

30397

Law Debenture

The Law Debenture Corporation p.l.c.

Annual Report 1997



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Corporate objectives

The dual objectives for the Group's two major businesses remain:-

Investment Trust

To achieve long term capital growth in real terms and steadily increasing income through investing in a high quality portfolio of investments spread both geographically and by industry

Trustee Services

To remain the leading independent provider of trustee and related services to the international capital markets and to UK pension funds

Performance summary

	1997	1996	increase %
Total return per share.....	207.5p	102.4p	102.6
After tax revenue return			
– £000.....	8,354	7,589	10.1
– per share.....	36.0p	33.0p	9.1
Dividends per share.....	28.5p	25.0p	14.0
Net assets at 31 December			
– £ millions.....	232.6	190.3	22.2
– NAV per share.....	999.0p	821.9p	21.5
Share price at 31 December.....	1110.0p	931.0p	19.2
FT-SE Actuaries All Share Index.....	2,411.0	2,013.7	19.7

Chairman's statement

I am delighted to report on another highly successful year for Law Debenture, during which our financial results continue an excellent long term trend, in which revenue, profits and dividends per share have each shown unbroken growth for over 20 years. The total return earned in the year was 207.5p per share, compared with 102.4p in 1996. Our chosen markets performed well during 1997, reinforcing the success of the investment trust as a long term savings vehicle, especially when combined with the earnings from the wide range of trustee services we offer. The chart on the lower half of page 5 demonstrates our consistent long term outperformance, when compared to alternative investment opportunities.

Dividends

Profit after tax on earnings attributable to ordinary shareholders increased by 10.1% to £8,354,000 in the year ended 31 December 1997. This represents a 9.1% increase in profits per ordinary share from 33p to 36p. In the Interim Statement, the Board stated its intention to reduce the disparity between the interim and final dividends. This we have done. The Board is now recommending an increase in final dividend to 17.5p per ordinary share (1996: 16.75p), which together with the larger interim dividend combine to give a total dividend for the year of 28.5p. This represents an increase of 14% on last year's total dividend of 25p.

Assets

Due to the excellent performance of our investment portfolio, and despite the strength of sterling during 1997, net asset value per ordinary share increased from 821.9p to 999.0p, an increase of 21.5%. As the chart on page 5 demonstrates, Law Debenture continues to outperform our long term benchmark, the FT-SE Actuaries All Share Index.

Share Price

I am gratified to note that our share price has this year more closely reflected the above increases in asset value.

We now release the net asset value for the Corporation on a monthly basis to the Association of Investment Trust Companies, for onward transmission to the Stock Exchange.

As you know we are now annually seeking your consent to issue new shares for the PEP and Savings Schemes in certain circumstances. We have also considered seeking your consent to buy back our shares when it is sensible to do so. We have however concluded that, at present, it would not be in your interests, but we are keeping the matter under review.

Chairman's statement continued

Board membership

Hugh Osborne and John Morrell, having reached 70, will be retiring from the board at the annual general meeting next month. Hugh Osborne joined the Corporation in 1962 with responsibility for the trustee business and became managing director in 1975. He played a crucial role in guiding and strengthening Law Debenture over those most pivotal years when the euro-markets were in their infancy, firmly establishing Law Debenture as the leading trustee in London. He retired as Managing Director in 1988. John Morrell has been a director for nearly 30 years and his depth of experience and wise counsel, particularly on far eastern issues, has been especially valuable. They will both be missed as colleagues, but more particularly as directors who made outstanding contributions to the growth and success of the Corporation.

I am pleased to welcome Ewen Macpherson as a new non-executive director. He was formerly Chief Executive of 3i Group plc and will bring a great deal of valuable experience to the Board, particularly in the continuing successful management of an outstanding investment trust.

Prospects

The scope and variety of trustee appointments both in the capital markets and as an independent pension fund trustee continues to grow. I am pleased to say that demand for these services remains high and the outlook is encouraging.

The uncertainties in certain investment markets have not affected the Group greatly, as our far eastern portfolio consisted only of a limited exposure to Hong Kong and Japan and continues to be well placed to withstand such shocks.

It is perhaps unlikely that the growth in dividends received will continue at the same rate as has been experienced in recent years. Nonetheless the importance of dividends to shareholders is recognised and it continues to be our objective to strike a balance between capital growth and rising dividends.

Staff

My thanks go to our dedicated and committed staff, without whom this excellent set of results could not have been achieved. Our trust businesses have taken on record amounts of new work, while maintaining a high level of service on existing trusteeships. I am confident that our staff will continue to be able to meet all the challenges ahead.



J. M. Kennedy

Chairman

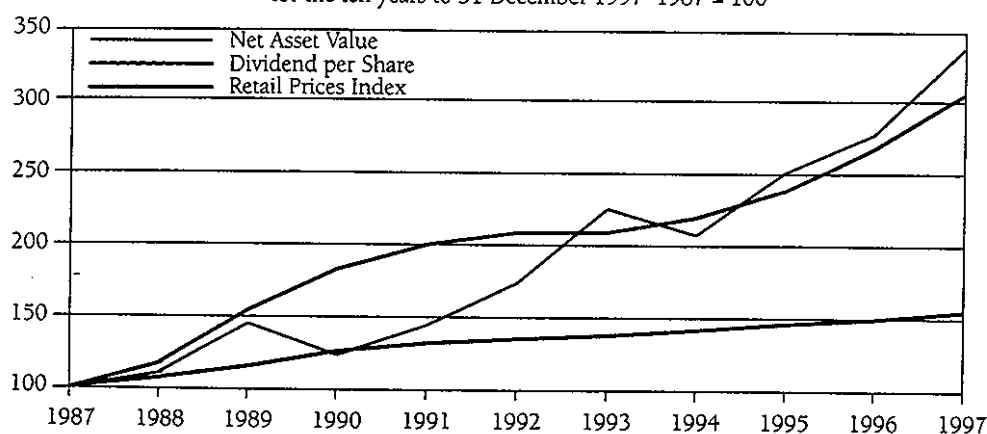
18 March 1998

Ten year record

Year to 31 December	Group Revenue £'000	Revenue return including profit on ordinary activities after taxation £'000	Revenue return per share P	Net dividend per share P	Year end net asset value P	Share price at year end P
1988	6,459	2,785	12.2	10.25	326.5	292
1989	8,035	3,514	15.4	13.50	428.7	385
1990	9,222	4,006	17.6	16.00	363.4	336
1991	10,191	4,304	18.9	17.50	426.3	433
1992	11,302	4,566	20.1	18.25	514.0	549
1993	11,725	4,982	21.9	19.25	667.3	823
1994	12,592	5,338	23.5	20.50	613.5	731
1995	14,234	6,090	26.8	22.25	744.3	942
1996	15,991	7,602	33.0	25.00	821.9*	931
1997	17,148	8,367	36.0	28.50	999.0	1110

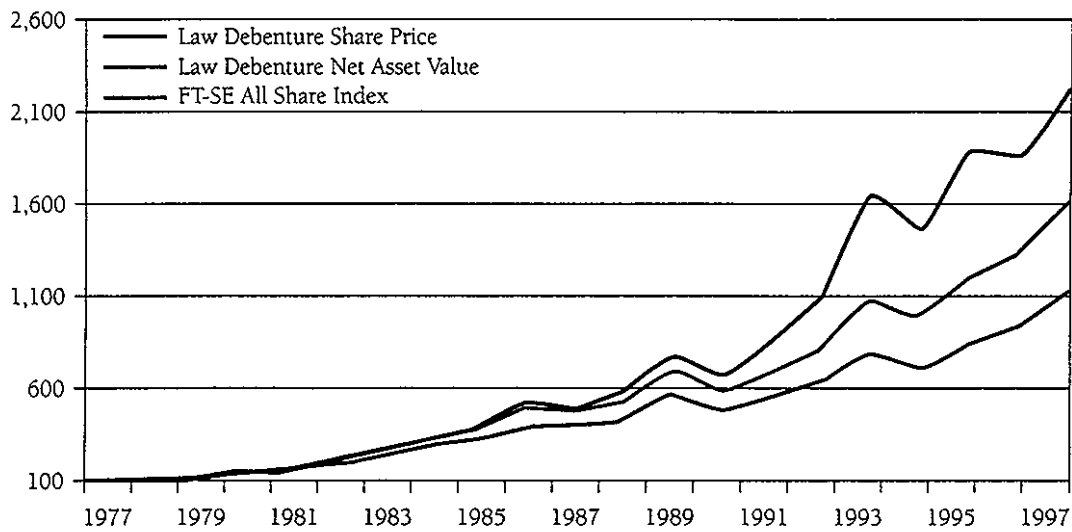
*restated

Ten year performance
for the ten years to 31 December 1997 1987 = 100

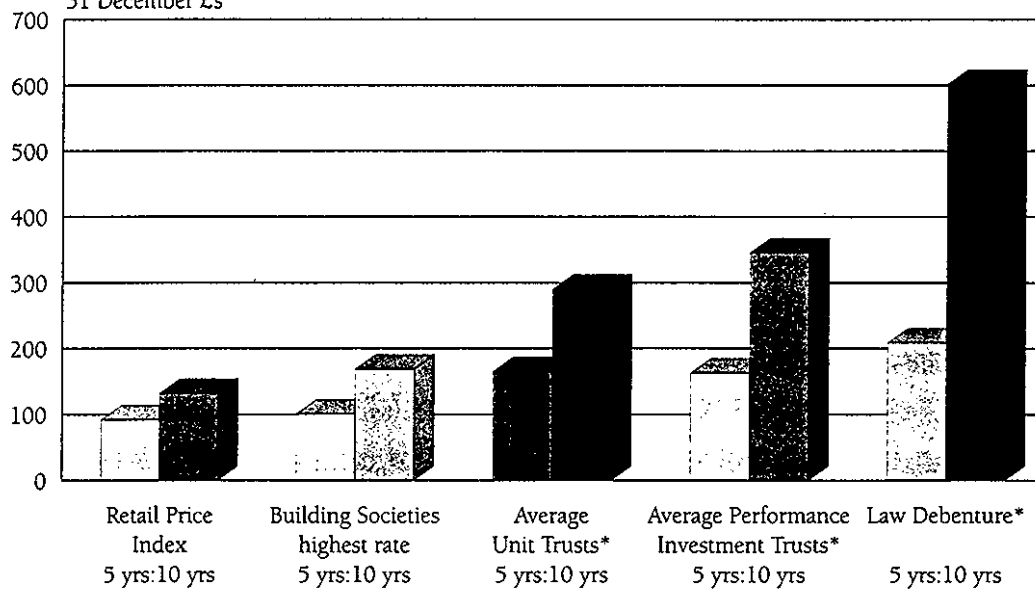


Performance graphs

Growth in share price and net asset value
for the twenty years to 31 December 1997 1977 = 100



Value of £100 with net income reinvested over 5 years and 10 years
31 December £s



* Share price total return (assuming net dividends are reinvested and excluding transaction costs)

Source: AITC

Management and Financial review

Financial results

1997 was an outstanding year for Law Debenture with a record total return for shareholders. Total return before dividends amounted to £48,197,000. Profit attributable to ordinary shareholders was £8,354,000 (36p per share), an increase of 10.1% on 1996. This compares with a 2.3% increase in the retail price index for the same period.

Financial management

The Corporation has borrowed money through fixed term loans and overdrafts for three specific purposes: the hedging of a small part of the US dollar portfolio, hedging our Japanese Yen exposure and for funding certain trustee expenses prior to reimbursement. Apart from the foreign currency borrowings, the Group's exposure to foreign markets and hence currencies is unhedged.

During the year there was a change in the policy for the financing of the Group's tangible assets. It is now the Corporation's policy where possible to lease our tangible assets on the grounds that the capital released can be invested more profitably in the business.

Investment management costs The costs of managing the investment trust are continually reviewed and over the years many changes have been made which resulted in greater efficiency and cost savings. The total investment, management and administration costs borne by the investment trust portion of our business in 1997 amounted to 0.47% of net assets (1996: 0.56%).

Investment performance

Our investment manager reports that 1997 was a challenging but rewarding year for investors in most major equity markets, with a wide disparity of performance between east and west. The movement in exchange rates was less dramatic than in 1996, but nevertheless the sterling index rose 8.6% and the US dollar 4% in the year. The major currencies that are expected to be euro participants in the first wave declined by around 10% against sterling. The yen, which declined by 19% against sterling in 1996, fell a further 7.2%

For the developed markets of the west the environment of slow growth, low inflation, excess liquidity and a significant decline in long dated bond yields has led to outperformance by large blue chip companies, reflected in similar benefits to the Law Debenture portfolio.

Management and Financial review continued

Investment activity during the year has tended to favour the UK and Europe with a net investment of £4.7m, and £2.9m respectively. In the USA sales and purchases have been evenly matched but a net £1.4m was realised from the sale of our only Canadian holding. In Japan and the Far East there were net sales of £2.5m principally from Japan whilst in Australia there were net sales of £0.9m.

UK The U.K. portfolio outperformed the All Share Index, which itself rose 19.7%. The market has been supported by both the continued rise in Wall Street and falling long term government bond yields across Europe. Against this the continuing strength of sterling has made life particularly difficult for UK manufacturing companies, which are also faced with a shortage of skilled labour. Nevertheless, high levels of corporate activity, large buy-backs and the effect of demutualisations have kept market prices firm. Overseas investors, in particular, reacted positively to the decision to give the Bank of England independence to set interest rates and maintain a low inflation environment.

USA US companies have again confounded the pessimists by producing better than expected earnings growth driven by productivity, re-structuring and continuing share buy-backs. This caused the S & P 500 Composite index to rise by 31.0%, its third consecutive annual gain above 20% and our portfolio also achieved a similar increase.

Europe In local currency terms the European equity markets provided some of the best returns in the world last year, with the Swiss market, for example, rising by as much as 54%. However, a more accurate guide is provided by the FTA Europe (ex-UK) index which in sterling terms rose by almost 28%. Our portfolio performance more than matched this and derived benefit both from a further re-rating of the leading stocks, and also the flow of good economic news as countries attempted to adhere to their EMU convergence criteria. The markets were also very sensitive to exchange rates and manufacturers have benefited by a further devaluation of 14% in the deutschmark bloc currencies against the dollar.

Japan 1997 was expected to be the year of steady recovery for the Japanese economy. Unfortunately an increase in consumption taxes in May coupled with a lack of confidence in both the government and many financial institutions continues to dampen consumer confidence. The equity market, after a seasonal rally from March to July, was hit by the Asian crisis and the major index declined by 20% in the year. However, Law Debenture's very select Japanese portfolio had a high proportion of winners and actually appreciated in sterling terms over the year. The opportunity was taken in October to reduce our Japanese portfolio to only 1.9% of the total.

Management and Financial review continued

Far East Our Far East exposure outside Japan has been concentrated in Hong Kong and Australia. The crisis which began in Thailand and spread to Malaysia, Korea and Indonesia had less of an effect on Hong Kong and Australia but declining property values undermined the confidence of many Hong Kong investors. Australian resource stocks which rely on the export of raw materials to Asia were also affected. The long term case for Hong Kong and its status as a conduit into China remains compelling, and given our low exposure and the long term potential of the region, Law Debenture is looking to add to this area in 1998, should favourable opportunities occur.

Trustee services

Pension Scheme trusteeships Our pensions trustee business enjoyed an active year. The implementation of the Pensions Act 1995 with its new regulatory environment brought with it considerable work in helping our clients through the initial compliance process and ongoing technical requirements. At the same time, we took on an unprecedented amount of new business and are very encouraged by this growth in long term business. Law Debenture now acts as trustee to pension schemes involving 800,000 members and over £36 billion of assets.

Loan Capital trusteeships 1997 proved to be another record year for these trustee services; the frenetic level of new issue activity in the international capital markets that was experienced in the second half of 1996 continued unabated until the final quarter of 1997, when it was brought to an abrupt halt by the financial collapse in the south east Asian markets.

Medium Term Note Programmes During 1997 we were appointed as trustee to further MTN programmes including those of BT, BG, Halifax, Scottish Power and Thames Water. Borrowers are becoming increasingly aware of the advantages of using a trustee on MTN programmes.

Securitisation 1997 was an exciting year for Law Debenture in this area. We were involved on one of the largest ever public sterling securitisations, involving the transfer of the Ministry of Defence married quarters to the private sector, and for ROSE II, the further securitisation of corporate loans for NatWest. In addition we worked with Bank of Tokyo - Mitsubishi on the first securitisation of corporate loans by a Japanese bank.

High Yield 1997 saw the emergence in the UK of what has become known as the "high yield" bond market. These are carefully structured transactions designed to achieve specific financial objectives. The "Castle" issue, which funded the privatisation of the BBC transmission service, was the first UK issue in this sector. This was quickly followed by a high yield issue by Chelsea Village, which is secured on the assets of Chelsea football club, and another issue by Cremonini, an Italian food manufacturer.

Law Debenture

Management and Financial review continued

Project Finance Project finance continues to be of considerable importance to us and we are delighted to have been involved as security trustee on a US\$3 billion loan facility for Russia's biggest company, GAZPROM, arranged by Credit Lyonnais and Dresdner Bank. The facility is secured against GAZPROM supply contracts with GAZ de France and Gasum Oy, the French and Finnish Gas utilities. In the oil exploration sector we were appointed security trustee to the Sakhalin Island oil exploration project which is off the east coast of Russia.

Eastern Europe The markets are opening up to east European borrowers and we have gained several trusteeships, including two convertible bond issues for the Russian oil company LUKOIL.

The Far East Prior to the emergence of the market difficulties in the far east, we were appointed trustee to a number of convertibles including that of Sino Land.

We are also expanding our office in Hong Kong to handle new and existing trusteeships in the region.

Year 2000 Compliance

Recently much publicity has been given to problems which computers may have in adapting to the Year 2000 change. In last year's annual report we stated that the Corporation had been aware of these issues for some while and we are continuing to review all our systems and those of our principal suppliers.

Directors and other information

J. M. Kennedy (Chairman) (63). A Board member of the Financial Services Authority and Chairman of Angerstein Underwriting Trust PLC. Chairman of the audit and remuneration committees.

***C. C. B. Duffett** (Managing) (54). Appointed managing director in April 1988. A deputy chairman of the AITC.

R. L. Bristow (68). A former executive director of Credit Suisse First Boston Limited.
Member of the audit and remuneration committees.

J. Edwards (56). A former partner of Linklaters & Paines and a director of an investment trust.

K. W. B. Inglis (54). Chairman of Fleming Investment Management Limited and a director of a number of other investment management companies.
Member of the audit committee.

E. C. S. Macpherson (56). Chief executive of 3i Group plc until July 1997. Non-executive director of a number of other listed companies.

J. A. Morrell (70). A chairman and director of a number of investment trusts.

H. D. Osborne, O.B.E. (70). Former managing director of Law Debenture.
Member of the remuneration committee.

***R. J. Williams** (49). A director of a number of investment trusts and Business Expansion Scheme companies.

*Executive

Secretary

Peter Skeggs

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London EC2M 2PA

Stockbrokers

Cazenove & Co.

12 Tokenhouse Yard

London EC2R 7AN

Auditors

Price Waterhouse

Southwark Towers

32 London Bridge Street

London SE1 9SY

Bankers

Lloyds Bank Plc

National Westminster Bank Plc

The Royal Bank of Scotland plc

Global custodians

The Royal Bank of Scotland plc

Registrar and transfer office

Computershare Services PLC

(formerly the registration business of

The Royal Bank of Scotland)

Registrar's Department

PO Box 82, Caxton House

Redcliffe Way, Bristol BS99 7NH

Telephone: 0117 930 6666

IMRO

Regulated by the Investment Management
Regulatory Organisation Limited



A member of the Association of
Investment Trust Companies

Report of the directors

The directors present to the shareholders their report and the accounts of the Corporation and the Group (the Corporation and its subsidiaries) for the year ended 31 December 1997.

Principal activities and business review

The Corporation carries on business as an investment trust company. The Corporation and certain of its subsidiaries are also trust corporations and act as trustees for issues in the international capital markets, project financing and other instruments by domestic and foreign issuers as well as acting as independent trustees of pension funds. Other trustee services are also provided, including cash management and acting as agents for the service of process in the English courts.

Business activities are reviewed in the chairman's statement and the management review.

Investments

A list of each investment as at 31 December 1997 with a market value in excess of £100,000 is shown on pages 41 and 42 and an analysis of the changes in the investments during the year is shown on page 43. The classification of investments and their trends are shown on pages 44 and 45.

Revenue and dividends

The revenue return, including profit after taxation for the year ended 31 December 1997 was £8,367,000 compared with £7,602,000 for the previous year. The directors recommend a final dividend of 17.5p per ordinary share which, together with the interim dividend of 11.0p paid in October 1997, will make 28.5p in total (1996: 25.0p). An amount of £1,716,000 (1996: £1,804,000) has been transferred to consolidated revenue reserves after deducting ordinary dividends of £6,638,000 and preference dividends of £13,000.

Directors

The names of the directors at the date of this report are shown on page 10. All directors held office throughout the year, except Mr J. Edwards, who was appointed on 22 April 1997, and Mr E.C.S. Macpherson, who was appointed on 17 February 1998. Mr H.D. Osborne and Mr J.A. Morrell retire having attained the age of 70 and will not offer themselves for re-election at the forthcoming annual general meeting. In accordance with the articles of association, Mr E.C.S. Macpherson retires at that meeting and offers himself for re-election.

No director has a service contract with any member of the Group in excess of one year or was materially interested in any other contract with any member of the Group.

During the year, the Corporation maintained liability insurance for the benefit of directors and other officers.

Law Debenture

Report of the directors continued

Directors' shareholdings

Beneficial interests in ordinary shares as at:

<u>Name of director</u>	<u>31 December 1997</u>	<u>1 January 1997</u>
R. L. Bristow	1,000	1,000
C. C. B. Duffett	26,492	10,000
J. Edwards	-	-
K. W. B. Inglis	2,500	-
J. M. Kennedy	-	-
J. A. Morrell	1,000	1,000
H. D. Osborne	1,000	1,000
R. J. Williams	5,377	5,203

The above shareholdings include ordinary shares held on behalf of Mr C.C.B.Duffett by the trustee of The Law Debenture Profit Sharing Plan.

Mr E.C.S. Macpherson held 3,250 shares as a beneficial interest in the Corporation at 31 December 1997.

No director has a beneficial interest in the shares of any subsidiary company, nor in the preference shares or debenture stock issued by the Corporation.

There has been no change in the directors' interests since the end of the financial year.

Employee participation

Employees are informed of the financial aspects of the Group's performance through periodic management meetings. Copies of the annual and interim reports are made available to all employees.

The Corporation operates a profit sharing plan which enables employees to participate in the growth of profits earned from the Group's trustee activities. The profit share is based on the performance of the trustee activities over a rolling two year period plus a fixed percentage of current year profits. All full time members of staff are eligible to participate in the plan after a minimum service requirement. The plan, which is approved under the Income and Corporation Taxes Act 1988, provides for employees to use their profit share to acquire shares in the Corporation bought in the market by the plan trustee.

The Corporation operates an SAYE scheme, under which employees enter into a contract to undertake to save with National Westminster Bank Plc over a period of five years; they are then entitled to the total amount saved, plus a tax-free bonus. Options to subscribe for shares of the Corporation are granted at the outset of the savings contract at a price fixed at that time. At the end of five years employees may use the proceeds of their savings contract to subscribe for shares over which options have been granted. The monies may, alternatively, be held on deposit or withdrawn. The number of shares over which options were granted in 1997 was 12,813 at an option price of 861p. All employees are

Report of the directors continued

eligible to participate in the scheme after completing a minimum service requirement. The scheme is approved under the Income and Corporation Taxes Act 1988.

The Corporation also operates an Executive Share Option Scheme which enables key executives to be granted options to acquire ordinary shares of the Corporation. The scheme is approved under the Income and Corporation Taxes Act 1988. No options were granted in the year ended 31 December 1997.

Corporate governance

The Corporation complies with all of the provisions of the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance.

The directors are of the view that it is appropriate to continue to adopt the going concern basis in preparing the accounts, as the assets of the Group consist mainly of securities which are readily realisable.

Internal financial control

The board of directors has overall responsibility for the Group's system of internal financial control. These financial controls are established in order to safeguard Group assets, to ensure proper accounting records are maintained and to ensure that financial information used within the business or published is reliable. The systems of internal financial controls are designed to provide reasonable but not absolute assurance against material misstatement or loss.

Key features of the Group's system of internal financial control are as follows:

- i) a comprehensive budgeting system of revenue and expenditure with an annual budget approved by the board;
- ii) a monthly comparison of actual results against budget and a quarterly comparison of forecasts against budget;
- iii) the control of key financial risks through clearly laid down authorisation levels and segregation of duties;
- iv) semi-annual external reporting to shareholders of the Group's performance;
- v) regular reporting to the board and its review of legal, pension and insurance matters;
- vi) regular reporting to the board and its review of cash management, taxation and accounting matters;
- vii) defined procedures for the budgeting, approval, control and review of capital expenditure.

In relation to the Group's investment activities, the manager, Henderson Investors Limited provides investment management services to the Corporation in accordance with the terms of the investment management agreement. Custody of the Corporation's securities is currently provided by The Royal Bank of Scotland plc through a separate custody agreement.

Report of the directors continued

As part of their procedures, the board monitors investment activities, in particular:

- by the establishment and maintenance of clearly defined investment guidelines;
- by ensuring the continuing appropriateness of the investment management and custody agreements;
- by the review of investment transactions at board meetings;
- by regular reconciliation between the records of the global custodian and those of the Corporation.

The control systems of the Group address key business and financial risks. The directors, through the audit committee, have reviewed the effectiveness of the Group's system of internal financial control.

Substantial holdings

The following shareholders have notified the Corporation of its interest comprising 3% or more of the Corporation's ordinary share capital as at 18 March 1998.

Funds managed or advised by:

The Merchant Navy Officers Pension Fund	5.5%
Merchant Investors Assurance Company	3.7%

The board is not aware of any other substantial holdings.

Investment management

The investment portfolio is managed by Henderson Investors Limited, a subsidiary of Henderson plc ("Henderson"), who were paid a fee during the year of £414,000 (1996: £360,000) under an agreement which is terminable by either party at 12 months' notice. The fee in 1997 was 0.2% (1996: 0.2%) of the average value of the investments under management during the year.

Mr Morrell is a director of an investment trust which is managed by Henderson Investors Limited and which holds shares in Henderson. The Corporation holds no shares in Henderson, nor has it been notified that Henderson or funds managed by Henderson hold any shares in the Corporation.

Report of the directors continued

Charitable donations

During the year the Corporation made charitable donations of £2,810 (1996: £5,159).

Payment of suppliers

The Corporation is committed to obtaining the best terms possible for all types of business. Consequently, there is no single policy as to the terms used. It is the Corporation's policy to abide by its agreed terms of business.

Auditors

The auditors, Price Waterhouse, have indicated their willingness to be re-appointed and, in accordance with Section 385 of the Companies Act 1985, a resolution will be proposed at the annual general meeting for their re-election and for their remuneration to be determined by the directors.

By order of the board



Peter Skeggs

Secretary

18 March 1998

Report of the remuneration committee

Compliance

The board has adopted all of the provisions of the Greenbury Code of Best Practice ("Greenbury") issued by the Study Group on Directors' Remuneration.

The constitution and operation of the remuneration committee are in compliance with the principles of Greenbury which are now incorporated in Section A of the best practice provisions annexed to the Stock Exchange's Listing Rules.

The committee also confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the Listing Rules, in determining remuneration packages for executive directors.

Policy on remuneration of executive directors

(i) **Total remuneration:** the remuneration committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the highest calibre.

(ii) **The main components:** the main components of executive directors' remuneration packages are:

Basic salary

Basic salary for each executive director is determined by the remuneration committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies.

Profit sharing

Qualifying executive directors participate annually on the same basis as members of staff in the growth of profits earned from the Group's trustee activities. The Law Debenture Profit Sharing Plan contains provisions enabling employees to take benefits in the form of shares as well as cash, to emphasise the alignment of interest between the participants and the Corporation's shareholders.

Executive share options

The board believes that share ownership by qualifying executive directors strengthens the link between their personal interests and those of shareholders. Periodic grants of options under the Corporation's Executive Share Option Scheme are phased in over a period of years.

Report of the remuneration committee continued

(iii) Companies used for comparison: in assessing executive directors' pay and benefits, the committee compares the packages offered by comparable companies. These companies are chosen having regard to:

- a. the size of the company - its turnover, profits and number of people employed;
- b. the comparable diversity and complexity of its business; and
- c. the geographical spread of its business.

(iv) Policy on contracts of service: no executive director has a service contract with any member of the Group in excess of one year.

(v) Pensions policy: subject to eligibility, executive directors participate in the Law Debenture Pension Plan ("the Plan") on the same basis as members of staff.

The Plan is a funded, Inland Revenue approved, final salary, occupational pension scheme. Its main features are:

- a. a normal retirement age of 60;
- b. pension at normal retirement age based on one forty fifth of final pensionable salary for each complete year of service, subject to a maximum of 30 years' service;
- c. life assurance cover of four times pensionable salary; and
- d. a surviving spouse's pension equal to 50% of the member's pension.

Pensionable salary is the member's basic salary, excluding all other benefits.

The Plan is non-contributory and all Plan benefits are subject to Inland Revenue limits.

Directors' emoluments

Details of the total emoluments earned as directors of the Corporation and its subsidiaries during the year are set out overleaf and in note 6 to the accounts. These incorporate all benefits arising from employment by the Corporation which are assessable to income tax.

Report of the remuneration committee continued

Name of director	Basic salary/ Fees	Profit Share/ Bonus	Benefits	Pensions	Total emoluments excluding pensions	
					1997 £'000	1996 £'000
Executive						
C.C.B.Duffett.....	162	22	10	33	227	212
R.J.Williams	35	5	7	-	47	44
Non executive						
R.L.Bristow.....	20	-	-	-	20	15
J.Edwards	10	-	-	-	10	-
K.W.B.Inglis.....	8	-	-	-	8	15
J.M.Kennedy.....	30	-	-	-	30	25
J.A.Morrell.....	15	-	-	-	15	15
H.D.Osborne	18	-	-	-	18	15
Total	298	27	17	33	375	341

Directors' options

Options are held under the Corporation's Executive Share Option Scheme (EXSOS) and Save As You Earn Scheme (SAYE), as follows:-

	EXSOS	SAYE	Profit on exercise	
			EXSOS £000	SAYE £000
Held at 31 December 1996				
C.C.B.Duffett	50,000	4,194		
R.J.Williams	-	2,621		
	50,000	6,815		
Granted during year				
C.C.B.Duffett	-	2,003		
R.J.Williams	-	-		
	50,000	8,818		
Exercised during year				
C.C.B.Duffett	(30,000)	(4,194)	119	24
R.J.Williams	-	-		
Held at 31 December 1997				
C.C.B.Duffett	20,000	2,003		
R.J.Williams	-	2,621		

Report of the remuneration committee continued

At the year end, Mr Duffett held 10,000 EXSOS options granted in 1994 at a price of 742p and 10,000 EXSOS options granted in 1995 at a price of 813p. Options granted under the EXSOS are exercisable between three and ten years from the date of grant. In addition, he held 2,003 SAYE options which are exercisable in 2002 at a price of 861p. The options held by Mr Williams are exercisable in 2000 at a price of 658p.

Option prices are all lower than the middle market price on 31 December 1997, which was 1110.0p. The Corporation's share price ranged from 902.5p to 1138.0p during the year. Further details of the Corporation's EXSOS and SAYE schemes are shown in note 18 on Page 35.



J.M.Kennedy

Chairman of the remuneration committee

18 March 1998

Directors' statement of responsibilities in relation to the accounts

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation and the Group at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the financial statements on pages 23 to 40, the Corporation has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Corporation keeps accounting records which disclose with reasonable accuracy the financial position of the Corporation and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the auditors

to the members of The Law Debenture Corporation p.l.c.

Southwark Towers
32 London Bridge Street
London SE1 9SY



18 March 1998

We have audited the financial statements on pages 23 to 40 which have been prepared under the historical cost convention as modified by the revaluation of investments, and the accounting policies set out on pages 26 and 27.

Respective responsibilities of directors and auditors

As described on page 20, the Corporation's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and of the Group at 31 December 1997 and of the return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants and Registered Auditors

Report of the auditors

to the directors of The Law Debenture Corporation p.l.c. on corporate governance matters

Southwark Towers
32 London Bridge Street
London SE1 9SY



18 March 1998

In addition to our audit of the financial statements, we have reviewed your statements on pages 13 to 14 on the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on pages 13 and 14 and on going concern on page 13, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement on page 14 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Price Waterhouse
Chartered Accountants

Consolidated statement of total return (incorporating the revenue account)
for the year ended 31 December

	Notes	1997			1996		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Total capital gains from investments	2	-	39,843	39,843	-	15,965	15,965
Income from investments and deposits	3	9,273	-	9,273	8,641	-	8,641
Trustee and other fees	4	7,832	-	7,832	7,226	-	7,226
Underwriting commission and other income		43	-	43	124	-	124
Gross revenue and capital gains		17,148	39,843	56,991	15,991	15,965	31,956
Administration expenses	5&6	(5,714)	-	(5,714)	(5,442)	-	(5,442)
Return, including profit on ordinary activities before interest payable and taxation		11,434	39,843	51,277	10,549	15,965	26,514
Interest payable	7	(490)	-	(490)	(422)	-	(422)
Return, including profit on ordinary activities before taxation	8	10,944	39,843	50,787	10,127	15,965	26,092
Taxation	9	(2,577)	-	(2,577)	(2,525)	-	(2,525)
Return, including profit on ordinary activities after taxation		8,367	39,843	48,210	7,602	15,965	23,567
Dividends on preference shares		(13)	-	(13)	(13)	-	(13)
Return, including profit attributable to ordinary shareholders		8,354	39,843	48,197	7,589	15,965	23,554
Dividends on ordinary shares	10	(6,638)	-	(6,638)	(5,785)	-	(5,785)
Transfer to reserves		1,716	39,843	41,559	1,804	15,965	17,769
Return per ordinary share (pence)	11	36.0	171.5	207.5	33.0	69.4	102.4

The revenue columns of this statement represent the revenue accounts of the Group.
The annexed notes form part of these accounts.

Law Debenture

Balance sheets

as at 31 December

	Notes	Group		Corporation	
		1997 £'000	1996 £'000	1997 £'000	1996 £'000
Fixed assets					
Tangible	12	582	893	-	-
Investments	13	229,184	186,552	226,356	184,079
		<u>229,766</u>	<u>187,445</u>	<u>226,356</u>	<u>184,079</u>
Current assets					
Debtors	14	7,946	9,637	2,983	2,701
Bank balances and short term deposits		19,941	19,684	10,223	11,611
		<u>27,887</u>	<u>29,321</u>	<u>13,206</u>	<u>14,312</u>
Creditors					
Amounts falling due within one year	15	(21,108)	(19,748)	(16,659)	(13,369)
Net current assets/(liabilities)		<u>6,779</u>	<u>9,573</u>	<u>(3,453)</u>	<u>943</u>
Total assets less current liabilities		<u>236,545</u>	<u>197,018</u>	<u>222,903</u>	<u>185,022</u>
Creditors					
Amounts falling due after more than one year	16	(3,120)	(5,806)	(355)	(3,280)
Provision for liabilities and charges	17	(461)	(598)	-	-
Net assets		<u>232,964</u>	<u>190,614</u>	<u>222,548</u>	<u>181,742</u>
Capital and reserves					
Called-up share capital					
Preference shares	18	350	350	350	350
Ordinary shares	18	5,821	5,787	5,821	5,787
Share premium account	19	4,986	4,229	4,986	4,229
Capital reserves - realised	20	118,186	105,527	118,397	105,767
- unrealised	20	92,183	64,999	89,813	62,955
Revenue reserves	21	11,438	9,722	3,181	2,654
Shareholders' funds	25	<u>232,964</u>	<u>190,614</u>	<u>222,548</u>	<u>181,742</u>
(including non equity interests)					

Approved by the board on 18 March 1998
and signed on its behalf by

J. M. Kennedy

C. C. B. Duffett

The annexed notes form part of these accounts.

Group cash flow statement
for the year ended 31 December

	Notes	1997		1996	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	23		10,912		7,983
Servicing of finance					
Debenture interest paid.....		(16)		(17)	
Bank interest paid.....		(473)		(405)	
Dividends - preference shares.....		(13)		(13)	
			(502)		(435)
Taxation			(808)		(299)
Financial investment					
Purchase of investments.....		(43,817)		(29,521)	
Sale of investments.....		40,380		30,541	
			(3,437)		1,020
Fixed assets					
Purchase		(154)		(230)	
Sale		190		36	
			36		(194)
Payment of ordinary dividend			(6,441)		(5,279)
Management of liquid resources					
Cash placed on short term deposits.....			(45)		(8,376)
Financing					
Proceeds of increase in share capital.....		791		3,615	
Repayment of debenture stock.....		-		(100)	
(Repayment)/drawdown of sterling overdraft.....		(158)		1,567	
(Repayment)/drawdown of yen loans		(163)		468	
			470		5,550
Increase/(Decrease) in cash			185		(30)
 Increase/(decrease) in cash as above.....			185		(30)
Cash outflow from liquid resources			45		8,376
Cash outflow/(inflow) from debt repayment/(borrowing)			321		(1,935)
Exchange movements.....			272		1,500
Net cash/(debt) brought forward			7,853		(58)
Net cash carried forward	24		8,676		7,853

Notes to the accounts

1 Statement of accounting policies

(i) **Convention:** The accounts have been prepared on the historical cost basis of accounting modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the "Statement of Recommended Practice - Financial Statements of Investment Trust Companies" (SORP). All of the Group's operations are of a continuing nature.

(ii) **Basis of consolidation:** The Group accounts incorporate the accounts of The Law Debenture Corporation p.l.c. and its subsidiaries made up to the end of the financial year.

(iii) **Recognition of income and expenses:** Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis.

Bank deposit interest receivable, recurring fees receivable, administration expenses and interest payable are all accounted for on an accruals basis. Non recurring fees are recognised on a receipts basis. Where trustee expenses are recoverable from third parties, the recoveries and expenses are not included as income or expenses. Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment.

(iv) **Goodwill:** Goodwill, representing the excess of cost over fair value of assets acquired, is written off in the year of acquisition.

(v) **Tangible fixed assets:** Tangible fixed assets are recorded at historic purchase cost less accumulated depreciation. Depreciation has been calculated to write off the cost of all tangible fixed assets over the estimated useful lives of the relevant assets as follows:

Leasehold improvements	over the lease period
Office furniture and equipment	3 - 5 years
Motor vehicles.....	5 years

(vi) **Listed investments:** The market valuation of listed investments is based on closing middle market prices for those listed in the United Kingdom and at closing bid prices for those listed overseas. No taxation or expenses which might result from a sale of the investments at the balance sheet date have been taken into account.

(vii) **Unlisted investments:** Unlisted investments are valued by the directors at cost or, where appropriate, at directors' valuation.

(viii) **Deferred income:** Trustee fees received in respect of periods subsequent to the balance sheet date are carried forward as deferred income.

(ix) **Capital reserves:** Realised and unrealised capital gains and losses, together with exchange differences arising on the translation of foreign currency assets and liabilities, are reflected through capital reserves. Exchange differences arising on the translation of net assets of overseas subsidiaries are also taken to capital reserves.

(x) **Foreign currencies:** Transactions recorded in foreign currencies during the year are translated into sterling at the exchange rate ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date.

(xi) **Pension plan:** Contributions to the Corporation's pension plan are charged to the revenue account so as to spread the cost of pension benefits over employees' expected working lives with the Corporation.

(xii) **Deferred taxation:** This is calculated using the liability method in respect of timing differences arising between the accounting and tax treatments to the extent that it is probable that the asset or liability will crystallise.

Notes to the accounts continued

2 Total capital gains from investments

	1997 £'000	1996 £'000
Realised gains based on historical cost	12,659	10,662
Less: amounts recognised as unrealised in previous years.....	(8,123)	(5,942)
Realised gains based on carrying value at previous balance sheet date.....	4,536	4,720
Net gains on investments	35,035	9,745
Net gains on currency translation	272	1,500
	<u>39,843</u>	<u>15,965</u>

3 Income from investments and deposits

	1997			1996		
	Franked £'000	Unfranked £'000	Total £'000	Franked £'000	Unfranked £'000	Total £'000
UK						
Listed						
Dividend income	5,087	-	5,087	5,543	-	5,543
Special dividends.....	565	-	565	309	-	309
Foreign income dividends.....	770	-	770	229	-	229
Scrip dividends.....	43	-	43	-	-	-
Bank deposit interest	-	1,253	1,253	-	957	957
	<u>6,465</u>	<u>1,253</u>	<u>7,718</u>	<u>6,081</u>	<u>957</u>	<u>7,038</u>
Overseas						
Listed dividends.....	-	1,500	1,500	-	1,545	1,545
Unlisted dividends.....	-	2	2	-	20	20
Bank deposit interest	-	53	53	-	38	38
	<u>-</u>	<u>1,555</u>	<u>1,555</u>	<u>-</u>	<u>1,603</u>	<u>1,603</u>
Total			<u>9,273</u>			<u>8,641</u>

Notes to the accounts continued

4 Trustee and other fee income

	1997 £'000	1996 £'000
Geographical analysis by location of client		
United Kingdom	4,437	4,253
Europe and the rest of the world	3,395	2,973
	<u>7,832</u>	<u>7,226</u>

5 Administration expenses

	1997 £'000	1996 £'000
Administration expenses include:		
Salaries and directors' fees	1,936	1,847
Social security costs	169	170
Other pension costs	388	458
Employee profit sharing plan	203	181
Investment management fee	414	360
Depreciation	297	326
Office rent	383	330
Auditors' remuneration*	52	50

*(including the Corporation £18,000 (1996: £17,000))

During the year, the Corporation employed an average of 53 staff (1996: 54).

Other fees paid to the auditors during the year amounted to £52,000 (1996: £63,000) in respect of taxation and other services. These figures do not include fees receivable by the auditors for work undertaken in connection with trusts where a member of the Group is a trustee.

Expenses are substantially incurred within the UK.

Notes to the accounts continued

6 Remuneration of directors

	1997 £'000	1996 £'000
Directors' emoluments, which comprise the following, are included in administration expenses.		
Directors' fees	101	85
Management remuneration	241	219
Pension contributions.....	33	37
	<u>375</u>	<u>341</u>

The total fees paid to the chairman were £30,000 (1996: £25,000).

The emoluments of the highest paid director totalled £227,000 (1996: £212,000) and included pension contributions of £33,000 (1996: £37,000) and amounts accrued under the terms of the employee profit sharing plan of £21,600 (1996: £15,600). His accrued pension entitlement is as follows:-

	£
Increase during 1997 excluding inflation increase	<u>9,147</u>
Accumulated total accrued pension at 31 December 1997	<u>80,787</u>
Transfer value of increase in accrued pension based on actuarial advice in accordance with Guidance Note GN11	<u>114,500</u>

Annual pension entitlements shown above are based upon service up to 31 December 1997 and do not include any Additional Voluntary Contributions.

Details of profits on options are shown in the Remuneration Committee Report on page 17

7 Interest payable

	1997 £'000	1996 £'000
Interest on debenture stock.....	16	17
Interest on multi currency bank loans	217	228
Interest on bank overdrafts.....	257	177
	<u>490</u>	<u>422</u>

Notes to the accounts continued

8 Return including profit on ordinary activities before taxation

The return including profit on ordinary activities before taxation comprises the following profit before tax for the investment trust and trustee services activities:

	1997 £'000	1996 £'000
Investment trust	7,253	7,076
Trustee services.....	3,691	3,051
	<u>10,944</u>	<u>10,127</u>

9 Taxation

	1997 £'000	1996 £'000
Taxation, based on revenue for the year, comprises:		
UK corporation tax at 31.5% (1996: 33%).....	1,401	1,310
Deferred taxation (note 17).....	45	44
Less: relief for overseas withholding tax	(180)	(192)
	<u>1,266</u>	<u>1,162</u>
Tax on franked investment income.....	1,131	1,171
Overseas tax.....	180	192
	<u>2,577</u>	<u>2,525</u>

10 Dividends on ordinary shares

	1997 £'000	1996 £'000
Dividends on ordinary shares comprise the following:		
Interim 11.00p (1996: 8.25p).....	2,563	1,907
Proposed final 17.50p (1996: 16.75p).....	4,075	3,878
Total for the year 28.50p (1996: 25.00p)	<u>6,638</u>	<u>5,785</u>

Notes to the accounts continued

11 Return per ordinary share

Revenue return, including profit per ordinary share, is based on profits attributable to ordinary shares of £8,354,000 (1996: £7,589,000).

Capital return per ordinary share is based on net capital gains for the year of £39,843,000 (1996: £15,965,000)

The calculations of both revenue and capital returns per ordinary share are based on 23,229,467 (1996: 23,006,228) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

12 Tangible fixed assets

	Group			Total £'000
	Leasehold improvements £'000	Office furniture & equipment £'000	Motor vehicles £'000	
Cost				
Balance at 1 January 1997	950	735	353	2,038
Additions at cost	11	72	71	154
Disposals at cost	(330)	(395)	(276)	(1,001)
At 31 December 1997	631	412	148	1,191
Accumulated depreciation				
Balance at 1 January 1997	476	522	147	1,145
Provision for the year	111	120	66	297
Disposals	(330)	(395)	(108)	(833)
At 31 December 1997	257	247	105	609
Net book value at 31 December 1997	374	165	43	582
Net book value at 31 December 1996	474	213	206	893

The Corporation holds no tangible fixed assets.

Notes to the accounts continued

13 Investments

	Group		Corporation	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Summary				
Listed on recognised stock exchanges at market value:				
In United Kingdom.....	154,194	125,766	154,146	123,633
Overseas	74,728	60,571	71,901	60,221
Total listed.....	228,922	186,337	226,047	183,854
Unlisted at directors' valuation.....	262	215	219	135
	229,184	186,552	226,266	183,989
Shares in subsidiary undertakings at cost	-	-	90	90
Total investments	229,184	186,552	226,356	184,079
	Group £'000		Corporation £'000	
Changes in investments				
Market value of investments at 1 January 1997 as previously reported	186,552		183,989	
Unrealised net appreciation at 1 January 1997	(63,671)		(61,250)	
	122,881		122,739	
Cost of investments at 1 January 1997.....	16		-	
Currency translation differences	42,976		42,927	
Additions at cost.....	(27,300)		(27,263)	
Disposals at cost	138,573		138,403	
	90,611		87,863	
Cost of investments at 31 December 1997.....	229,184		226,266	
Unrealised net appreciation at 31 December 1997				
Market value of investments at 31 December 1997				

Included in investments in the Group balance sheet is a subsidiary undertaking which is held in connection with the Corporation's trustee business and in which the Group holds voting rights. This undertaking has not been included in the Group consolidation as the Corporation's ability to exercise its rights as a parent company over the assets and management of this undertaking is severely restricted by contractual agreements with other parties. The Group received a fixed fee of £36,400 (1996: £35,000) in respect of this undertaking.

There were no amounts outstanding with this Company at the year end (1996: £NIL).

Mr R.J.Williams received £5,200 in respect of services provided to the above undertaking.

Notes to the accounts continued

13 Investments continued

The Corporation, or a subsidiary thereof, owns all the issued share capital of the following principal subsidiaries, each of which is engaged in providing trustee services. All subsidiaries are registered in England and Wales unless otherwise stated. All of the subsidiaries listed below are included in the consolidated financial statements.

L.D.C. Trust Management Limited

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

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

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

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

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

†L.D.C. Trustees Limited

†Law Debenture Overseas Limited

†Law Debenture Corporate Services Limited

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

†ICI Pensions Trustee Limited

†Zeneca Pensions Trustee Limited

†Shares held by a subsidiary

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

Details of all subsidiary undertakings will be provided in the Corporation's annual return.

14 Debtors

	Group		Corporation	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
(a) Due within one year:				
Investments sold for future settlement	-	465	-	466
Corporation and other taxes recoverable	15	310	15	310
Amounts due from subsidiary undertakings	-	-	1,399	276
Other debtors	96	177	-	156
Trustee expenses recoverable	2,288	831	5	9
Prepayments and accrued income	3,604	4,009	1,564	1,460
Deferred taxation	46	45	-	-
	6,049	5,837	2,983	2,677
(b) Due after more than one year:				
Trustee expenses recoverable	1,769	3,624	-	-
Prepayments	22	24	-	24
Deferred taxation	106	152	-	-
	7,946	9,637	2,983	2,701

Notes to the accounts continued

15 Creditors: amounts falling due within one year

	Group		Corporation	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Borrowings (note 26).....	10,914	8,559	7,713	5,200
Investments bought for future settlement.....	490	1,331	490	1,331
Amounts owed to subsidiary undertakings.....	-	-	3,791	2,161
Corporation and other taxes.....	1,212	1,217	4	173
Other creditors.....	254	382	100	85
Trustee expenses payable.....	1,942	2,458	20	22
Accruals.....	712	565	453	501
Deferred income.....	1,502	1,351	6	11
Final dividend (preference shares).....	7	7	7	7
Proposed final dividend (ordinary shares).....	4,075	3,878	4,075	3,878
	<u>21,108</u>	<u>19,748</u>	<u>16,659</u>	<u>13,369</u>

16 Creditors: amounts falling due after more than one year

	Group		Corporation	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Borrowings (note 26).....	350	3,272	350	3,272
Deferred income.....	2,770	2,534	5	8
	<u>3,120</u>	<u>5,806</u>	<u>355</u>	<u>3,280</u>

17 Provision for liabilities and charges

	1997 £'000	1996 £'000
As at 1 January.....	598	731
Utilisation in the year.....	(137)	(133)
As at 31 December.....	<u>461</u>	<u>598</u>

Full provision has been made for the estimated costs relating to the re-organisation of office accommodation. It is estimated that these will be released over the next four years.

Deferred tax

A deferred tax asset was established in 1992 to reflect the future tax benefit which will arise as the above payments are made.

	1997 £'000	1996 £'000
As at 1 January.....	(197)	(241)
Utilisation in the year.....	45	44
As at 31 December.....	<u>(152)</u>	<u>(197)</u>

Notes to the accounts continued

18 Share capital

	1997 £'000	1996 £'000
Authorised share capital		
26,600,000 ordinary shares of 25p each	6,650	6,650
350,000 3.85% cumulative preference shares of £1 each.....	350	350
	<u>7,000</u>	<u>7,000</u>
Issued and fully paid share capital		
23,285,082 (1996: 23,149,123) ordinary shares of 25p each	5,821	5,787
350,000 3.85% cumulative preference shares of £1 each.....	350	350
	<u>6,171</u>	<u>6,137</u>

During the year to 31 December 1997, 135,959 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £790,187, which includes a premium of £756,199.

During the year, 12,813 options were granted under the Corporation's SAYE scheme. At 31 December 1997, options under the schemes exercisable between 1998 and 2006 at prices ranging from 537p to 965p per share were outstanding in respect of 204,597 ordinary shares (1996: 361,459). During 1997, no options lapsed or were cancelled (1996: 1,677).

Executive Share Option Scheme

This scheme was introduced in 1993 as an incentive to key executives who are responsible for the Corporation's trustee business. The options granted under the scheme are normally exercisable between the third and tenth anniversaries of the option grant date. An analysis of options outstanding on 31 December 1997 is set out below:-

Date of grant	Number of option holders	Ordinary shares under option	Exercise price
4 August 1993	6	52,500	625p
17 May 1994.....	4	35,000	742p
25 May 1995.....	8	60,000	813p
15 October 1996.....	6	17,500	965p

Savings Related Share Option Scheme

This scheme was introduced in 1992 to enable employees to make regular savings in conjunction with an option for ordinary shares in the Corporation. Options are normally exercisable for a period of six months after the completion of the five year savings period. An analysis of the options outstanding at 31 December 1997 is set out below:

Date of grant	Number of option holders	Ordinary shares under option	Exercise price
2 April 1993	10	6,747	537p
26 May 1994	13	5,936	616p
26 May 1995	14	9,430	658p
7 June 1996	10	4,671	819p
16 May 1997	19	12,813	861p

Notes to the accounts continued

19 Share premium account

	1997 £'000	1996 £'000
Balance at 1 January	4,229	711
Issue of shares.....	757	3,531
Less share issue costs.....	-	(13)
	<u>4,986</u>	<u>4,229</u>

20 Capital reserves

	Unrealised appreciation £'000	Realised reserves £'000	Total £'000
Group			
At 1 January 1997 as previously reported.....	64,999	105,527	170,526
Transfer on disposal of investments.....	(8,123)	8,123	-
Net gains on investments.....	35,035	4,536	39,571
Net gains on currency translation.....	272	-	272
At 31 December 1997	<u>92,183</u>	<u>118,186</u>	<u>210,369</u>
Corporation			
At 1 January 1997 as previously reported.....	62,955	105,767	168,722
Transfer on disposal of investments.....	(8,123)	8,123	-
Net gains on investments.....	34,735	4,507	39,242
Net gains on currency translation.....	246	-	246
At 31 December 1997	<u>89,813</u>	<u>118,397</u>	<u>208,210</u>

Cumulative goodwill of £325,000, relating to companies presently within the Group, has been written off directly to capital reserves.

Notes to the accounts continued

21 Revenue reserves

	Group £'000	Corporation £'000
Balance at 1 January 1997	9,722	2,654
Net revenue retained for the year	1,716	527
Retained revenue at 31 December 1997	11,438	3,181

As permitted by section 230 of the Companies Act 1985, the Corporation has not presented its own revenue account. The revenue return, including profit on ordinary activities, after taxation for the Corporation amounted to £6,164,000 (1996: £5,873,000).

22 Non-equity interests

Shareholders' funds include £350,000 in respect of non-equity interests. These interests relate to the following stock:

	1997 £'000	1996 £'000
£350,000 3.85% cumulative preference shares of £1 each	350	350

The cumulative preference shares, which are undated, constitute a single class and confer on the holders priority to holders of any other class of share in the payment of dividends and repayments of capital. The cumulative preference shareholders are not entitled to attend and vote at general meetings of the Corporation.

23 Reconciliation of net revenue before finance costs and taxation to net cash inflow/(outflow) from operating activities

	1997 £'000	1996 £'000
Return, including profit before interest payable and taxation	11,433	10,549
Depreciation charge	297	326
Profit on sale of tangible assets	(22)	(3)
Decrease/(Increase) in debtors	886	(1,223)
(Decrease) in creditors	(247)	(211)
Tax on franked investment income	(1,131)	(1,171)
UK and overseas withholding tax deducted at source	(304)	(284)
Net cash inflow from operating activities	10,912	7,983

Notes to the accounts continued

24 Analysis of changes in cash and cash equivalents

	31.12.96 £'000	Cashflow £'000	Currency Exchange £'000	31.12.97 £'000
Cash	282	185	0	467
Short term deposits less than 90 days	19,402	45	26	19,473
Total	19,684	230	26	19,940
Borrowings per note 26	(11,831)	321	246	(11,264)
Net cash	7,853	551	272	8,676

25 Reconciliation of movement in shareholders' funds

	1997 £'000	1996 £'000
Opening shareholders' funds	190,614	169,230
Total return after dividend	41,559	17,769
Proceeds of issue of ordinary shares	791	3,615
Shareholders' funds at 31 December	232,964	190,614

Notes to the accounts continued

26 Borrowings

The Group's borrowings have been classified by the earliest date on which repayment can be required as follows:

	Group		Corporation	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Borrowings falling due within one year:				
Unsecured, drawn for 90 days or less				
Multicurrency bank loans	7,713	5,200	7,713	5,200
Overdrafts	3,201	3,359	-	-
Total (see Note 15)	10,914	8,559	7,713	5,200
Borrowings falling due after more than one year:				
Unsecured				
Multicurrency bank loans	-	2,922	-	2,922
Secured				
4.5% debenture stock	350	350	350	350
Total (see Note 16)	350	3,272	350	3,272

The bank overdrafts have been incurred in connection with the trustee businesses.

The 4.5% debenture stock, which is undated, is redeemable at par on 6 month's notice at the discretion of the Corporation and is secured by a floating charge on the undertaking and assets of the Corporation.

The Corporation had unsecured bank loans at varying rates of interest as follows:

- (i) *US Dollars*: US\$5.0 million (1996: US\$5.0 million) repayable in 1998 at fixed rates averaging 5.85%.
- (ii) *Japanese Yen*: Yen 1,000.0 million (1996: Yen 1,032.8 million) repayable in 1998 at a rate of 0.41%.

Law Debenture

Notes to the accounts continued

27 Lease commitments

The Group had gross lease commitments of £707,000 (1996: £565,000) in respect of property and car fleet rental agreements expiring in less than five years.

28 Pension commitments

The Corporation operates a non-contributory pension plan providing benefits based on final salary. The assets of the plan are held separately from those of the Corporation and are invested in managed funds operated by insurance companies.

The contributions of the Corporation to the plan are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation, which will be finalised shortly, was at 1 July 1997. Preliminary findings of this valuation showed that the market value of the plan's assets at 1 July 1997 was £8,399,000 and that the actuarial value of those assets represented 110% of the benefits that had accrued to members, after allowing for expected future increases in salaries. The assumptions which had the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% p.a., that salary increases would average 6.5% p.a. and that present and future pensions would increase at the rate of 4% p.a. The plan was fully funded on a discontinuance basis. The annual contributions of the Corporation for retirement benefits were reduced to 19.4% of salaries. In addition the Corporation pays the cost of death-in-service benefits amounting to approximately 1.1% of salaries.

Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' expected working lives with the Corporation. The pension charge for the period was £388,000 (1996: £458,000).

Valuation of investments

(Holdings valued over £100,000 as at 31 December 1997)

The 143 (1996: 144) investments shown below represent 99.9% (1996: 99.9%) of the value of the Group's investment portfolio at 31 December 1997. Investments were held in 156 different companies (1996: 155).

Mineral extraction	£'000	%		£'000	%
Extractive industries			Engineering		
Rio Tinto (Aust)	1,063	0.46	Illinois Toolworks (USA)	2,192	0.96
Broken Hill (Aust)	959	0.42	Glynwed	1,462	0.64
English China Clays	942	0.41	British Aerospace	1,388	0.61
Billiton	905	0.39	Morgan Crucible	1,289	0.56
Oil integrated			Rolls Royce	1,269	0.55
Shell T & T	6,336	2.76	BTR	1,196	0.52
British Petroleum	4,800	2.09	Engineering, vehicles		
Elf Aquitaine (France)	3,607	1.57	GKN	1,247	0.54
Atlantic Richfield (USA)	1,412	0.62	Pep Boys (USA)	1,161	0.51
Mobil (USA)	1,404	0.61	Paper, packaging & printing		
Oil exploration & production			Kimberley-Clark (USA)	1,259	0.55
Schlumberger (USA)	1,321	0.58	De La Rue	832	0.36
Enterprise Oil	1,160	0.51	David S. Smith	716	0.31
General Industrials			Consumer goods		
Buildings materials & merchants			Alcoholic beverages		
Blue Circle	1,537	0.67	Diageo	3,637	1.59
Wolseley	1,020	0.45	Allied Domecq	1,467	0.64
Chemicals			Food producers		
Bayer (Germany)	2,256	0.98	Nestlé (Swiss)	2,463	1.07
I.C.I.	1,331	0.58	Unigate	1,865	0.81
Fuji Photo Film (Japan)	1,309	0.57	Cadbury Schweppes	1,350	0.59
BOC	1,201	0.52	Booker	1,270	0.55
Elementis	1,120	0.49	Albert Fisher	730	0.32
Courtaulds	1,101	0.48	United Biscuits	381	0.17
Orica (Aust)	937	0.41	Household goods & textiles		
Diversified industrials			Reckitt & Colman	1,719	0.75
Harsco (USA)	1,573	0.69	Readicut	517	0.23
Tomkins	1,310	0.57	Health care		
Cookson	1,251	0.55	Baxter International (USA)	1,410	0.62
Powell Duffryn	1,089	0.48	Smith & Nephew	1,209	0.53
TT Group	995	0.43	Pall Corp (USA)	1,132	0.49
Swire Pacific (HK)	924	0.40	Pharmaceuticals		
Electronic & electrical equipment			Glaxo Wellcome	6,048	2.64
Philips Elec (Neth)	1,823	0.80	Smithkline Beecham	3,364	1.47
Siemens (Germany)	1,724	0.75	Novartis (Swiss)	2,568	1.12
W.W. Grainger (USA)	1,536	0.67	Zeneca	2,137	0.93
Xerox (USA)	1,437	0.63	American Home (USA)	1,255	0.55
General Electric	1,420	0.62	Pharmacia & Upjohn (Swed)	1,118	0.49
AVX (USA)	1,121	0.49	Tobacco		
GoldPeak Ind (HK)	1,076	0.47	B.A.T. Industries	2,382	1.04
Hitachi (Japan)	869	0.38	Philip Morris (USA)	1,540	0.67
Kyocera (Japan)	692	0.30	Gallaher	1,421	0.62
BICC	516	0.23			

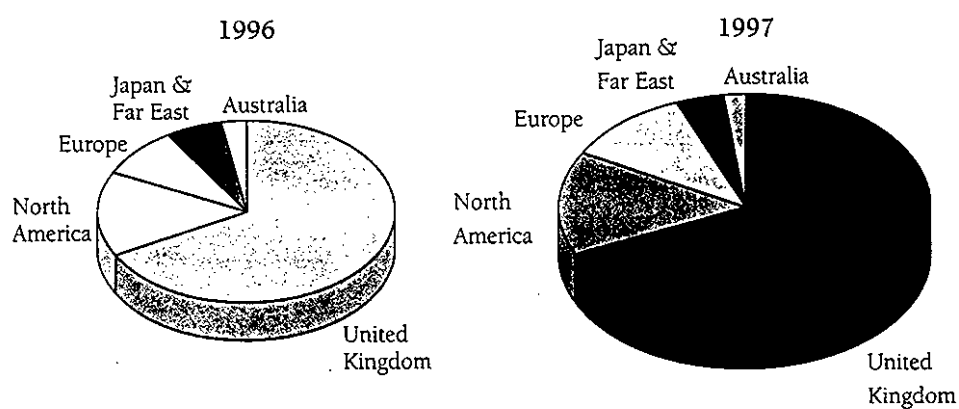
Valuation of investments continued

Services	£'000	%		£'000	%
Leisure & hotels			Gas distribution		
Ladbroke.....	1,452	0.63	BG	1,480	0.65
Granada.....	1,302	0.57			
Patriot American (USA).....	1,226	0.53	Water		
Media			Anglian.....	2,324	1.01
Reed International.....	1,586	0.69	Financial group		
United News & Media.....	1,386	0.60			
EMI	823	0.36	Banks, retail		
Retailers, food			Lloyds TSB.....	4,722	2.06
Tesco	1,584	0.69	HSBC	3,747	1.64
J Sainsbury	1,527	0.67	Nat West Bank	3,238	1.41
Safeway	1,132	0.49	Barclays	3,236	1.41
Retailers, general			Bank of Scotland.....	2,352	1.03
G.U.S.....	1,994	0.87	ABN Amro (Neth).....	2,179	0.95
Boots	1,928	0.84	Royal Bank of Scotland	2,010	0.88
Walgreen (USA).....	1,697	0.74	U.B.S. (Swiss)	1,936	0.84
Marks & Spencer	1,498	0.65	Citicorp (USA).....	1,537	0.67
JC Penney (USA)	1,320	0.58	Northern Rock.....	1,490	0.65
W.H.Smith.....	1,093	0.48	National Australia Bank (Aust)	1,443	0.63
Sears Holdings	578	0.25	Dexia France (France).....	1,408	0.61
Thorn.....	458	0.20	Standard Chartered.....	1,235	0.54
Telecommunications			Société Générale (France)	1,077	0.47
British Telecom.....	4,785	2.09	Deutsche Bank (Germany)	1,024	0.45
Cable & Wireless.....	1,605	0.70	Insurance		
Tele Danmark (Den)	1,132	0.49	Royal & Sun Alliance	1,839	0.80
Breweries, pubs & restaurants			General Accident	1,688	0.74
Bass	2,267	0.99	HSB (USA)	1,476	0.64
Scottish & Newcastle.....	1,566	0.68	GRE	1,389	0.61
Anheuser-Busch (USA).....	1,444	0.63	Sedgwick Group	1,269	0.55
Support services			Life assurance		
Shared Medical (USA)	1,845	0.81	Prudential	2,496	1.09
Rentokil Initial.....	1,802	0.79	London & Manchester.....	1,499	0.65
Williams.....	1,690	0.74	Britannic Assurance.....	1,323	0.58
Service Corp (USA)	1,653	0.72	National Mutual Asia (HK)	1,148	0.50
Secom (Japan).....	1,170	0.51	Other financial		
Leach Int (USA).....	212	0.09	E.D. & F Man	1,640	0.72
Transport			Gerrard & National	1,106	0.48
Railtrack.....	2,321	1.01	Takefuji (Japan)	896	0.39
Ocean Group	1,478	0.64	Property		
BAA.....	1,245	0.54	Land Securities	1,940	0.85
Transport Development	1,230	0.54	Slough Estates.....	1,580	0.69
P & O.....	1,177	0.51	Arden Realty (USA)	1,308	0.57
Utilities			Unibail (France)	1,093	0.48
Electricity			New World Dev (HK).....	715	0.31
National Grid.....	1,445	0.63	Hong Kong Land (HK)	113	0.05
Southern Electric	1,417	0.62	Investment Trusts		
Scottish Hydro	1,358	0.59	Wigmore Property	1,168	0.51
Powergen	1,267	0.55			

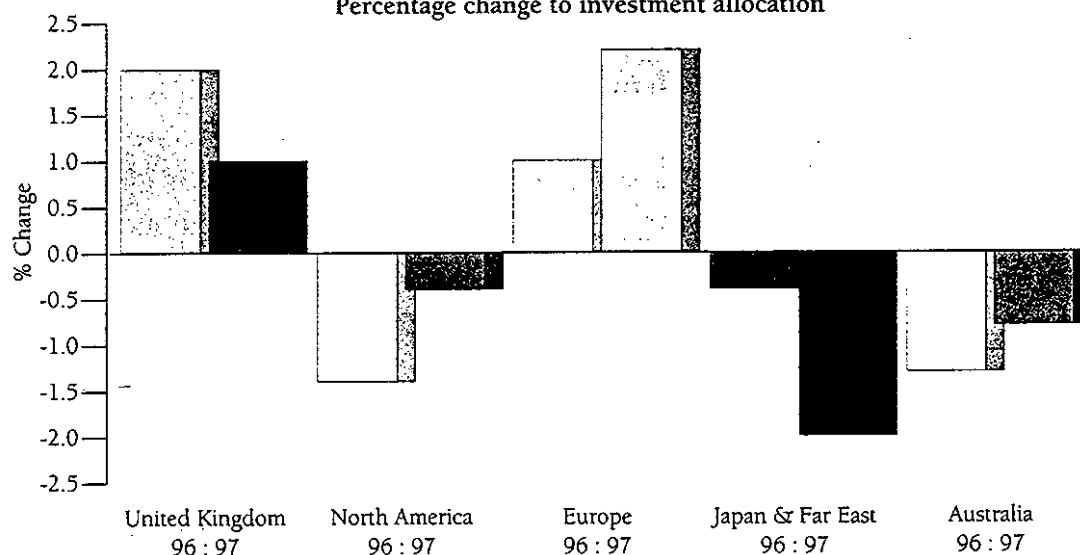
Changes in investments

	Valuation 31 Dec 1996	Purchases	Sales Proceeds	Appreciation/ (Depreciation)	Valuation 31 Dec 1997
	£'000	£'000	£'000	£'000	£'000
United Kingdom	125,829	23,450	(18,709)	26,330	156,900
North America	28,039	8,654	(9,765)	6,579	33,507
Europe	16,566	3,605	(727)	5,926	25,370
Japan & Far East	11,081	4,487	(7,029)	468	9,007
Australia	5,037	2,780	(3,685)	268	4,400
	<u>186,552</u>	<u>42,976</u>	<u>(39,915)</u>	<u>39,571</u>	<u>229,184</u>

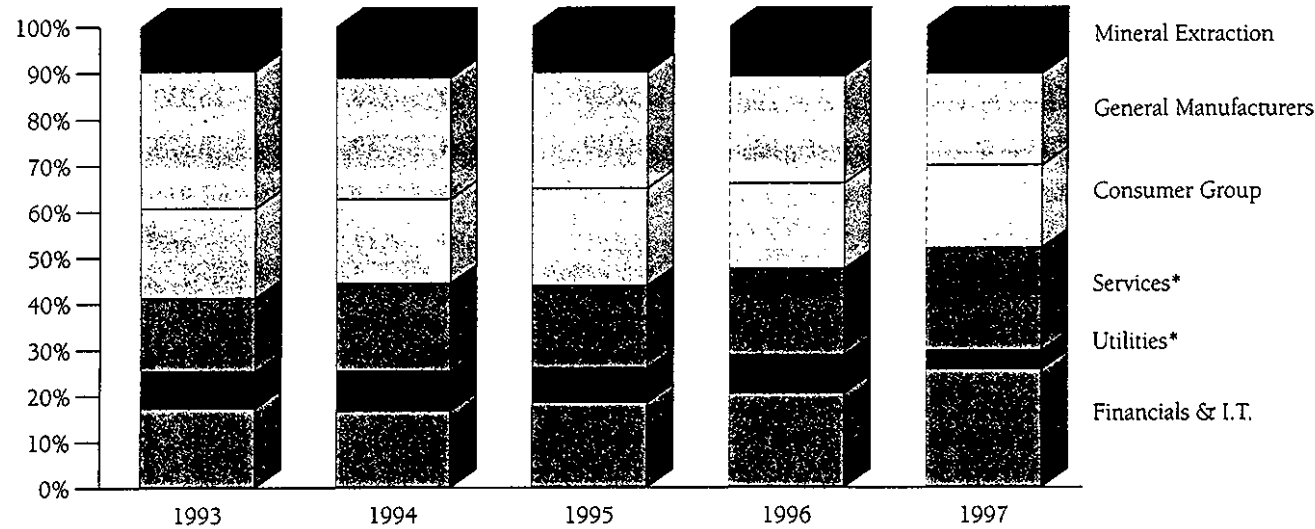
Changes in investment allocation by region



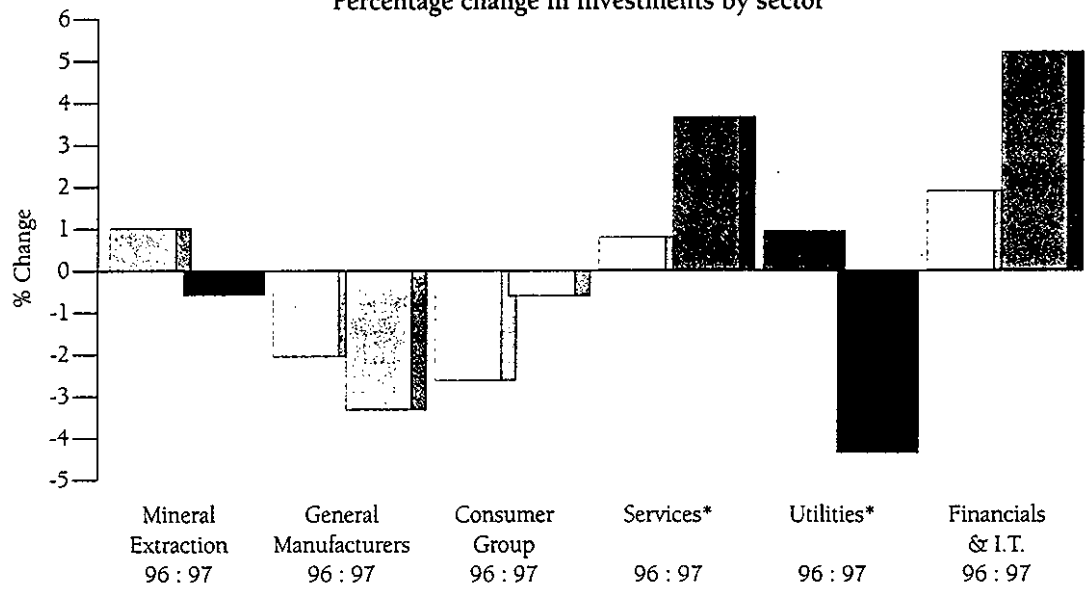
Percentage change to investment allocation



Changes in investments portfolio by sector 1993 – 1997



Percentage change in investments by sector



*Telecommunications reclassified from Utilities to Services in 1997.

Classification of investments

based on market values at 31 December 1997

	United Kingdom %	North America %	Europe %	Japan & Far East %	Australia %	Total 1997 £'000	1997 %	Total 1996 £'000	1996 %
Mineral extraction									
Extractive industries	0.80				0.88	3,869	1.68	4,157	2.22
Oil integrated	4.85	1.23	1.57			17,559	7.65	13,814	7.39
Oil exploration & production	0.51	0.58				2,481	1.09	2,581	1
	6.16	1.81	1.57	0.00	0.88	23,909	10.42	20,552	11.00
General manufacturers									
Building mats & merchants	1.12					2,557	1.12	1,824	0.98
Chemicals	2.07		0.98	0.57	0.41	9,255	4.03	7,535	4.04
Diversified industrials	2.03	0.69		0.40		7,141	3.12	12,423	6.66
Electronic & elect equip	0.85	1.79	1.55	1.15		12,213	5.34	10,701	5.73
Engineering	2.88	0.96				8,796	3.84	4,504	2.41
Engineering - vehicles	0.54	0.51				2,408	1.05	2,191	1.18
Printing paper & packaging	0.67	0.55				2,807	1.22	3,272	1.76
	10.16	4.50	2.53	2.12	0.41	45,177	19.72	42,450	22.76
Consumer group									
Alcoholic beverages	2.23					5,104	2.23	4,716	2.53
Food producers	2.44		1.07			8,058	3.51	9,167	4.92
Household goods and textiles	0.98					2,236	0.98	2,798	1.50
Health care	0.53	1.11				3,751	1.64	2,411	1.29
Pharmaceuticals	5.04	0.55	1.61			16,490	7.20	12,251	6.56
Tobacco	1.66	0.67				5,343	2.33	3,706	1.99
	12.88	2.33	2.68	0.00	0.00	40,982	17.89	35,049	18.79
Services									
Leisure & hotels	1.20	0.53				3,980	1.73	2,477	1.33
Media	1.65					3,795	1.65	4,285	2.31
Retailers food	1.85					4,243	1.85	3,237	1.74
Retailers general	3.29	1.32				10,564	4.61	8,153	4.37
Telecommunications	2.79		0.49			7,522	3.28	9,412	5.05
Breweries, pubs & restaurants	1.67	0.63				5,276	2.30	4,812	2.59
Support services	1.53	1.62		0.51		8,372	3.66	6,498	3.48
Transport	3.24					7,451	3.24	5,295	2.84
	17.22	4.10	0.49	0.51	0.00	51,203	22.32	44,169	23.71
Utilities									
Electricity	2.39					5,487	2.39	3,397	1.82
Gas distribution	0.65					1,480	0.65	1,347	0.72
Water	1.01					2,324	1.01	1,534	0.82
	4.05	0.00	0.00	0.00	0.00	9,291	4.05	6,278	3.36
Financials									
Banks (Retail)	9.66	0.67	3.32		0.63	32,681	14.28	20,696	11.09
Insurance	2.70	0.64				7,661	3.34	6,430	3.44
Life assurance	2.32			0.50		6,465	2.82	2,882	1.55
Other financial	1.20		0.02	0.43		3,778	1.65	2,538	1.35
Property	1.54	0.57	0.48	0.36		6,749	2.95	4,280	2.29
	17.42	1.88	3.82	1.29	0.63	57,334	25.04	36,826	19.72
Investment trusts	0.56					1,288	0.56	1,228	0.66
Total 1997	68.45	14.62	11.09	3.92	1.92	229,184	100.00	-	-
Total 1996	67.45	15.03	8.88	5.94	2.70	-	-	186,552	100.0

(The above table excludes bank balances and short term deposits.)

Shareholder information

Investment trust status

The Corporation carries on business as an investment trust company as defined in section 842(1) of the Income and Corporation Taxes Act 1988. It will continue to conduct its affairs so as to enable it to maintain Inland Revenue approval of the Corporation's status in this respect. So far as directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

Capital gains tax

To help investors in the Corporation to calculate their capital gains tax position, the prices of the Corporation's shares and stocks at key dates were as follows:

	Ordinary shares p	3.85% cumulative preference shares p	4.5% debenture stock units p
31 March 1982 (the start of indexation)	77.30	34.50	29.25
31 December 1996	931.00	63.00	57.00
31 December 1997	1,110.00	80.00	72.00

For shareholders who have purchased their shares through the Law Debenture Share Savings Scheme on a monthly basis and who wish to apply the Inland Revenue's optional basis of valuing holdings as if they had all been purchased in July, guidance notes have been prepared by the AITC and are available from the Company Secretary on request.

Company and share information

Information about the Corporation can be found on its internet web site <http://www.lawdeb.co.uk>

The market price of its ordinary shares continues to be published in the Financial Times, The Times, The Daily Telegraph, The Guardian, The Independent and the Daily Mail.

The analysis of ordinary shareholdings at 31 December 1997 is as follows:

	Number of shares	Proportion of ordinary capital(%)
Individuals	14,417,110	61.91
Bank nominees & other	4,879,868	20.96
Pension funds	1,284,588	5.52
Insurance companies	1,732,737	7.44
Trust companies	213,673	0.92
Investment companies	398,719	1.71
Public bodies	358,387	1.54
	<u>23,285,082</u>	<u>100.00</u>

Investment services to shareholders

The Corporation, in conjunction with the NatWest Group and The Royal Bank of Scotland plc, has designed a package of services to enable investors to build ordinary shareholdings conveniently and economically. Three separate methods of investment are available through National Westminster Bank Plc and The Royal Bank of Scotland plc.

- **A personal equity plan**

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

National Westminster Bank Plc, NatWest PEP Office, FREEPOST, 55 Mansell Street, London E1 8BR.
Tel No: 0171 895 5600

- **A monthly share savings plan**

Monthly savings from as little as £50 a month with a dividend reinvestment facility through the Administrator, The Royal Bank of Scotland plc. They can be contacted at:

The Administrator, The Law Debenture Corporation p.l.c., Share Savings Scheme, PO Box 23026, 12 Blenheim Place, Edinburgh EH7 5ZS. Tel No: 0131 523 9751

- **A postal share dealing service**

Regular dealings for lump sum investments or sales on preferential commission terms through NatWest Stockbrokers Limited. They can be contacted at:

NatWest Stockbrokers Limited, Corporate & Employee Services, FREEPOST, 55 Mansell Street, London E1 8BR.
Tel No: 0171 895 5448

References to services provided by members of the NatWest Group have been approved for the purposes of section 57 of the Financial Services Act 1986 by National Westminster Bank Plc, which is regulated by the Personal Investment Authority and IMRO.

The Royal Bank of Scotland plc is regulated by IMRO, SFA and the Personal Investment Authority.

NatWest Stockbrokers Limited is a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Please remember that the value of shares, and the income from them, can fall as well as rise, and that you may not recover the amount originally invested. This is not a recommendation to buy, hold or sell shares in The Law Debenture Corporation p.l.c. If you require any advice, you should consult a professional adviser.

Statements about taxation are based on current legislation and Inland Revenue practice, which may change. The availability and value of any tax reliefs depend on your personal circumstances. It should be noted that the Government has announced plans to replace PEPs with Individual Savings Accounts with effect from April 1999.

Law Debenture

Law Debenture trustee services

Managing Director

Christopher Duffett

Loan Capital Trusteeships

New Business

Julian Mason-Jebb

Denyse Anderson

Clive Rakestrow

Bill Rowland

Trust Administration

David Norris

Abigail Holladay

Stephen Norton

Securities and Cash Management

Graham Copson

Structured Finance

Nick Rice

Pension Scheme Trusteeships

Richard Thomas

Bruce McNess

David Barrow

John Bloxsome

Andy Gibson

Patrick Harrex

Robert Thomas

Service of Process

Anne Hills

Accounts & Finance

Peter Skeggs

David Evans

Company Secretary

Peter Skeggs

Law Debenture

Financial calendar

Dividend and interest payments

Ordinary shares

Interim announced August

paid October

Final announced March

paid April

Preference shares

paid 1 February and 1 August

4.5% debenture stock

paid 1 June and 1 December

Group results

Half year results

Announced in July

Full year results

Announced in March

Report and accounts

Published in March

Annual general meeting

Held in London in April

Payment methods for dividends

Dividends and interest can be paid to shareholders by means of BACS (Bankers Automated Clearing System). Mandate forms for this purpose are available on request from the Corporation's Registrars (see page 10).