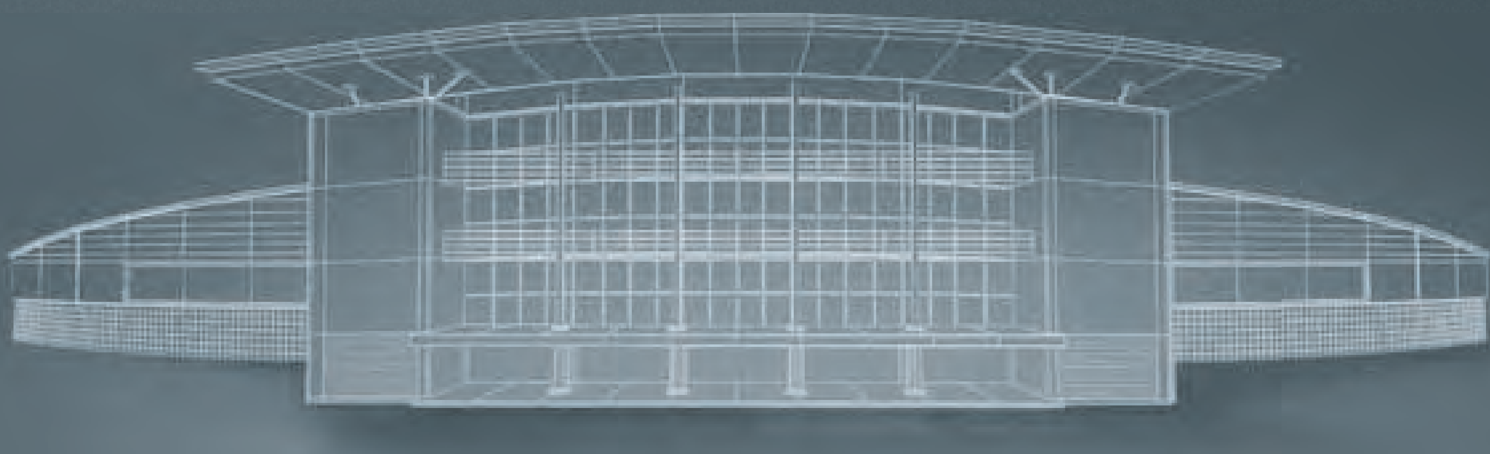
Contents

The image on the front cover is the Rolls-Royce building in Derby, UK. It has been chosen to reflect that the portfolio includes a number of industrial companies.

Strategic Report

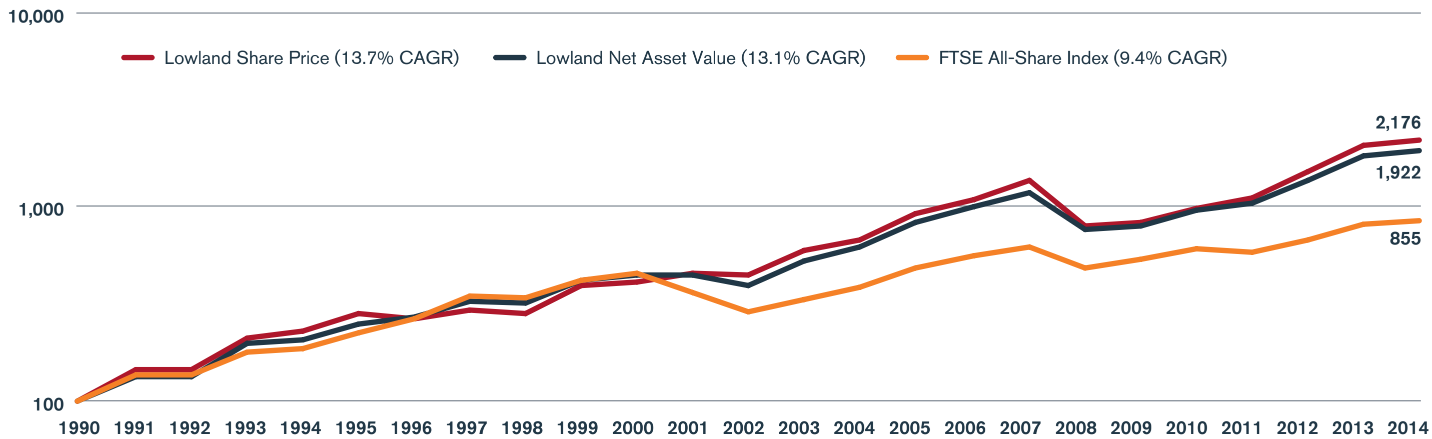
"The Board takes the positive view that the potential total return from equities over the medium term is attractive."

Peter Troughton, Chairman



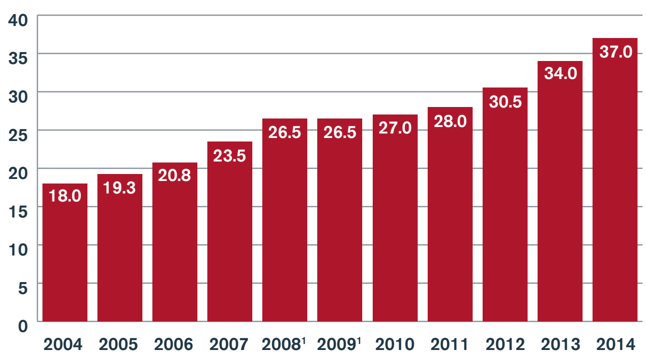
Strategic Report: Performance Highlights

Share Price, Net Asset Value and the FTSE All-Share Index since 30 September 1990 to 30 September 2014

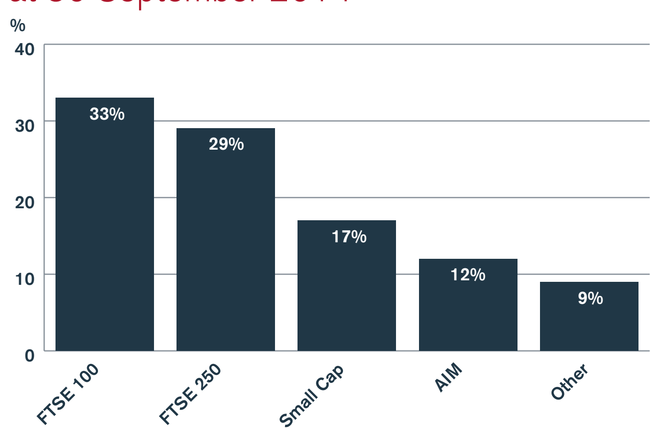


Total Return basis and shown on a logarithmic scale (1990 = 100)
CAGR – Compound Annual Growth Rate
1990 is the year that James Henderson was appointed Fund Manager
Source: Thomson Financial, Datastream

Historical Dividend (in pence)



Market Capitalisation of the Portfolio at 30 September 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
2004	89.5	17.3	18.00	126,746	603.5
2005	200.2	18.2	19.25	190,695	785.8
2006	150.3	20.8	20.75	222,217	915.7
2007	138.7	27.9	23.50	275,868	1,044.3
2008	(344.4)	33.0	26.50	178,411	675.4
2009	8.4	22.7	26.50	173,633	657.3
2010	139.5	22.5	27.00	203,484	770.3
2011	68.3	28.8	28.00	214,251	811.0
2012	229.9	31.1	30.50	266,401	1,008.4
2013	330.1	36.7	34.00	347,202	1,306.9
2014	**73.3**	**39.4**	**37.00**	**361,856**	**1,345.6**

2004 and 2005 have been restated for changes in accounting policy

Strategic Report: Performance Highlights (continued)

NAV Total Return per share at year end[1]

2014 **1,345.6p** **+5.7%** Since 30 September 2013

Revenue Return per share at year end

2014 **39.4p** **+7.4%** Since 30 September 2013

Share Price at year end

2014 **1,355.0p** **+4.9%** Since 30 September 2013

Dividend for year

2014 **37.0p** **+8.8%** Since 30 September 2013

FTSE All-Share Index Total Return at year end

2014 **5,417.9** **+6.1%** Since 30 September 2013

Dividend Yield[2]

2014 **2.6%** 2013 **2.4%**

Gearing at year end

2014 **13.3%** 2013 **13.9%**

Premium at year end[3]

2014 **0.7%** 2013 **1.4%**

Ongoing Charge for year excluding the Performance Fee

2014 **0.56%** 2013 **0.57%**

Ongoing Charge for the year including the Performance Fee

2014 **0.85%** 2013 **0.87%**

1 Net asset value total return (including dividends reinvested)
2 Based on the share price at the year end
3 Calculated using year end audited NAVs including current year revenue
Sources: Morningstar for the AIC, Henderson, Datastream

Strategic Report: Business Model

Investment Objective

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

Strategy

The Company's strategy is to meet its investment objective. This is achieved through the appointment of external management which operates in accordance with the Company's investment policy.

Management

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

The fund management team is led by James Henderson, who has been in place since 1990. He is assisted by Laura Foll.

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

Management Fee

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

Strategic Report: Chairman's Statement

Performance

During the year the Net Asset Value ("NAV") on a total return basis rose 5.7%, while the FTSE All-Share Index Total Return rose 6.1%. The share price total return was 4.9%, with the shares trading at a small premium to NAV similar to the last year end. The shares in medium and smaller-sized companies underperformed after several years of strong performance. Similarly the industrial holdings which have added considerable value in recent years were weaker as concerns about the strength of the global economy surfaced.

Overall the operating performance of the companies held have been satisfactory, and they have delivered good dividend increases. Our underlying confidence in the inherent strengths of these companies persuaded us to retain a reasonable level of gearing. Borrowing was 13.3% at the year end.

Total Return Performance Comparison

To 30 September 2014	3 years %	5 years %	10 years %
NAV	81.8	140.5	206.7
Share price	95.0	162.7	220.1
AIC UK Equity Income Sector NAV[1]	64.2	91.9	148.1
FTSE All-Share Index	47.9	59.1	120.2

1 Size weighted average
Source: Morningstar for the AIC

Dividends

The total dividend for the year, subject to shareholder approval will be 37p, which compares with 34p last year: an increase of 8.8%. The earnings per share for the year are 39.4p per share, compared to 36.7p per share last year. This means £644,000 will be transferred to the revenue reserve. The revenue reserve exists to smooth the long term dividend growth. The dividend growth over the last ten years has been increased on average at more than 7.5% p.a., which means it has slightly more than doubled in the period.

Ongoing Charges and Fees

A performance fee of £1.073m (wholly charged to capital) was paid in respect of the year to 30 September 2014. This was the result of the NAV's growth of 82.3% over the last three years compared with the FTSE All-Share rise of 47.9%. How the performance fee is calculated is shown on page 4. This fee, and the basic management fee of 0.5% of net assets, is capped at a total of 0.75% of net chargeable assets. The cap has reduced the performance fee by £19.2m, since the performance fee and cap were introduced in 1 October 2010. Total ongoing charges, the management fee and other non-interest expenses as a percentage of shareholders' funds were 0.56% (2013: 0.57%) excluding the performance fee and 0.85% (2013: 0.87%) including the performance fee.

Investment Review

This year, our bias to smaller companies and industrials has detracted from performance, after five years of contributing considerably to our results. During the year we examined the attribution of performance over the long term and this confirmed that it has been the smaller company holdings that have added most value. However, they have often been more volatile in their return profile. It has always been important to blend large, medium and small companies to provide diversification to reduce the volatility of returns.

The Lowland Board believe that the Fund Manager's main focus has to be on the individual stocks rather than working to a tightly prescribed weighting in different sectors or size of company. For instance the Fund Manager has increased exposure to AIM stocks and they now account for 12.8% of the portfolio. The AIM Index fell in the year under review by 10.1%, but it has been individual stocks, quoted on AIM, such as Velocys and Scapa that have been among the most important contributors to the portfolio during the year. This flexible approach allows the Fund Manager broad scope to find the best value across the equity market.

Share Issuance

The Board will only issue shares if there is unfulfilled strong demand; during the year we issued 325,000 new shares at an average premium to NAV of 4.4%. No shares were bought back.

Board

On 14 July 2014 Duncan Budge was appointed to the Board. He brings to the Board valuable experience from his extensive career in the investment trust sector gained whilst at RIT Capital Partners plc.

Regulatory & Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, the Company has appointed Henderson Investment Funds Limited to act as its Alternative Investment Fund Manager. HSBC Bank plc has been appointed as the Company's Custodian and Depositary. Further details are contained on page 17. The work associated with the implementation of the AIFMD was completed in due time with the support of Henderson. This work, of course, has been necessary, but it has taken up a considerable amount of time during Board meetings over the past year.

Annual General Meeting

The Annual General Meeting will be held at the offices of Henderson on 20 January 2015 at 12.30 pm. Full details of the business to be conducted at the meeting are set out in the Notice of Meeting which has been sent to shareholders with this report. As usual our Fund Manager, James Henderson, will be making a presentation and all shareholders are most welcome to attend.

Outlook

Dividend growth has lagged capital growth over the last five years and therefore the dividend yield has fallen. The Board believes that strong dividend growth over time is an important objective. The Fund Manager believes this is achievable without compromising capital growth. The Board takes the positive view that the potential total return from equities over the medium term is attractive.

Peter Troughton
Chairman
10 December 2014

Strategic Report: Fund Manager's Report

Investment Review

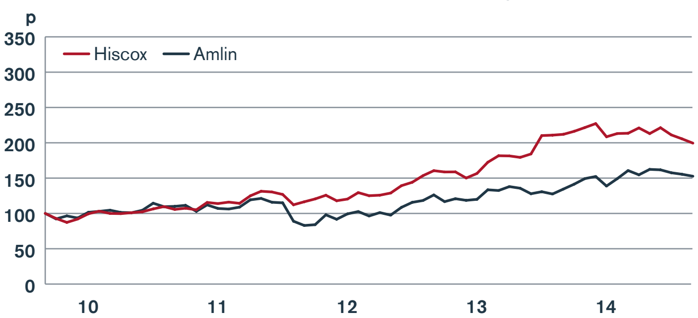
The strong rise in industrial companies' share prices that had started in the Spring of 2009 temporarily ran out of steam in the Spring of 2014. The FTSE 250 Index and FTSE Small Cap Index both rose by over 190% over the five years from 31 March 2009. To a large extent, this was a readjustment from the precipitous falls of 2007/08 that had resulted from investors' exaggerated fears about the global financial crisis. It was a crisis that was centred around financial institutions. It was also a necessary crisis: the behaviour of banks needed to change. Even now in the aftermath of that wake-up call the problems are yet to be resolved.

The crisis was never about dealing with over-capacity and poor management in the industrial sector as some previous recessions had been (most notably of the early 1980's and early 1990's). The effect of the financial crisis on the industrial sector was to make an already efficient competitive sector even leaner and more focused. The result is the record levels of operating margins now being earned across the manufacturing industry. It is also the reason why cash generation is such a focus for companies. The result is lower levels of corporate debt.

Many commentators predict that industrial companies' margins are unsustainably high and will fall when economic activity moderates. They will be surprised by the resilience of margins as the lessons learnt are still fresh. Costs are well controlled with some such as energy falling; and there is little additional unnecessary capacity. This positive backdrop is supported by reasonable valuations; so we are retaining our exposure to quality industrial companies.

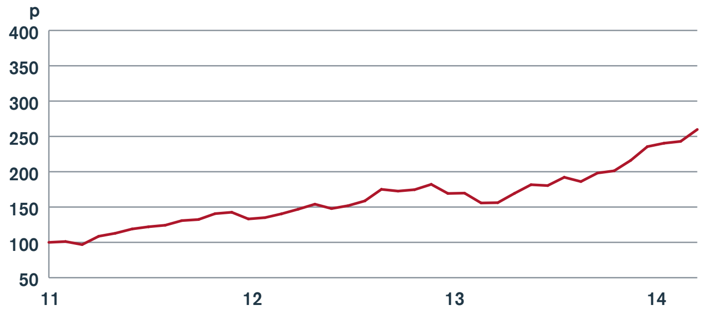
Another core area of the portfolio is the exposure to the non-life insurance sector. The holdings in **Hiscox** and **Amlin** have both been in the portfolio since Lloyds of London introduced corporate capital in the early 1990's. They remain disciplined underwriters and achieve excellent returns on capital. Hiscox returns excess capital through paying special dividends.

Hiscox and Amlin share price total return over 5 years[1]



Alongside the long-term core holdings, we buy stocks with different risk profiles opportunistically. We bought **Gibson Energy**, a Canadian oil service company, when it came to the market in 2011. Gibson had originally been part of Hunting Group, a quoted UK company, where the attractions of the business were evident. The boom in shale gas in the US has been very beneficial for them. Gibson has been a way for the Lowland portfolio to benefit from this remarkable growth in shale gas.

Gibson Energy share price total return since June 2011[1]



Investment Activity

A relatively new area for the Lowland portfolio has been making investments in the technology area. In 2011 we bought a holding in **IP Group**. This company is a portfolio derived from investing in and then mentoring and commercialising ideas coming from some of the UK's leading universities.

IP Group share price total return over 5 years[1]

The holding in **Velocys**, a maker of equipment to turn liquid gas into fuel, which was the single largest contributor to Lowland's performance during the year, was originally an IP company.

Velocys share price over 5 years[1]

These two holdings have added considerable value over the last few years but it was also a technology based company **Carclo** that was the largest detractor for the portfolio over the year. Their ground-breaking electronic mesh technology does not appear to be fulfilling its early potential. The technology sector will always be a mix of winners and losers; but overall our exposure is creating value.

Strategic Report: Fund Manager's Report (continued)

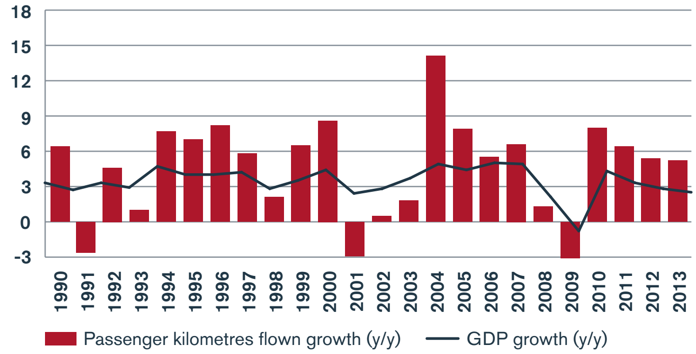
Carclo share price total return over 5 years[1]

During the year we participated in selected IPOs such as **Manx Telecom** and **Epwin** which were listed on the market at modest valuations. The medium-term outlook for these companies is to produce strong profits growth.

Aerospace is a large part of the industrial weighting in the portfolio. The sector has recently experienced some share price weakness on general concerns over activity. It is a long-term growth industry: air miles flown per annum continue to grow substantially faster than GDP growth over time.

The new generation of planes that are more fuel efficient, such as Boeing's 787, are now being produced in greater numbers to meet the demand reflected in a strong order book stretching many years. The work on these planes is high quality and it is more predictable than that traditionally associated with the industrial sector.

Growth of passenger kilometres flown and GDP[2]



The companies involved in this work in the portfolio, such as **Senior**, are strong, competitive and good margin businesses. These strengths are not reflected in the valuation of the stocks. The debt of aerospace companies held has fallen to a low level. We expect special dividends and share buy-backs will become increasingly likely. The sector will remain a core part of the portfolio.

Outlook

The overall dividend outlook suggests equities are cheap relative to other classes of assets and the strong cash generation of many companies in the portfolio should underpin future good dividend growth.

James Henderson
Fund Manager
10 December 2014

Attribution Analysis[2]

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 %
Velocys	47.5	0.72	Croda International	-20.57	-0.34
Scapa Group	49.4	0.53	Balfour Beatty	-30.25	-0.40
Renold	49.3	0.44	International Personal Finance	-18.57	-0.55
Provident Financial	34.6	0.39	Providence Resources	-60.91	-0.55
IP Group	44.3	0.31	Carclo	-66.53	-2.60

1 Source: Datastream
2 Source: Henderson

Strategic Report: Fund Manager's Report (continued)

Twenty Largest Holdings

at 30 September 2014

Rank 2014	Rank 2013	Company	Valuation 2013 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2014 £'000
1	(3)	Royal Dutch Shell	12,273	1,153	–	1,805	**15,231**
2	(1)	Senior	15,278	–	(748)	(47)	**14,483**
3	(11)	Velocys	6,975	–	–	3,488	**10,463**
4	(12)	BP	6,930	3,026	–	20	**9,976**
5	(5)	Hiscox	8,657	1,669	–	(1,439)	**8,887**
6	(4)	Phoenix	8,678	–	–	(198)	**8,480**
7	(18)	Aviva	5,952	–	–	1,900	**7,852**
8	(8)	GlaxoSmithKline	8,566	–	–	(795)	**7,771**
9	*	Rio Tinto	1,512	6,906	–	(839)	**7,579**
10	(17)	Hill & Smith	6,187	–	–	1,198	**7,385**
11	(10)	GKN	7,832	–	–	(522)	**7,310**
12	(13)	Amlin	6,594	–	–	468	**7,062**
13	*	HSBC	4,184	3,256	–	(396)	**7,044**
14	(15)	Provident Financial	6,233	–	(1,051)	1,760	**6,942**
15	(6)	International Personal Finance	8,633	–	–	(1,730)	**6,903**
16	*	Scapa	4,600	–	–	2,237	**6,837**
17	*	Glencore	–	5,981	–	25	**6,006**
18	(7)	FBD	8,602	–	(3,004)	110	**5,708**
19	(19)	Weir	5,825	–	(660)	465	**5,630**
20	*	Elementis	5,273	–	–	348	**5,621**
			138,784	**21,991**	**(5,463)**	**7,858**	**163,170**

At 30 September 2014 these investments totalled £163,170,000 or 39.8% of the portfolio.

*Not in the top 20 largest investments last year

Historical Record

Year to 30 September	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gross revenue £'000	6,634	7,653	8,514	9,726	12,326	8,135	8,410	9,888	10,774	12,457	**13,668**
Per ordinary share (pence):											
Net revenue	17.3	18.2	20.8	27.9	33.0	22.7	22.5	28.8	31.1	36.7	**39.4**
Dividend paid (net)[1]	18.0	19.3	20.8	23.5	26.5	26.5	27.0	28.0	30.5	34.0	**37.0**
Imputed tax	2.0	2.1	2.3	2.6	2.9	2.9	3.0	3.1	3.4	3.8	**4.1**
Total dividend (gross)	20.0	21.4	23.1	26.1	29.4	29.4	30.0	31.1	33.9	37.8	**41.1**
Net assets attributable to ordinary shares (£'m)	126.7[2]	190.7[2]	222.2	275.9	178.4	173.6	203.5	214.3	266.4	347.2	**361.9**
Net asset value per ordinary share (pence)	603.5	785.8[1]	915.7	1,044.3	675.4	657.3	770.3	811.0	1,008.4	1,306.9	**1,345.6**
Share price (pence)	587.5	775.0	895.5	1,091.0	625.0	610.0	699.5	762.5	991.5	1,325.0	**1,355.0**

Indices 2004 =100	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Asset Value Capital Return	100	131	153	174	111	108	127	134	169	219	**224**
Ordinary Share Price Capital Return	100	132	152	186	106	104	119	130	169	226	**231**
Net Dividend	100	107	115	131	147	147	150	156	169	189	**200**
FTSE All-Share Index Capital Return	100	121	134	146	109	116	126	117	132	152	**156**
Retail Prices Index	100	103	106	111	116	115	120	127	130	134	**137**

Source: Thomson Financial, Datastream and Henderson, capital returns only
1 Represents the total amount paid in respect of each financial year
2 Restated for changes in accounting policies

Strategic Report: Portfolio Analysis

at 30 September

		United Kingdom %	Overseas %	Total 30 September 2014 %	FTSE All-Share Index 2014 %	Total 30 September 2013 %
Oil & Gas	Oil & Gas Producers	7.4	1.1	8.5	14.1	6.9
	Oil Equipment Services & Distribution	0.6	–	0.6	0.5	0.5
		8.0	**1.1**	**9.1**	**14.6**	**7.4**
Basic Materials	Chemicals	8.0	1.2	9.2	0.6	10.4
	Forestry & Paper	0.7	–	0.7	0.2	2.0
	Industrial Metals & Mining	–	–	–	–	–
	Mining	4.4	–	4.4	7.0	1.7
		13.1	**1.2**	**14.3**	**7.8**	**14.1**
Industrials	Aerospace & Defence	6.4	–	6.4	2.2	7.3
	Construction & Materials	3.5	–	3.5	0.8	3.5
	Electronic & Electrical Equipment	1.0	–	1.0	0.5	1.2
	General Industrials	2.2	–	2.2	0.7	2.8
	Industrial Engineering	7.5	–	7.5	0.9	7.2
	Industrial Transportation	2.2	–	2.2	0.3	2.6
	Support Services	2.4	–	2.4	4.5	3.3
		25.2	**–**	**25.2**	**9.9**	**27.9**
Consumer Goods	Automobiles & Parts	1.8	–	1.8	0.3	2.0
	Beverages	1.2	–	1.2	4.0	1.3
	Food Producers	2.2	–	2.2	0.8	2.1
	Household Goods & Home Construction	2.0	–	2.0	2.6	1.7
	Leisure Goods	0.1	–	0.1	–	0.1
	Personal Goods	0.1	–	0.1	2.0	0.2
	Tobacco	0.9	–	0.9	4.4	–
		8.3	**–**	**8.3**	**14.1**	**7.4**
Health Care	Health Care Equipment & Services	1.0	–	1.0	0.6	1.2
	Pharmaceuticals & Biotechnology	2.7	–	2.7	8.0	2.9
		3.7	**–**	**3.7**	**8.6**	**4.1**
Consumer Services	Food & Drug Retailers	2.2	–	2.2	1.3	1.7
	General Retailers	1.5	–	1.5	2.1	1.0
	Media	3.2	–	3.2	3.2	3.4
	Travel & Leisure	2.0	0.5	2.5	3.6	2.4
		8.9	**0.5**	**9.4**	**10.2**	**8.5**
Telecommunications	Fixed Line Telecommunications	0.4	0.3	0.7	1.7	0.0
	Mobile Telecommunications	1.1	–	1.1	2.8	1.5
		1.5	**0.3**	**1.8**	**4.5**	**1.5**
Utilities	Electricity	0.7	–	0.7	0.9	0.6
	Gas Water & Multiutilities	2.0	–	2.0	3.0	2.0
		2.7	**–**	**2.7**	**3.9**	**2.6**
Financials	Banks	2.1	–	2.1	11.2	1.8
	Equity Investment Instruments	1.3	–	1.3	3.5	1.6
	Financial Services	5.6	–	5.6	2.2	5.5
	Life Insurance	6.7	–	6.7	4.6	6.1
	Non-life Insurance	4.7	1.4	6.1	1.1	7.3
	Real Estate	2.5	–	2.5	2.4	2.5
		22.9	**1.4**	**24.3**	**25.0**	**24.8**
Technology	Software & Computer Services	0.1	–	0.1	0.6	0.2
	Technology Hardware & Equipment	–	0.9	0.9	0.8	1.3
		0.1	**0.9**	**1.0**	**1.4**	**1.5**
	Equities	94.4	5.4	99.8	–	99.8
	Fixed Income	0.2	–	0.2	–	0.2
	Total at 30 September 2014	**94.6**	**5.4**	**100.0**	**100.0**	**–**
	Total at 30 September 2013	**94.4**	**5.6**	**–**	**–**	**100.0**

Strategic Report: Investment Portfolio

at 30 September 2014

Position	Investments	Sector	Market Value £'000	Percentage of Portfolio
1	Royal Dutch Shell	Oil & Gas Producers	15,231	3.7
2	Senior	Aerospace & Defence	14,483	3.5
3	Velocys[1]	Chemicals	10,463	2.6
4	BP	Oil & Gas Producers	9,976	2.4
5	Hiscox	Non-life Insurance	8,887	2.2
6	Phoenix	Life Insurance	8,480	2.1
7	Aviva	Life Insurance	7,852	1.9
8	GlaxoSmithKline	Pharmaceuticals & Biotechnology	7,771	1.9
9	Rio Tinto	Mining	7,579	1.8
10	Hill & Smith	Industrial Engineering	7,385	1.8
10 largest			**98,107**	**23.9**
11	GKN	Automobiles & Parts	7,310	1.8
12	Amlin	Non-life Insurance	7,062	1.7
13	HSBC	Banks	7,044	1.7
14	Provident Financial	Financial Services	6,942	1.7
15	International Personal Finance	Financial Services	6,903	1.7
16	Scapa[1]	Chemicals	6,837	1.7
17	Glencore	Mining	6,006	1.5
18	FBD[2]	Non-life Insurance	5,708	1.4
19	Weir	Industrial Engineering	5,630	1.4
20	Elementis	Chemicals	5,621	1.3
20 largest			**163,170**	**39.8**
21	Renold	Industrial Engineering	5,561	1.4
22	Canfor Pulp[2]	Forestry & Paper	4,968	1.2
23	Diageo	Beverages	4,962	1.2
24	Castings	Industrial Engineering	4,889	1.2
25	RPC	General Industrials	4,751	1.2
26	Greene King	Travel & Leisure	4,710	1.1
27	Gibson Energy[2]	Oil & Gas Producers	4,697	1.1
28	IP Group	Financial Services	4,604	1.1
29	Carclo	Chemicals	4,486	1.1
30	BAE Systems	Aerospace & Defence	4,479	1.1
30 largest			**211,277**	**51.5**
31	Reed Elsevier	Media	4,446	1.1
32	St Modwen Properties	Real Estate	4,373	1.1
33	Bellway	Household Goods & Home Construction	4,309	1.0
34	Avon Rubber	Aerospace & Defence	4,309	1.0
35	Standard Life	Life Insurance	4,144	1.0
36	Consort Medical	Health Care Equipment & Services	4,123	1.0
37	Croda	Chemicals	4,106	1.0
38	Johnson Service[1]	Support Services	4,067	1.0
39	IMI	Industrial Engineering	4,041	1.0
40	DS Smith	General Industrials	3,995	1.0
40 largest			**253,190**	**61.7**

1 AIM stocks
2 Overseas quoted stocks (Canada, Germany, Greece, Ireland and USA)

Strategic Report: Investment Portfolio (continued)

at 30 September 2014

Position	Investments	Sector	Market Value £'000	Percentage of Portfolio
41	Marstons	Travel & Leisure	3,867	0.9
42	Clarkson	Industrial Transportation	3,862	0.9
43	Infineon Technologies[2]	Technology Hardware & Equipment	3,834	0.9
44	Daily Mail & General	Media	3,640	0.9
45	McColl's Retail	Food & Drug Retailers	3,625	0.9
46	Interserve	Support Services	3,597	0.9
47	Balfour Beatty	Construction & Materials	3,597	0.9
48	British American Tobacco	Tobacco	3,482	0.9
49	Legal & General	Life Insurance	3,433	0.9
50	Pearson	Media	3,410	0.8
50 largest			**289,537**	**70.6**
51	Rolls-Royce	Aerospace & Defence	3,376	0.8
52	Greencore	Food Producers	3,346	0.8
53	Novae	Non-life Insurance	3,341	0.8
54	Morgan Advanced Materials	Electronic & Electrical Equipment	3,265	0.8
55	Findel	General Retailers	3,261	0.8
56	Conviviality Retail[1]	Food & Drug Retailers	3,243	0.8
57	Chesnara	Life Insurance	3,093	0.8
58	Mondi	Forestry & Paper	3,033	0.7
59	Low & Bonar	Construction & Materials	3,013	0.7
60	Inmarsat	Mobile Telecommunications	2,804	0.7
60 largest			**321,312**	**78.3**
61	Mucklow	Real Estate	2,779	0.7
62	Marshalls	Construction & Materials	2,770	0.7
63	Segro	Real Estate	2,723	0.7
64	Scottish & Southern Energy	Electricity	2,707	0.7
65	Herald Investment	Equity Investment Instruments	2,680	0.7
66	Park[1]	Financial Services	2,623	0.6
67	Unilever	Food Producers	2,585	0.6
68	BHP Billiton	Mining	2,573	0.6
69	Epwin[1]	Construction & Materials	2,570	0.6
70	Circle Oil[1]	Oil & Gas Producers	2,448	0.6
70 largest			**347,770**	**84.8**
71	Cape	Oil Equipment Services & Distribution	2,410	0.6
72	Churchill China[1]	Household Goods & Home Construction	2,222	0.6
73	Stobart	Industrial Transportation	2,220	0.5
74	National Grid	Gas, Water & Multiutilities	2,220	0.5
75	Irish Continental[2]	Travel & Leisure	2,151	0.5
76	Anglo American	Mining	2,076	0.5
77	Providence Resources[1]	Oil & Gas Producers	2,074	0.5
78	Wincanton	Industrial Transportation	2,044	0.5
79	H&T Group[1]	Financial Services	2,043	0.5
80	Pennon	Gas, Water & Multiutilities	1,977	0.5
80 largest			**369,207**	**90.0**

1 AIM stocks
2 Overseas quoted stocks (Canada, Germany, Greece, Ireland and USA)

Strategic Report: Investment Portfolio (continued)

at 30 September 2014

Position	Investments	Sector	Market Value £'000	Percentage of Portfolio
81	Henderson Opportunities Trust	Equity Investment Instruments	1,970	0.5
82	AstraZeneca	Pharmaceuticals & Biotechnology	1,954	0.5
83	Modern Water[1]	Gas Water & Multiutilities	1,909	0.5
84	Tesco	Food & Drug Retailers	1,862	0.5
85	Centrica	Gas Water & Multiutilities	1,847	0.5
86	Dairy Crest	Food Producers	1,823	0.4
87	Manx Telecom[1]	Fixed Line Telecommunications	1,815	0.4
88	Shanks	Support Services	1,800	0.4
89	Headlam	Household Goods & Home Construction	1,742	0.4
90	Shoe Zone[1]	General Retailers	1,723	0.4
90 largest			**387,652**	**94.5**
91	Standard Chartered	Banks	1,711	0.4
92	Vodafone	Mobile Telecommunications	1,672	0.4
93	Carr's Milling Industries	Food Producers	1,647	0.4
94	Somero Enterprises[1]	Industrial Engineering	1,575	0.4
95	UTV Media	Media	1,411	0.4
96	CRH	Construction & Materials	1,410	0.3
97	Revolymer[1]	Chemicals	1,364	0.3
98	Horizon Discovery[1]	Pharmaceuticals & Biotechnology	1,229	0.3
99	Verizon Communications[2]	Fixed Line Telecommunications	1,221	0.3
100	Goldenport	Industrial Transportation	1,142	0.3
100 largest			**402,034**	**98.0**
101	Topps Tiles	General Retailers	1,043	0.3
102	TT Electronics	Electronic & Electrical Equipment	834	0.2
103	Wadworth - Ordinary shares[3]	Fixed Interest	720	0.2
104	Chamberlin & Hill[1]	Industrial Engineering	652	0.2
105	Eleco[1]	Construction & Materials	646	0.2
106	Xcite Energy[1]	Oil & Gas Producers	580	0.1
107	Parity[1]	Software & Computer Services	536	0.1
108	Airea[1]	Personal Goods	474	0.1
109	Hornby	Leisure Goods	473	0.1
110	Infrastructure India[1]	Equity Investment Instruments	457	0.1
110 largest			**408,449**	**99.6**
111	Industrial Gas[1]	Oil & Gas Producers	343	0.1
112	Augean[1]	Support Services	326	0.1
113	Severfield-Rowen	Industrial Engineering	302	0.1
114	Clarke T	Construction & Materials	280	0.1
115	Wadworth - Preference shares[3]	Fixed Interest	126	0.0
116	Pro Gbl Insurance Solution[1]	Non-life Insurance	98	0.0
117	IPSA[1]	Electricity	63	0.0
118	Quarto	Media	41	0.0
119	Endeavour Mining[2]	Mining	25	0.0
Total Investments			**410,053**	**100.0**

1 AIM stocks
2 Overseas quoted stocks (Canada, Germany, Greece, Ireland and USA)
3 Unquoted investments

Strategic Report: Key Information

Directors

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

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

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

Peter is Vice-Chairman of Archant Limited. He is also a Director of Waverton Investment Management Limited, Waverton Investment Funds PLC and of Waverton Global Investment Funds PLC. He was formerly a Director of WH Smith Group plc and chief executive of Rothschild Asset Management.

Rupert Barclay ACA
Position: Chairman of the Audit Committee

Date of appointment: 15 February 2000 (Chairman of Audit Committee 1 June 2008)

Rupert is a partner of Cairneagle Associates LLP. He is Chairman of Sanditon Investment Trust PLC. 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.

Duncan Budge
Position: Director

Date of appointment: 14 July 2014

Duncan is Chairman of The Dunedin Enterprise Investment Trust PLC, Artemis Alpha Trust plc and Spencer House Limited. He is a non-executive Director of The World Trust Fund. He was formerly a Director and Chief Operating Officer at RIT Capital Partners plc, and a Director of J. Rothschild Capital Management Limited. Prior to this he spent six years at Lazard Brothers & Co Limited.

Kevin Carter
Position: Director

Date of appointment: 1 October 2009

Kevin is Chairman of Murray International Trust Plc and JP Morgan American Investment Trust plc and is also 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.

Robert Robertson
Position: Director

Date of appointment: 1 May 2011

Robert 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.

Karl Sternberg
Position: Director

Date of appointment: 1 January 2009

Karl is a Director of JPMorgan Income & Growth Investment Trust PLC, Monks Investment Trust PLC, Friends Life Group PLC and Railpen. He is also a Fellow of St Catherine's College, Oxford. He was formerly Chief Investment Officer for Deutsche Asset Management (Europe and Asia Pacific) and Chief Executive of Oxford Investment Partners Limited.

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

Strategic Report: Key Information (continued)

Service Providers

Alternative Investment Fund Manager
Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

Corporate Secretary
Henderson Secretarial Services Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818

Depositary and Custodian
HSBC Bank plc
8 Canada Square
London E14 5HQ

Independent Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Stockbrokers
JP Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

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

Awards

investors CHRONICLE FT
Investment and Wealth Management Awards 2014 Winner
Best Income Fund
Lowland Investment Company

INVESTMENT COMPANY OF THE YEAR AWARDS 2014 WINNER OUTSTANDING INDUSTRY CONTRIBUTION
(James Henderson)

Financial Calendar

Annual results	announced December 2014
Ex dividend date	8 January 2015
Dividend record date	9 January 2015
Annual General Meeting[1]	20 January 2015
Final dividend payable on	30 January 2015
Half year results	announced May 2015

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

Information Sources

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

HGi
HGi is a content platform provided by Henderson that offers 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/rb

Follow us on Twitter
To get the latest updates follow us on Twitter @HGiTrusts

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 08457 225525, email **henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**. Henderson ISA holders can contact the Henderson ISA department at PO Box 10665, Chelmsford CM99 2BF, telephone 0800 856 5656.

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

Strategic Report: Corporate Information

Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 ("the Act") is registered in England and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158"), is subject to the UK Listing Authority's Listing Rules and is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

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

Principal Risks and Uncertainties

The Board, with the assistance of the Manager, has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as possible.

The Board's policy on risk management has not changed from last year. These key risks fall broadly under the following categories:

Investment and Strategy

An inappropriate investment strategy or poor execution, for example, in terms of asset allocation or level of gearing, may result in underperformance against the Company's benchmark index and the companies in its peer group, and also in the Company's shares trading on a wider discount. The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. Henderson operates in accordance with investment limits and restrictions and policy determined by the Board, which includes limits on the extent to which borrowings may be employed. The Board reviews the limits and restrictions on a regular basis and Henderson confirms adherence to them every month. Henderson provides the Board with management information, including performance data and reports and shareholder analyses. The Directors monitor the implementation and results of the investment process with the Fund 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 on page 45.

Accounting, legal and regulatory risk

In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010. A breach of Section 1158 could result in the Company losing investment trust status and, as a consequence, realised gains in the Company's portfolio would be subject to Corporation Tax. Compliance with the requirements of Section 1158 are monitored by Henderson and the results are reported at each Board meeting. The Company must comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure and Transparency Rules ("UKLA 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, Henderson's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting or monitoring of the Company's financial position. Henderson contracts some of the operational functions (principally those relating to trade processing, investment administration and accounting), to BNP Paribas Securities Services.

Details of how the Board monitors the services provided by Henderson and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section on page 26.

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 45 to 49.

Borrowing

The Company has two new loan facilities in place which provide increased borrowing on improved terms and allows it to borrow as and when appropriate. Up to £85 million is available under these facilities. The maximum amount drawn down in the period under review was £49.98 million (2013: £49.91 million), with borrowing costs for the year totalling £845,000 (2013: £875,000). £49.91 million (2013: £49.74 million) of the facilities was in use at the year end. Actual gearing at 30 September 2014 was 13.3% (2013: 13.9%) of net asset value.

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 Henderson, the Directors take into account the following key performance indicators:

Performance measured against the benchmark

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

Discount/premium to net asset value ("NAV")

At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium

Strategic Report: Corporate Information (continued)

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

Performance against the Company's peer group

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

Ongoing 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.

Future Developments

While the future performance of the Company is mainly dependent on the performance of international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and strategy explained on page 4. The Chairman's Statement and Fund Manager's Report provide commentary on the outlook for the Company.

Corporate Responsibility

Responsible investment

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

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

Voting policy and the UK stewardship code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to Henderson. The Board receives regular reports on the voting undertaken by Henderson on behalf of the Company. The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on Board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefore are fed back to the investee company prior to voting.

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

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

Employees, social, community, human rights and environmental matters

The Company 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**. In 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 13, all of the Company's Directors are male. Their appointment to the Board was based on their skills and experience. The Company has no employees and therefore there is nothing further to report in respect of gender representation within the Company.

By order of the Board

Peter Troughton
Chairman
10 December 2014

Strategic Report: Glossary

Alternative Investment Fund Managers Directive ("AIFMD")

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

Association of Investment Companies ("AIC")

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

Benchmark

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

Custodian

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

Depositary

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

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference.

Dividend Dates

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

Dividend Yield

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

Gearing

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) the Company has used to invest in the market. This figure indicates the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. This is calculated by taking the difference between investments and equity shareholders' funds divided by equity shareholders' funds and multiplied by 100.

Investment Trusts

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

Liquidity

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

Market Capitalisation ("Market Cap")

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

Net Asset Value ("NAV") per Ordinary Share

The value of the Company's assets (i.e. investments and cash held) less any liabilities (i.e. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV is published daily.

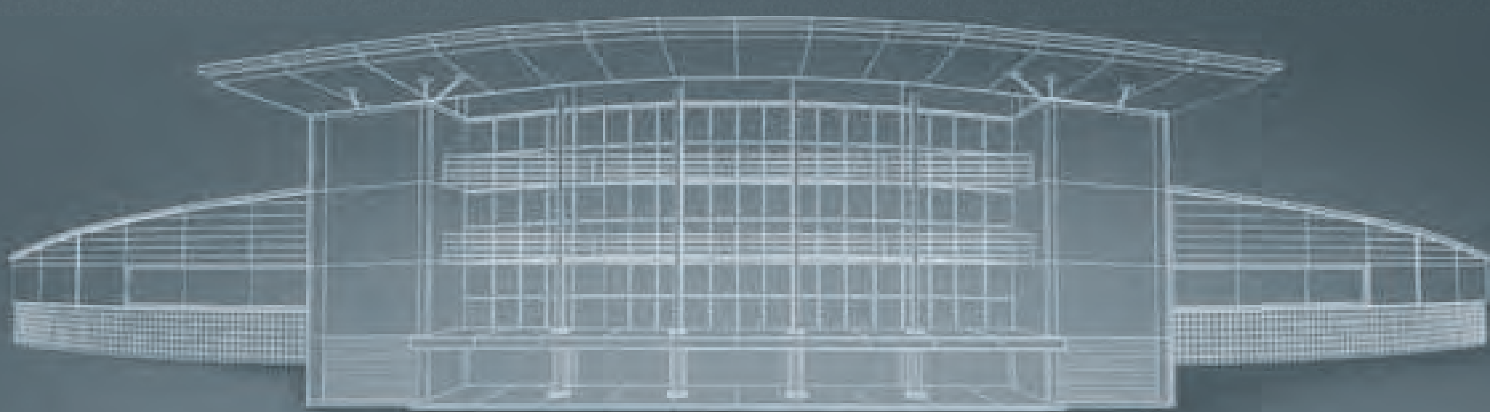
Premium/Discount

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 per share.

Total Return Performance

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

Corporate Report



Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 October 2013 to 30 September 2014. Lowland Investment Company plc ("the Company") (registered and domiciled in England & Wales with company registration number 670489) was active throughout the year under review and was not dormant.

Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 22 and 23 provides information on the remuneration and interests of the Directors.

Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the system it has in place for reporting and considering situational conflicts continues to operate effectively.

Related Party Transactions

The Company's current related parties are its Directors and Henderson. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of Directors' remuneration for which there were no outstanding amounts payable at the year end. In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of marketing services, there have been no material transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in note 23 on page 51.

Share Capital

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

At 30 September 2013, there were 26,567,427 shares in issue. During the year, 325,000 new ordinary shares were issued. The number of ordinary shares in issue on 30 September 2014 was 26,892,427, with 26,892,427 voting rights. As at 8 December 2014 the total voting rights were unchanged.

The Directors seek annual authority from the shareholders to allot new shares, to disapply pre-emption rights and to buy-back shares for cancellation or to be held in Treasury. At the AGM held in January 2014 the Directors were granted authority to buy back 4,031,174 shares. At 30 September 2014 no shares had been bought back from this authority. The Directors have remaining authority to purchase 4,031,174 shares. This authority will expire at the conclusion of the 2015 AGM. The Directors intend to renew this authority subject to shareholder approval at the AGM in 2015.

Fund Manager's Interests

James Henderson, the Fund Manager, has a beneficial interest in 92,490 and a non-beneficial interest in 581,693 shares (2013: 410,183 beneficial interest only in the ordinary shares of the Company).

Holdings in the Company's Shares

There were no declarations of interests in the voting rights of the Company as at 30 September 2014 in accordance with the disclosure and transparency rules.

No changes have been notified in the period 1 October 2014 to 8 December 2014.

At 30 September 2014, 10.1% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products, and 2.2% were held on behalf of participants in Henderson products. The participants in these schemes are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company.

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, the Company has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", published by the Financial Reporting Council in October 2009.

Annual General Meeting ("AGM")

The AGM will be held on Tuesday 20 January 2015 at 12.30 p.m. at the Company's registered office. The Notice of Meeting and details of the resolutions to be put at the AGM are contained in the separate letter being sent to shareholders with this report.

Report of the Directors (continued)

Corporate Governance

The Corporate Governance Statement on pages 24 to 27 forms part of the Report of the Directors.

Directors' Statement as to Disclosure of Information to Auditors

Each of the Directors who were members of the Board at the date of approval of this Report confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's auditors are unaware and he 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 2014 (2013: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Listing Rule 9.8.4

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

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
10 December 2014

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report which must be fair, balanced and understandable including the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with UK Accounting Standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on 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, 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 under DTR 4.1.12

Each of the Directors, who are listed on page 13, confirms that, to the best of his knowledge:

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

Signed for and on behalf of the Board

Peter Troughton
Chairman
10 December 2014

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

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

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

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 ("the Regulations"). The report also meets the relevant requirements of the Companies Act 2006 ("the Act") and the Listing Rules of the UKLA 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 20 January 2015. The Company's remuneration policy was approved by shareholders at the AGM on 22 January 2014 in accordance with section 439A of the Act. No changes to policy are currently proposed and it will expire at the AGM in January 2017.

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

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

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

Remuneration Policy

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

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

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

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

This remuneration policy has been in place since 1 October 2012 and 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 2013 and also on 1 October 2014, being the start of the Company's financial year. These increases were made after consideration of the fees paid to other investment trusts in the sector of an equivalent size and also in relation to the fees paid to other Henderson managed investment trusts. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new Directors.

Shareholder authority was granted at the 2014 Annual General Meeting to increase the total annual aggregate limit of fees which can be paid to Directors as specified in the Articles of Association from £150,000 to £250,000.

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' interests in shares (audited)

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

	Ordinary shares of 25p	
	30 September 2014	1 October 2013
Beneficial:		
Peter Troughton[1]	17,596	15,464
Rupert Barclay	11,000	11,000
Kevin Carter[2]	2,500	2,500
Robert Robertson	34,225	34,225
Karl Sternberg	4,100	4,100
Duncan Budge[3]	–	–
Non Beneficial:		
Robert Robertson	12,000	12,000

1 Peter Troughton has purchased a further 81 shares in the Company since the year end
2 Kevin Carter has purchased a further 2,500 shares since the year end
3 Duncan Budge was appointed as a Director on 14 July 2014

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

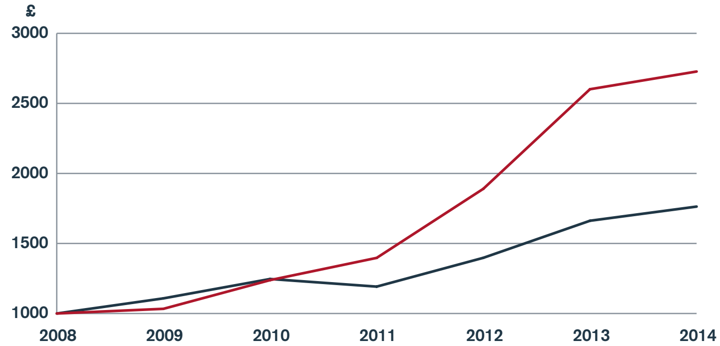
Directors' Remuneration Report (continued)

Performance

The graph opposite compares the mid-market price of the Company's ordinary shares over the six year period ended 30 September 2014 with the return from the FTSE All-Share Index Total Return over the same period.

Lowland Investment Company plc share price total return, assuming the investment of £1,000 on 30 September 2008 and the reinvestment of all dividends (excluding dealing expenses)

FTSE All-Share Index Total Return, assuming the notional investment of £1,000 on 30 September 2008 and the reinvestment of all income (excluding dealing expenses)



Source: Datastream

Directors' Fees and Expenses (audited)

The fees and expenses paid to the Directors who served during the years ended 30 September 2014 and 30 September 2013 were as follows:

	Year ended 30 September 2014 Total salary and fees £	Year ended 30 September 2013 Total salary and fees £	Year ended 30 September 2014 Taxable benefits £	Year ended 30 September 2013 Taxable benefits £	Year ended 30 September 2014 Total £	Year ended 30 September 2013 Total £
Peter Troughton[1]	34,000	32,000	–	20	34,000	32,020
Rupert Barclay[2]	24,000	23,000	–	–	24,000	23,000
Kevin Carter	21,000	20,000	–	–	21,000	20,000
Robert Robertson	21,000	20,000	1,061	–	22,061	20,000
Karl Sternberg	21,000	20,000	–	519	21,000	20,519
Duncan Budge[3]	4,558	–	–	–	4,558	–
Total	**125,558**	**115,000**	**1,061**	**539**	**126,619**	**115,539**

Notes:
The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made.
1 Chairman and highest paid Director
2 Chairman of the Audit Committee
3 Appointed on 14 July 2014

The fees paid to the Directors during the year were: Chairman £34,000, Audit Committee Chairman £24,000 and Directors £21,000. With effect from 1 October 2014 the fees were increased to: Chairman £35,000, Audit Committee Chairman £25,000, Director £22,000. No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties specified by any of them.

Relative Importance of Spend on Pay

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

	2014 £	2013 £	Change £
Total remuneration paid to Directors	126,619	115,539	+11,080
Ordinary dividend paid during the year	9,528,000	8,453,000	+1,075,000

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

At the 2014 AGM 7,500,314 votes (97.0%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 175,675 (2.3%) were against, 54,892 (0.7%) were discretionary and 76,514 were withheld; the percentage of votes excludes votes withheld. In relation to the approval of the remuneration policy 7,499,541 votes (97.1%) were received voting for the resolution, 166,985 (2.2%) were against, 53,086 (0.7%) were discretionary and 87,873 were withheld.

For and on behalf of the Board

Peter Troughton
Chairman
10 December 2014

Corporate Governance Statement

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

Applicable Corporate Governance Codes

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

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

Statement of Compliance

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

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

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

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

Directors

Directors' terms of appointment and retirement

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

The Directors' biographies, set out on page 13, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors. The Board believes that retaining Directors with sufficient experience of both the Company and the markets is of great benefit to shareholders.

The Board may appoint Directors to the Board without shareholder approval. Any Director so appointed must stand for appointment by the shareholders at the next AGM in accordance with the Articles of Association. In accordance with this provision, Duncan Budge who was appointed on 14 July 2014 will stand for appointment by shareholders at the 2015 AGM.

The AIC Code requires all Directors to retire at intervals of not more than three years; the Company's Articles of Association also provide that one-third (but not more than one-third) of Directors must seek re-appointment at each AGM. Kevin Carter, Karl Sternberg and Robert Robertson have all been reappointed in the last two years, therefore the person deemed to be retiring by rotation is Rupert Barclay.

The AIC Code also states that any Director who has served for more than nine years is subject to annual re-appointment. The Directors who have served more than nine years and offer themselves for re-appointment at the AGM are Peter Troughton and Rupert Barclay.

The contribution and performance of each of the Directors seeking re-appointment was reviewed by the Nominations Committee at its meeting in September 2014, which recommended to the Board the continuing appointment of each of those Directors.

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

Directors' independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in September 2014, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Henderson. The Board believes that length of service does not diminish the contribution from a Director as experience and knowledge of the Company is a positive factor and should not impact a Director's independence. Further, the Board is conscious of the need to maintain continuity, particularly given the cyclical nature of the Company's markets. It believes that retaining some Directors with experience of past cycles, of both the Company and the markets, is of great benefit to shareholders. This view is supported by the AIC Code. The Board has determined that all Directors are independent in character and judgement and that their individual skills, broad business experience and high degree of knowledge and understanding of the Company are of great benefit to shareholders.

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 contract of service with the Company and there are no agreements between the Company and its Directors concerning compensation for loss of office.

Corporate Governance Statement (continued)

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

Directors' insurance and indemnification
Directors' and officers' liability insurance cover was in place in respect of the Directors throughout the financial year and remains in place at the date of this report. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour by the Court.

The Board

Board composition
The Board currently consists of six non-executive Directors and the biographies of those holding office at the date of this report are included on page 13. Those details demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors. All Directors with the exception of Duncan Budge served throughout the year and all are resident in the UK.

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

The Board is responsible for the approval of annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects. The Directors confirm that they are satisfied that the Annual Report for the year ended 30 September 2014, 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.

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

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

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

A separate remuneration committee has not been established as the Board consists of only non-executive Directors. The whole Board is responsible for setting Directors' fees in line with the remuneration policy set out on page 22, which is subject to periodic shareholder approval.

Audit Committee

The Report of the Audit Committee, which forms part of the Corporate Governance Statement, can be found on pages 28 and 29.

Nominations Committee

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

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

Given the small size of the Board, it is not considered appropriate for the Company to have set targets in relation to gender diversity; candidates will be assessed in relation to the relevant needs of the Company at the time of appointment. The Nominations Committee will recommend when the recruitment of additional non-executive Directors is required. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up. The Company may use external agencies as and when the requirement to recruit an additional Board member becomes necessary. All appointments to the Board are based on merit and the skills needed to fill any gaps. An agency was used in relation to the appointment of Duncan Budge.

The Committee also reviews and recommends to the Board the Directors seeking re-appointment. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee

Corporate Governance Statement (continued)

also takes into account the mix of skills and experience of the current Board members. In accordance with the UK Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his contribution.

The Committee met in May 2014 to consider the appointment of a new Director and also in September 2014 to carry out its annual review of the Board, its composition and size and its Committees. The results of the performance evaluation are detailed later on this page.

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

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

The Committee met in September 2014 to carry out its annual review of Henderson, the results of which are detailed on page 27.

Board attendance
The table below sets out the number of scheduled Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors with the exception of Duncan Budge attended the AGM in January 2014.

	Board	AC	MEC	NC
Number of meetings	**6**	**2**	**1**	**2**
Peter Troughton	6	n/a	1	2
Rupert Barclay	6	2	1	2
Kevin Carter	6	2	1	2
Robert Robertson	6	2	1	2
Karl Sternberg	5	2	1	2
Duncan Budge[1]	2	n/a	1	1

AC: Audit Committee
MEC: Management Engagement Committee
NC: Nominations Committee
1 Duncan Budge was appointed to the Board on 14 July 2014.

The Directors and Committees of the Board also met during the year to undertake business such as the approval of the Company's results and dividends, and new agreements required by the Alternative Investment Fund Managers Directive.

Performance evaluation
The performance of the Company is considered in detail at each Board meeting. In the year under review the Board has conducted a review of its own performance, together with that of its Committees, the Chairman and each individual Director. This was conducted by the Chairman having a private discussion with each Director and the Audit Committee Chairman speaking to each Director about the performance of the Chairman. It was concluded that each were satisfactory and the Board has a good balance of skills and experience. In particular, it is considered that each of the Directors makes a significant contribution to the affairs of the Company and the Chairman continues to display effective leadership and that Directors seeking re-appointment at the Company's AGM merit re-appointment by shareholders.

Internal controls
The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by the Board. The Board has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board, assisted by Henderson, has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 September 2014. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant. All business risks faced by the Company are recorded in a risk map which is reviewed periodically.

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

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

The ongoing process for identifying, evaluating and managing significant risks faced by the Company has been in place throughout the year under review and up to the date of this report. Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. As all of the Company's management functions are delegated to third parties, and the Board monitors the controls in place through Henderson's internal audit department, the Board feels that there is currently no need for the Company to have its own internal audit function.

Accountability and relationship with Henderson
The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 21, and the statement of going concern on page 19.

Corporate Governance Statement (continued)

The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 17), 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 Henderson and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the Chairmen of the investment trust companies managed by Henderson which provide a forum to discuss industry matters which would then be reported to the Board.

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

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

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

Continued appointment of Henderson

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with Henderson are contained on page 4.

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

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

Share capital

Please see the Report of the Directors on page 19.

Relations with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share to a regulatory information service and a monthly fact sheet which is available on the website.

The Board considers that shareholders should be encouraged to attend and participate in the AGM. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other Directors at the meeting and the Fund Manager will make a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and Notice of AGM be issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also included on the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Corporate Secretary at the registered office address given on page 14 of this report.

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

By order of the Board

For and on behalf of
Henderson Secretarial Services Limited
Corporate Secretary
10 December 2014

Report of the Audit Committee

Composition

The Audit Committee comprises all of the Directors except the Chairman of the Board, and is chaired by Rupert Barclay who is a chartered accountant. The other Audit Committee members have a combination of financial, investment and other experience gained throughout their careers and the Board is satisfied that at least one of the Committee's members has recent and relevant financial experience. All members of the Audit Committee are independent. The biographies of the Audit Committee members are shown on page 13.

Meetings

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

Role and Responsibilities

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

- a review of the half year results and the Annual Report, including the disclosures made therein in relation to internal controls and risk management, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the appropriate level of dividend to be paid by the Company;
- consideration of the internal controls in place at Henderson and BNP Paribas Securities Services ("BNP") as administrator and Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Henderson's internal audit and risk departments periodically;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy;
- consideration of the nature and scope of the external audit and the findings therefrom;
- annual consideration of whether there is a need for an internal audit function, in order to make a recommendation to the Board as described on page 26;
- consideration of the appointment of the auditors and their performance and remuneration, including the consequences of the appointment of PricewaterhouseCoopers LLP ("PwC") as auditor to Henderson (see page 29);
- consideration of the auditors' independence and objectivity and the provision of any non-audit services (as explained further on page 29);
- consideration of the whistle blowing policy that Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action; and
- consideration of the management fee and performance fee calculations.

Audit for the Year Ended 30 September 2014

In relation to the Annual Report for the year ended 30 September 2014 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 party pricing vendors. Investments that are unquoted or not actively traded are valued using a variety of techniques to determine their fair value; all such valuations are reviewed by both Henderson's fair value pricing committee and by the Directors. Ownership is verified by reconciliation to the custodian's records.
Recognition of income	Income received is accounted for in line with the Company's accounting policy (as set out on page 39) 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.
Performance fee	The calculation of the performance fee payable to Henderson is reviewed by the Audit Committee before being approved by the Board.
Maintaining internal controls	The Committee receives regular reports on internal controls from Henderson and its delegates and has access to the relevant personnel of Henderson who have a responsibility for risk management and internal audit.

Report of the Audit Committee (continued)

Policy on Non-Audit Services

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

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

The Board has determined that the auditors will never be considered for the provision of services related to accounting and preparation of the financial statements, internal audit and custody.

Auditors' Appointment

The Audit Committee has considered the implications of PwC being appointed as auditors of Henderson. The Audit Committee is satisfied that the auditors are independent of the Company as the audit teams for Henderson and the Company are independent of each other and strong controls are in place to ensure independence.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PwC.

PwC or their predecessor have been the Company's auditors since inception. 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 do so on a regular basis. However, performance is regularly reviewed by the Audit Committee. The Company will be subject to the EU's audit tendering and rotation requirements from 2016, which is expected to mean that the Company needs to tender the external audit at least every ten years and change auditors at least every twenty years.

On the basis of the auditors' performance the Audit Committee recommended their continuing appointment to the Board with no tender necessary. The auditors have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of PwC as auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Fees paid or payable to the auditors are detailed in note 6 on page 42.

For and on behalf of the Board

Rupert Barclay
Audit Committee Chairman
10 December 2014

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 30 September 2014 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Lowland Investment Company plc's financial statements comprise:

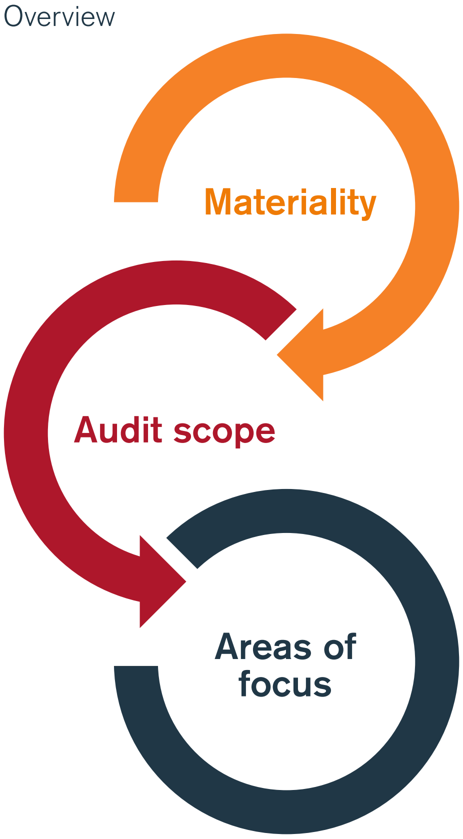
- the Balance Sheet as at 30 September 2014;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview



- Overall materiality: £3.6million which represents 1% of net assets.

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

- Valuation and existence of investments.
- Income from investments.
- Performance fee.

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

The scope of our audit and our areas of focus

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

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation and existence of investments Refer to page 28 (Report of the Audit Committee), page 39 (Accounting policies) and page 39 (Notes to the Financial Statements). The investment portfolio at the year-end principally comprised listed equity investments valued at £410 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from HSBC Bank plc.
Income from Investments Refer to page 28 (Report of the Audit Committee Report), page 39 (Accounting policies) and page 39 (Notes to the Financial Statements). We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"). This is because incomplete or inaccurate revenue could have a material impact on the Company's net asset value.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy as set out in note 1d on page 39 of the financial statements. We understood and assessed the design and implementation of key controls surrounding income recognition. In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of special dividends to independent third party sources.
Performance fees Refer to page 28 (Report of the Audit Committee), page 39 (Accounting policies) and page 39 (Notes to the Financial Statements). A performance fee is payable for the year of £1 million. We focused on this area because the performance fee is calculated using a complex methodology as set out in the Investment Management Agreement between the Company and the Manager.	We tested the performance fee of £1 million and agreed the inputs to the calculation, including the benchmark data, to independent third party sources, where applicable. We tested the allocation of the performance fee between the revenue and capital return columns of the Income Statement with reference to the accounting policy as set out on page 39.

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

How we tailored the audit scope

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

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

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of 9 months between the period covered by the controls report and the year-end of the Company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the Administrator was not required because additional substantive testing was performed.

Materiality

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

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

Overall materiality	£3.6 million (2013: £3.5 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £180,000 (2013: £174,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 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 Company's 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.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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.

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

ISAs (UK & Ireland) reporting

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

▪ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
▪ the statement given by the Directors on page 21, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
▪ the section of the Annual Report on pages 28 and 29, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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

Corporate governance statement

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

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

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 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

Sally Cosgrove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 December 2014

Income Statement

Notes		Year ended 30 September 2014 Revenue return £'000	Year ended 30 September 2014 Capital return £'000	Year ended 30 September 2014 Total £'000	Year ended 30 September 2013 Revenue return £'000	Year ended 30 September 2013 Capital return £'000	Year ended 30 September 2013 Total £'000
2	Gains on investments held at fair value through profit or loss	–	10,172	10,172	–	78,491	78,491
3	Income from investments	13,495	–	13,495	12,342	–	12,342
4	Other interest receivable and similar income	173	–	173	115	–	115
	Gross revenue and capital gains	**13,668**	**10,172**	**23,840**	**12,457**	**78,491**	**90,948**
5	Management fee	(1,668)	–	(1,668)	(1,362)	–	(1,362)
5	Performance fee	–	(1,073)	(1,073)	–	(938)	(938)
6	Other administrative expenses	(513)	–	(513)	(472)	–	(472)
	Net return on ordinary activities before finance charges and taxation	**11,487**	**9,099**	**20,586**	**10,623**	**77,553**	**88,176**
7	Finance charges	(845)	–	(845)	(875)	–	(875)
	Net return on ordinary activities before taxation	**10,642**	**9,099**	**19,741**	**9,748**	**77,553**	**87,301**
8	Taxation on net return on ordinary activities	(49)	–	(49)	(38)	–	(38)
	Net return on ordinary activities after taxation	**10,593**	**9,099**	**19,692**	**9,710**	**77,553**	**87,263**
9	Return per ordinary share – basic and diluted	39.4p	33.9p	73.3p	36.7p	293.4p	330.1p

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 39 to 51 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

Notes	Year ended 30 September 2014	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 2013	6,642	55,514	1,007	275,464	8,575	347,202
	Net return on ordinary activities after taxation	–	–	–	9,099	10,593	19,692
	Share issue proceeds	81	4,409	–	–	–	4,490
10	Third interim dividend (8.5p) for the year ended 30 September 2013 paid 31 October 2013	–	–	–	–	(2,268)	(2,268)
10	Final dividend (9.0p) for the year ended 30 September 2013 paid 31 January 2014	–	–	–	–	(2,420)	(2,420)
10	First Interim dividend (9.0p) for the year ended 30 September 2014 paid 30 April 2014	–	–	–	–	(2,420)	(2,420)
10	Second Interim dividend (9.0p) for the year ended 30 September 2014 paid 31 July 2014	–	–	–	–	(2,420)	(2,420)
	At 30 September 2014	**6,723**	**59,923**	**1,007**	**284,563**	**9,640**	**361,856**

Notes	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**

The notes on pages 39 to 51 form part of these financial statements.

Balance Sheet

Notes		Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	334,223	335,913
	Quoted at market value on AIM	52,380	36,523
	Listed at market value overseas	22,604	22,140
	Unquoted	846	846
		410,053	**395,422**
	Current assets		
12	Debtors	1,839	1,725
22	Cash at bank	1,756	1,310
		3,595	**3,035**
13	**Creditors: amounts falling due within one year**	(51,792)	(51,255)
	Net current liabilities	(48,197)	(48,220)
	Net assets	**361,856**	**347,202**
	Capital and reserves		
15	Called up share capital	6,723	6,642
16	Share premium account	59,923	55,514
17	Capital redemption reserve	1,007	1,007
17	Other capital reserves	284,563	275,464
18	Revenue reserve	9,640	8,575
	Total shareholders' funds	**361,856**	**347,202**
19	**Net asset value per ordinary share – basic and diluted**	**1,345.6p**	**1,306.9p**

The financial statements on pages 35 to 51 were approved and authorised for issue by the Board of Directors on 10 December 2014 and signed on their behalf by:

Peter Troughton
Chairman

The notes on pages 39 to 51 form part of these financial statements.

Cash Flow Statement

Notes		Year ended 30 September 2014 £'000	Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000	Year ended 30 September 2013 £'000
21	**Net cash inflow from operating activities**		**10,368**		**10,199**
	Servicing of finance				
	Interest paid	(821)		(941)	
	Net cash outflow from servicing of finance		**(821)**		**(941)**
	Taxation				
	Tax recovered	23		26	
	Net tax recovered		**23**		**26**
	Financial investment				
	Purchases of investments	(50,392)		(53,646)	
	Sales of investments	46,154		38,463	
	Net cash outflow from financial investment		**(4,238)**		**(15,183)**
	Equity dividends paid		(9,528)		(8,453)
	Net cash outflow before financing activities		**(4,196)**		**(14,352)**
	Financing				
	Proceeds from issue of ordinary shares	4,490		1,991	
	Net loans drawn down	163		11,485	
			4,653		**13,476**
	Increase/(decrease) in cash		**457**		**(876)**

Reconciliation of net cash flow to movement in net debt

Notes		Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000
22	Increase/(decrease) in cash as above	457	(876)
	Net cash inflow from movement in loans	(163)	(11,485)
	Exchange movements	(11)	9
	Movement in net debt	**283**	**(12,352)**
22	Net debt at 1 October	(48,434)	(36,082)
22	**Net debt at 30 September**	**(48,151)**	**(48,434)**

The notes on pages 39 to 51 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 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.

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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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 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 recognised in the Reconciliation of Movements in Shareholders' Funds. Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and recognised in the share premium account. Share issue and repurchase transactions are accounted for on a trade date basis.

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.

Notes to the Financial Statements (continued)

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

	2014 £'000	2013 £'000
Gains on the sale of investments based on historical cost	17,243	16,975
Less: Revaluation gains recognised in previous years	(12,896)	(9,106)
Gains on investments sold in the year based on carrying value at previous balance sheet date	**4,347**	**7,869**
Revaluation gains on investments held at 30 September	5,836	70,613
Exchange (losses)/gains	(11)	9
	10,172	**78,491**

3 Income from investments

	2014 £'000	2013 £'000
UK dividends:		
Listed investments	10,633	9,707
Unlisted	40	35
UK dividends	**10,673**	**9,742**
Non UK dividends:		
Overseas dividend income	2,618	2,288
Property income dividends	204	200
Interest income	–	112
Non UK dividends	**2,822**	**2,600**
	13,495	**12,342**

4 Other interest receivable and similar income

	2014 £'000	2013 £'000
Stock lending commission	80	81
Income from underwriting	93	34
	173	**115**

At 30 September 2014 the total value of securities on loan by the Company for stock lending purposes was £4,920,000 (2013: £29,012,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2014 was £42,756,000 (2013: £54,723,000). The Company's agent holds collateral comprising FTSE 100 stocks and a French government bond with a collateral value of £5,984,000 (2013: £31,142,000) amounting to a minimum of 122% (2013: minimum 107%) of the market value of any securities on loan. Stock lending commission has been shown net of brokerage fees of £34,000 (2013: £35,000).

5 Management and Performance fees

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	1,668	–	1,668	1,362	–	1,362
Performance fee	–	1,073	1,073	–	938	938
Total fee	**1,668**	**1,073**	**2,741**	**1,362**	**938**	**2,300**

A description of the basis for calculating the management fee and performance fees is given in the Strategic Review on page 4. For the year ended 30 September 2014, a performance fee of £1,073,000 is payable (2013: £938,000). This is based on Lowland's 3 year average NAV total return to 30 September 2014 of 27.4% compared to the FTSE All-Share Index Total Return (plus a 10% hurdle rate) of 17.6%. 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.

Notes to the Financial Statements (continued)

6 Other administrative expenses

	2014 £'000	2013 £'000
Directors' fees and expenses (see Directors' Remuneration Report on pages 22 and 23)[1]	127	116
Auditors' remuneration – for audit services	21	22
AIC subscriptions	23	25
Directors' and Officers' liability insurance	7	7
Listing fees (Stock Exchange, newspapers and internet)	30	32
Safe custody and bank charges	33	27
Loan facility fees	98	97
Printing and postage	24	21
Registrar's fees	13	21
Legal fees	10	11
General expenses and marketing expenses payable to Henderson	58	51
Other expenses	36	14
Irrecoverable VAT	33	28
	513	**472**

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

7 Finance charges

	2014 £'000	2013 £'000
On bank loans and overdrafts repayable within one year	**845**	**875**

8 Taxation on net return on ordinary activities

Analysis of tax charge for the year

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas tax suffered	71	–	71	42	–	42
Overseas tax reclaimable	(22)	–	(22)	(4)	–	(4)
Total taxation for the year	**49**	**–**	**49**	**38**	**–**	**38**

Factors affecting the tax charge for the year

	2014			2013		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Return on ordinary activities before taxation	10,642	9,099	19,741	9,748	77,553	87,301
Corporation tax at 22% (2013: 23.5%)*	2,341	2,002	4,343	2,291	18,225	20,516
Effects of:						
Non-taxable UK dividends	(2,331)	–	(2,331)	(2,274)	–	(2,274)
Other non-taxable income	(593)	–	(593)	(554)	–	(554)
Overseas tax suffered	49	–	49	38	–	38
Excess expenses/non-trading deficits for the year	819	–	819	757	–	757
Expenses charged to capital	(236)	236	–	(220)	220	–
Non-taxable/deductible capital gains	–	(2,238)	(2,238)	–	(18,445)	(18,445)
	49	**–**	**49**	**38**	**–**	**38**

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.

*The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 22%.

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities (continued)

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 £7,961,000 (2013: £7,578,000) 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 tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 22% (2013: 23.5%).

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 £19,692,000 (2013: £87,263,000) and on 26,875,852 ordinary shares (2013: 26,433,043) 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.

	2014 £'000	2013 £'000
Net revenue return	10,593	9,710
Net capital return	9,099	77,553
Net total return	**19,692**	**87,263**
Weighted average number of ordinary shares in issue during the year	**26,875,852**	**26,433,043**

	2014 Pence	2013 Pence
Revenue return per ordinary share	39.4	36.7
Capital return per ordinary share	33.9	293.4
Total return per ordinary share	**73.3**	**330.1**

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	2014 £'000	2013 £'000
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
Third interim dividend (8.5p) for the year ended 30 September 2013	11 October 2013	31 October 2013	2,268	–
Final dividend (9.0p) for the year ended 30 September 2013	10 January 2014	31 January 2014	2,420	–
First interim dividend (9.0p) for the year ended 30 September 2014	4 April 2014	30 April 2014	2,420	–
Second interim dividend (9.0p) for the year ended 30 September 2014	4 July 2014	31 July 2014	2,420	–
			9,528	**8,453**

Notes to the Financial Statements (continued)

10 Dividends paid and payable on the ordinary shares (continued)

The third interim dividend and the final dividend for the year ended 30 September 2014 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.

	2014 £'000
Revenue available for distribution by way of dividend for the year	10,593
First interim dividend (9.0p) for the year ended 30 September 2014	(2,420)
Second interim dividend (9.0p) for the year ended 30 September 2014	(2,420)
Third interim dividend (9.0p) for the year ended 30 September 2014	(2,420)
Final dividend (10.0p) for the year ended 30 September 2014 (based on 26,892,427 ordinary shares in issue at 10 December 2014)	(2,689)
Revenue surplus	**644**

For Section 1158 purposes the Company's undistributed revenue represents 4.8% of the income from investments.

11 Investments held at fair value through profit or loss

	2014 £'000	2013 £'000
Valuation at start of year	395,422	303,143
Investment holding gains at start of year	(118,015)	(56,508)
Cost at start of year	**277,407**	**246,635**
Additions at cost	50,603	52,260
Disposals at cost	(28,912)	(21,488)
Cost at end of year	**299,098**	**277,407**
Investment holding gains at end of year	110,955	118,015
Valuation at end of year	**410,053**	**395,422**

Included in the total investments are unquoted investments shown at the Directors fair value of £846,000 (2013: £846,000).

Purchase transaction costs for the year ended 30 September 2014 were £216,000 (2013: £264,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2014 were £41,000 (2013: £50,000).

The Company has interests of 3% or more of any class of capital in 18 (2013: 20) investee companies. At 30 September 2014, of the 18 investee companies, the following represented more than 1% of investments.

	Valuation £'000	% of voting rights
Carclo	4,486	5.4
Velocys	10,463	3.9
Scapa	6,837	3.4
Renold	5,561	4.6

12 Debtors

	2014 £'000	2013 £'000
Prepayments and accrued income	1,835	1,721
Taxation recoverable	4	4
	1,839	**1,725**

Notes to the Financial Statements (continued)

13 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Unsecured sterling bank loans	49,907	49,744
Purchases for future settlement	210	–
Other creditors	1,675	1,511
	51,792	**51,255**

The Company had entered into a one year £20m loan facility with ING Bank N.V. and a two year £43m loan facility with National Australia Bank which expired on 28 October 2014. Since the year end the Company has entered into a two year £25m loan facility with ING Bank N.V. and a three year loan facility of up to £60m with Scotiabank (Ireland) Limited these new facilities replace the previous loan facilities.

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 4. 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 Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below.

- straight-through processing via a deal order and management system ("OMS") is utilised for listed securities, exchange-traded derivatives and OTC derivatives contracts with connectivity to third-party affirmation and trade repository services.
- portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine.
- fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services) which utilises Hiportfolio software.
- the IT tools to which the Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:

  – Charles River Compliance module for investment restrictions monitoring;
  – Arc Logics operational risk database;
  – Riskmetrics for VaR statistics, stress-testing and back-testing;
  – UBS Delta, Style Research, Finanalytica and Barra Aegis for market risk measurement;
  – Bloomberg for market data and price-checking; and
  – Hiportfolio for portfolio holdings and valuations.

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

14.1 Market risk

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

14.1.1 Market price risk

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

The Company's exposure to market price risk at 30 September 2014 is represented by its investments held on the Balance Sheet under the heading 'Investments held at fair value through profit or loss' on page 37.

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1 Market risk (continued)

Management of the risk

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

Concentration of exposure to market price risks

An analysis of the Company's investment portfolio is shown on pages 10 to 12. 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.

Sensitivity analysis – Market prices if prices change by 40% (2013: 40%)

	2014		2013	
	If prices go up £'000	If prices go down £'000	If prices go up £'000	If prices go down £'000
Investments	410,053	410,053	395,422	395,422
Impact on income statement:				
Revenue return (0.5% management fee rate)	(820)	820	(791)	791
Capital return	164,021	(164,021)	158,169	(158,169)
Impact on net assets and total return (excluding gearing)	**163,201**	**(163,201)**	**157,378**	**(157,378)**

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 £22,604,000 (2013: £22,140,000) representing 5.5% (2013: 5.5%) of the total assets of the Company.

Management of the risk

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

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

14.1.3 Interest rate risk

Interest rate movements may affect:

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

Management of the risk

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

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.1.3 Interest rate risk (continued)

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'.

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 (2013: same)
- Interest paid on borrowings under the loan facility is at a margin over LIBOR for the type of loan. The weighted average interest rate of these is 1.7% as at 30 September 2014 (2013: 2.1%).

The Company had fixed interest rate asset exposure at 30 September 2014 on the holding in Wadworth at £126,000 (2013: £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 £48,151,000 (2013: £48,434,000) 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 £958,000 (2013: £964,000).

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 £63,000,000 (2013: £53,000,000) and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review.

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

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

	2014		2013	
	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	50,073	–	49,915	–
Other creditors	1,788	–	1,438	–
	51,861	**–**	**51,353**	**–**

14.3 Credit and counterparty risk

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

Management of the risk

The risk is managed as follows:

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

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.3 Credit and counterparty risk (continued)

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

	2014 £'000	2013 £'000
Fixed interest securities	126	126
Cash	1,756	1,310
Debtors:		
– accrued income	1,835	1,721
– taxation recoverable	4	4
	3,721	**3,161**

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 facilities).

14.5 Fair value hierarchy disclosures

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

Fair value hierarchy	2014 £'000	2013 £'000
Equity investments		
Level 1	409,207	394,576
Level 2	–	–
Level 3	846	846
	410,053	**395,422**

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 notes 12 and 13 are 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.

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

	2014 £'000	2013 £'000
Opening balance	846	914
Disposal proceeds	–	–
Transfers in	–	–
Total loss included in the Income Statement		
– on investments written off	–	–
– on investments held	–	(68)
Closing balance	**846**	**846**

The Company's holdings in Wadworth were not revalued during the year (2013: £68,000).

Notes to the Financial Statements (continued)

14 Financial risk management policies and procedures (continued)

14.6 Capital management policies and procedures

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

The Company's capital at 30 September 2014 comprises its equity share capital, reserves and loans that are shown in the balance sheet at a total of £411,763,000 (2013: £396,946,000).

The Board, with the assistance of Henderson, 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; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

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

The Company has complied with these requirements.

15 Called up share capital

	Number of shares entitled to dividend	Total number of shares	Nominal value of shares £'000
At 30 September 2013	26,567,427	26,567,427	6,642
New shares allotted in the year	325,000	325,000	81
At 30 September 2014	**26,892,427**	**26,892,427**	**6,723**

During the year, the Company issued 325,000 ordinary shares for total proceeds of £4,490,000 (2013: £1,991,000).

16 Share premium account

	2014 £'000	2013 £'000
At the start of the year	55,514	53,561
Shares issued during the year	4,409	1,953
At the end of the year	**59,923**	**55,514**

Notes to the Financial Statements (continued)

17 Capital redemption reserve and other capital reserves

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2013	1,007	118,015	157,449	275,464
Transfer on disposal of investments	–	(12,896)	12,896	–
Net gains on investments	–	5,836	4,347	10,183
Performance fee taken to capital	–	–	(1,073)	(1,073)
Exchange differences	–	–	(11)	(11)
At 30 September 2014	**1,007**	**110,955**	**173,608**	**284,563**

The capital reserve arising on revaluation of investments held at 30 September 2014 includes a gain of £795,000 (2013: gain of £795,000) based on historical book cost, in respect of the revaluation of unquoted investments.

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 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.

18 Revenue reserve

	2014 £'000	2013 £'000
At 1 October	8,575	7,318
Net revenue return for the year after tax	10,593	9,710
Net dividends paid (note 10)	(9,528)	(8,453)
At 30 September	**9,640**	**8,575**

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 £361,856,000 (2013: £347,202,000) and on 26,892,427 (2013: 26,567,427) shares in issue on 30 September 2014.

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

	2014 £'000	2013 £'000
Total net assets at 1 October	347,202	266,401
Total net return on ordinary activities after taxation	19,692	87,263
Share issue proceeds	4,490	1,991
Net dividends paid in the year:		
Ordinary shares	(9,528)	(8,453)
Net assets attributable to the ordinary shares at 30 September	**361,856**	**347,202**

Notes to the Financial Statements (continued)

20 Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities as at 30 September 2014 (2013: £nil).

21 Reconciliation of operating revenue to net cash inflow from operating activities

	2014 £'000	2013 £'000
Net return on ordinary activities before finance charges and taxation	20,586	88,176
Less net capital return before finance charges and taxation	(9,099)	(77,553)
Net revenue return before finance charges and taxation	**11,487**	**10,623**
(Increase)/decrease in prepayments and accrued income	(114)	153
Expenses charged to capital	(1,073)	(938)
Increase in other creditors and accruals	140	403
Income tax suffered on property income dividends	(1)	(1)
Overseas withholding tax suffered	(71)	(41)
Net cash inflow from operating activities	**10,368**	**10,199**

22 Analysis of changes in net debt

	1 October 2013 £'000	Cash Flow £'000	Exchange Movements £'000	30 September 2014 £'000
Cash at bank	1,310	457	(11)	1,756
Debt falling due within one year	(49,744)	(163)	–	(49,907)
Net debt	**(48,434)**	**294**	**(11)**	**(48,151)**

	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)**

23 Transactions with the management company

Under the terms of an agreement effective from 22 July 2014 (which replaced the agreement dated 27 August 2009 in order to reflect the appointment of an Alternative Investment Fund Manager in accordance with the requirements of the Alternative Investment Fund Managers Directive), the Company has appointed wholly owned subsidiaries of Henderson Group plc ("Henderson") to provide investment management, accounting, administrative and secretarial services. Henderson has contracted with BNP Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given in the Strategic Report on page 4. The total of the management fees paid or payable to Henderson under this agreement in respect of the year ended 30 September 2014 was £1,668,000 (2013: £1,362,000). The management fee excludes the management fee on investments held in other Henderson managed investment trusts. The amount outstanding at 30 September 2014 was £432,000 (2013: £374,000). The total of the performance fee paid or payable to Henderson under this agreement in respect of the year ended 30 September 2014 was £1,073,000 (2013: £938,000). The amount outstanding at 30 September 2014 was £1,073,000 (2013: £938,000).

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 2014 was £58,000 (2013: £51,000), of which £15,000 was outstanding at 30 September 2014 (2013: £13,000).

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 2014 was £1,969,548 (2013: £2,164,735) and represents 0.48% of the portfolio (2013: 0.55%). The Company has made no purchases and £774,628 of sales in Henderson Opportunities Trust plc during the year (2013: no purchases or sales) and it has received income of £28,783 from this investment (2013: £26,807).

General Shareholder Information

BACS

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar, Computershare Investor Services PLC. Alternatively, shareholders can write to the Registrar (the address is given on page 14) 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.

Disability Act

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

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0870 707 1117. 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.

FCA Restrictions

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

ISA

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

Share Price Listings

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

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

Performance Details/Share Price Information

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

Shareholder Details

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

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

Nominee Share Code

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

Investors in Halifax Share Dealing and Henderson ISAs receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Warning to Shareholders

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

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

If you are in any doubt about the veracity of an unsolicited phone call, please call the Company Secretary at the number provided on page 14.

Alternative Investment Fund Managers Directive Disclosures (unaudited)

Henderson and the Company are required to make certain disclosures available to investors in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). Those disclosures that are required to be made pre-investment are included within a Key Investor Information Document ("KIID") which can be found on the Company's website **www.lowlandinvestment.com**. There have been no material changes to the disclosures contained within the KIID since publication in July 2014.

The periodic disclosures to investors are made below:

- Information on the investment strategy, geographic and sector investment focus and principal stock exposures are included in the Strategic Report. A full list of portfolio holdings is included on pages 10 to 12.
- None of the Company's assets are subject to special arrangements arising from their illiquid nature.
- The Strategic Report and note 14 to the accounts set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected.
- There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Henderson.
- All authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. It is therefore anticipated that the Henderson Remuneration Policy and associated financial disclosures will be made with the Company's Annual Report from 2016.

Leverage

Although leverage is often used as another term for gearing, under the AIFMD regulations leverage is expressed as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. It defines two types of leverage, the gross method and the commitment method. These are essentially the same other than the commitment method allows derivative instruments to be netted off to reflect "netting" or "hedging arrangements". Non-sterling cash is deemed to carry a currency exposure so is considered to be leverage. In accordance with the AIFMD the Company is obliged to disclose the maximum expected leverage levels under both methods and this is disclosed later. In order to comply with the AIFMD the maximum leverage levels have been set in accordance with the maximum gearing allowable by the Company's Articles of Association. However, the day-to-day management of gearing and leverage levels will be conducted within the tighter limits set by the Company's investment policy.

Leverage may be applied to the portfolio by utilising financial gearing (such as bank borrowings and overdrafts) and synthetic gearing (through derivatives and/or other non-fully funded instruments or techniques for efficient portfolio management purposes such as stock-lending). Typically, leverage will arise through the use of index futures, forward foreign exchange contracts or contracts for difference, where cash is paid to the counterparty as a margin against the current mark-to-market value of the derivative contract; as a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may even result in further loss exceeding any margin deposited. The use of leverage therefore creates additional risks and may significantly increase the market and counterparty risk of the Company through non-fully funded exposure to underlying markets or securities.

Leverage is considered in terms of the Company's overall "exposure" to financial or synthetic gearing and includes any method by which the exposure of the Company is increased whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. Henderson is required, in accordance with the AIFMD, to calculate and monitor the level of leverage of the Company, expressed as the ratio between the total exposure of the Company and its net asset value with exposure values being calculated by both the gross method and commitment method.

Exposure values under the gross method basis are calculated as the absolute value of all positions in the portfolio; this includes all eligible assets and liabilities, relevant borrowings, derivatives (converted into their equivalent underlying positions) and all other positions, even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging.

The gross method of exposure of the Company requires the calculation to:

- include the sum of all non-derivative assets (if applicable) held at market value, plus the absolute value of all such liabilities;
- exclude cash and cash equivalents which are highly liquid investments held in the base currency of the Company, that are readily convertible to a known amount of cash, which are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three month high quality bond;
- derivative instruments which are converted into the equivalent position in their underlying assets;
- exclude cash borrowings that remain in cash or cash equivalents and where the amounts payable are known;
- include exposures resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of cash borrowed; and
- include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other similar arrangements as applicable.

Exposure values under the commitment method basis are calculated on a similar basis to the above, but may take into account the effect of netting off instruments to reflect eligible netting and hedging arrangements on eligible assets and different treatment of certain cash and cash equivalent items in line with regulatory requirements.

The calculation of leverage assumes that a leverage percentage of 100% equates to zero leverage. A percentage above 100% would mean that the portfolio had leverage equal to the percentage amount above 100%.

The table below sets out the current maximum permitted limit and actual level of leverage for the Company:

	As a percentage of net assets	
	Gross method	Commitment method
Maximum level of leverage	300%	300%
Actual level at 30 September 2014	114%	114%

There have been no breaches of the maximum level during the period and no changes to the maximum level of leverage employed by the Company. There is no right of re-use of collateral or any guarantees granted under the leveraging arrangement.

Changes to the information contained either within this Annual Report or the KIID in relation to any special arrangements in place, the maximum level of leverage which Henderson may employ on behalf of the Company; the right of use of collateral or any guarantee granted under any leveraging arrangement; or any change to the position in relation to any discharge of liability by the Depositary will be notified via a regulatory news service without undue delay in accordance with the AIFMD.

Lowland Investment Company plc
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Legal Entity Identifier (LEI): 2138008RHG5363FEHV19

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