Shires Income PLC

An investment trust focusing on high income, investing mainly in UK equities

Annual Report
31 March 2018

Aberdeen

Angel of the North,
Gateshead, Tyne and Wear

Front cover
The Kelpies is a 30 metre sculpture in Falkirk, Scotland.
Created by sculptor Andy Scott.
Photo by Nisbet Wylie Photography Ltd.

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Visit our Website

To find out more about Shires Income PLC, please visit:
shiresincome.co.uk

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all your Ordinary shares in Shires Income PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Financial Summary

Shires Income PLC (the "Company") was incorporated in 1929 and is an investment company with its Ordinary shares listed on the premium segment of the London Stock Exchange. The Company qualifies as an investment trust for tax purposes and does not have a fixed life.

The Company is governed by a board of directors, all of whom are independent, and has no employees. Like most other investment companies, it outsources its investment management and administration to an investment management group, the Standard Life Aberdeen Group, and other third party providers.

Net asset total return[AB]

+3.3%

2017 +24.5%

Benchmark index total return[B]

+1.2%

2017 +22.0%

Dividend per Ordinary share

13.00p

2017 12.75p

Share price total return[AB]

+12.2%

2017 +27.5%

Earnings per share (revenue)

13.69p

2017 13.08p

Dividend yield[C]

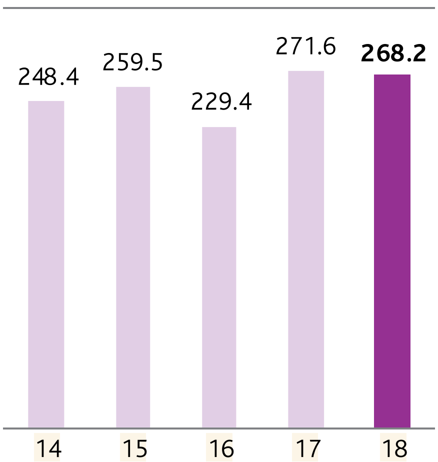
5.0%

2017 5.2%

[A] Alternative Performance Measure (see pages 15, 74 and 81).
[B] Total return represents capital return plus dividends reinvested.
[C] See definition on page 80.

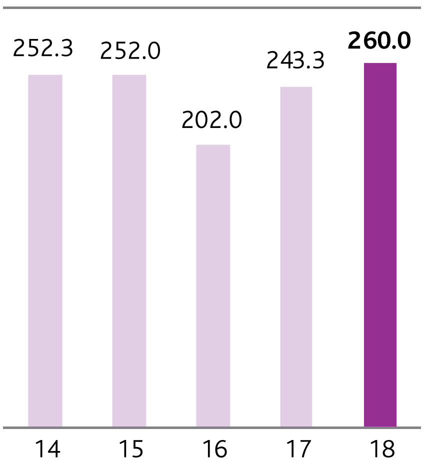
Net Asset Value per Ordinary share

At 31 March – pence



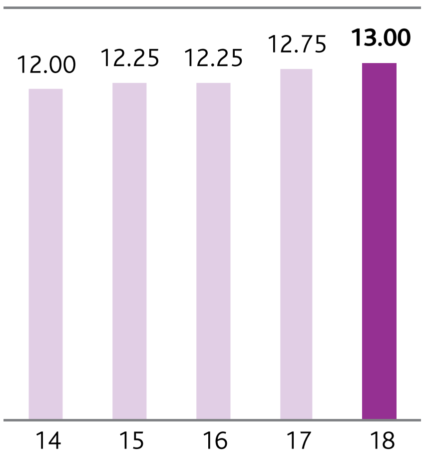
Share price per Ordinary share

At 31 March – pence



Dividends per Ordinary share

For year to 31 March - pence



Investment Objective

The Company's investment objective is to provide shareholders with a high level of income, together with the potential for growth of both income and capital from a diversified portfolio substantially invested in UK equities but also in preference shares, convertibles and fixed income securities.

Investment Policy

In pursuit of its objective, the Company's policy is to invest principally in the ordinary shares of UK quoted companies, and in convertible and preference shares with above average yields.

The full text of the Company's investment policy is included on page 8.

Benchmark

The Company's benchmark is the FTSE All-Share Index (total return).

Management

The Company's Manager is Aberdeen Fund Managers Limited ("AFML", the "AIFM" or the "Manager") which has delegated the investment management of the Company to Aberdeen Asset Managers Limited ("AAML" or the "Investment Manager"). Both companies are wholly owned subsidiaries of Standard Life Aberdeen plc, which was formed by the merger of Aberdeen Asset Management PLC and Standard Life plc on 14 August 2017. Aberdeen Standard Investments is a brand of the investment businesses of the merged entity.

Financial Calendar

5 July 2018	Annual General Meeting (London, 12 noon)
27 July 2018	Proposed Ordinary shares final dividend 2017/2018 payable
30 September 2018	3.5% Preference shares half year dividend payable
26 October 2018	Ordinary shares first interim dividend 2018/2019 payable
November 2018	Half-Yearly Financial Report announced for the period ending 30 September 2018
25 January 2019	Ordinary shares second interim dividend 2018/2019 payable
31 March 2019	3.5% Preference shares half year dividend payable
26 April 2018	Ordinary shares third interim dividend 2018/2019 payable
May 2019	Annual results announced for the year ending 31 March 2019

Chairman's Statement

Robert Talbut
Chairman

Performance

In my first year as Chairman of your Company, I am pleased to report on another year of positive performance.

During the year ended 31 March 2018, the Company's net asset value per share increased by 3.3% on a total return basis, compared to a total return from our benchmark, the FTSE All-Share Index, of 1.2%. The share price total return was 12.2%, following a significant re-rating of the Company's shares which is described in more detail below.

The Company's out-performance came mainly from its preference shares, which generated a total return of 12.2%, while the equity portfolio produced a total return of 1.4%. Within the equity portfolio, it was the Company's exposure to smaller companies, through its holding in Aberdeen Smaller Companies Income Trust PLC, that made the most positive contribution to performance.

Political events dominated sentiment in the UK during the first part of the financial year, with the loss of the Conservative Party's majority in the General Election in June and the progression of Brexit negotiations. Markets reacted quite calmly during this period with returns from equities muted during the first half of the financial year. Markets then rallied towards the end of 2017, with the FTSE All-Share Index reaching an all-time high in January, driven in part by the announcement of significant reform of tax policy in the US which was warmly received by investors. Smaller companies performed particularly well in 2017. However, there was a sell-off in markets during the final three months of the financial year, with the FTSE All-Share Index falling by 6.9% in total return terms during that period as investors become concerned about the timing of future interest rates rises in the UK, the potential for other Central Banks to start removing the exceptional monetary stimulus which has been in place, and moves by the US to address global trading relationships and in particular the potential for increased tariffs against China, the European Union and other nations.

More detail on markets and the Company's performance for the year are covered in the Investment Manager's Review.

Preference Shares

The Company's portfolio of preference share holdings represented 27.5% of the portfolio as at 31 March 2018 (2017: 25.7%).

Shareholders may be aware that, on 8 March 2018, Aviva plc published its annual results, in which it commented on plans to cancel at par value certain preference shares issued by members of the Aviva group (including the preference shares issued by General Accident held by the Company) as part of a proposed reorganisation of its capital structure. The market reaction to this announcement was very negative, with the news having an adverse effect on the prices of other similar preference share stocks, including those in the Company's portfolio.

As a result of significant shareholder, regulatory and industry body responses, including from your Manager, the Board was pleased to note that, on 23 March 2018, Aviva made an announcement that it had decided not to redeem its preference shares at this time.

Despite the initial fall in value of the Company's preference share portfolio when Aviva's initial announcement was made, the Board is pleased that there has subsequently been a recovery, with some holdings now being valued at pre announcement levels. As stated above, the Company's preference shares generated a total return of 12.2% for the year. There remains uncertainty over the longer-term future prospects for these securities and the Board and the Manager will keep them closely under review.

Earnings

The Company's revenue return for the year was 13.69p per share, compared to 13.08p per share for the previous year. The majority of companies in the portfolio grew their dividends and there were a number of special dividends received during the year, which reflected another year of respectable corporate earnings growth. That said, we were not immune to disappointments, the most notable of these being the cancellation by Pearson of its dividend. The Company subsequently sold this holding. More information on this can be found in the Investment Manager's review.

Dividend

The Board is proposing a final dividend of 4.00p per share (2017 – 3.75p), which will be paid on 27 July 2018 to Shareholders on the register on 6 July 2018. This final dividend brings total dividends for the year to 13.00p per share (2017 – 12.75p). Subject to unforeseen circumstances, it is proposed to continue to pay three quarterly interim dividends of 3.00p each and, as in previous years, the Board will decide on next year's final dividend having reviewed the full year results.

Discount

As stated above, the share price total return for the year was 12.2%. Prior to 2015, the Company's shares had enjoyed a period of trading around par but since then had traded at a discount. The discount at the start of the year was 8.0% (on an ex-income basis), and the Board was pleased that the recent period of good performance has been recognised by investors, with a significant narrowing of the discount. The shares were trading at just below their net asset value at the end of the year.

Portfolio Profile and Gearing

The Company's gearing level was broadly unchanged during the year, decreasing marginally from 21.1% to 20.8%. The Board continually monitors the level of gearing and, although the absolute level may look high, strategically we take the view that it is deployed notionally into fixed interest securities which bring diversification to the Company's total revenue stream but with lower volatility than would be expected from a 100% equity portfolio. The Board takes the view that the combination of fixed income securities and equities allows for an appropriate level of risk within the portfolio in order to achieve the overall investment objective.

During the course of the year, the Company renewed its £20 million loan facility for a further 3 years, taking advantage of low interest rates by securing £10 million of this facility at a fixed rate of 1.956%. A total of £19 million was drawn down at the year end. Details of the loan facility are set out in note 13 to the financial statements.

Management Arrangements

As previously reported, the merger of Aberdeen Asset Management PLC and Standard Life plc completed in August 2017. Since the year end, the Company has announced that, following the merger and the subsequent integration of the equity teams of the two businesses, Iain Pyle has been appointed as the lead manager of the Company's investment portfolio. The Board believes that the Company will benefit from the Investment Manager's enlarged UK equity team which, following the merger, now comprises some 15 investment professionals and, in particular, the increased resource of its UK equity income group. No changes are envisaged to the Company's investment objective or policy as a result of this change, nor to the Investment Manager's investment process.

The Board would like to take this opportunity to thank the Company's previous lead manager, Ed Beal, who successfully managed the Company's portfolio for ten years in a diligent and thoughtful manner. Over this period, the Company outperformed its benchmark on a one, three, five and ten year basis.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Thursday 5 July 2018 at the offices of Standard Life Aberdeen in London. Iain Pyle will make a presentation and lunch will be available following the Meeting. This is a good opportunity for shareholders to meet the Board and Investment Manager, and to ask questions formally or informally, and we would encourage you to attend. Those who are not able to attend are requested to complete and return the forms of proxy enclosed with the Annual Report to ensure that their votes are represented at the Meeting.

The Notice of the Annual General Meeting is contained on pages 83 to 86.

Outlook

Following a period of low volatility and strong performance from equity markets, there is greater uncertainty as to their future direction in the year ahead. With a positive economic backdrop, interest rates are expected to rise again this year across developed markets, however central banks will have to proceed carefully so as not to upset economic growth as they seek to move to a more normalised interest rate environment. However, it must be acknowledged that just as the instigation of unconventional monetary stimulus has had a materially positive effect upon all financial markets since the financial crisis, its removal, albeit gradually, brings some uncertainty over the impact. Markets are also likely to be sensitive to any further restrictions on global trade and, in the UK, the progression of Brexit negotiations. Overall, after pretty strong synchronised global growth through 2017, there are some signs that momentum has lessened in 2018 and how this evolves will be important to the outlook for equity markets. Although equity valuations are not stretched by historic standards, they do now appear more finely balanced following their recent strong performance, and are therefore likely to be more sensitive to unexpected economic or political events.

However, as we have stated in previous years, we believe that the portfolio is well diversified in terms of asset class, sector and geographic exposure and that, despite the various uncertainties facing markets at the current time, the Investment Manager's focus on investing in good quality companies with strong fundamentals should benefit the portfolio over the longer term in meeting the Company's investment objective.

Robert Talbut
Chairman
29 May 2018

Strategic Report

The Company is an investment trust with a premium listing on the London Stock Exchange.

The Company's investment objective is to provide shareholders with a high level of income, together with the potential for growth of both income and capital from a diversified portfolio substantially invested in UK equities but also in preference shares, convertibles and fixed income securities.

1929

Shires Income PLC was incorporated in 1929; investment trusts are the oldest form of collective investment in the world.

Forth Bridge, six miles west of Edinburgh City Centre

Overview of Strategy

Business Model

The business of the Company is that of an investment company which qualifies as an investment trust for tax purposes. The Directors do not envisage any change in this activity in the foreseeable future.

Investment Objective

The Company's investment objective is to provide shareholders with a high level of income, together with the potential for growth of both income and capital from a diversified portfolio substantially invested in UK equities but also in preference shares, convertibles and fixed income securities.

Investment Policy

In pursuit of its objective, the Company's policy is to invest principally in the ordinary shares of UK quoted companies, and in convertible and preference shares with above average yields.

The Company generates income primarily from ordinary shares, convertibles and preference shares. It also achieves income by writing call and put options on shares owned, or shares the Company would like to own. By doing so, the Company generates premium income.

Risk Diversification

In order to ensure adequate diversification, the Board sets absolute limits on maximum holdings and exposures in the portfolio from time to time. These limits do not form part of the investment policy and can be changed or over-ridden with Board approval. The current limits are disclosed under the heading "Board Investment Limits" on page 12.

Gearing

The Directors are responsible for determining the gearing strategy of the Company. Gearing is used with the intention of enhancing long-term returns. Gearing is subject to a maximum equity gearing level of 35% of net assets at the time of draw down. Any borrowing, except for short-term liquidity purposes, is used for investment purposes.

Delivering the Investment Policy

The Directors are responsible for determining the investment objective and investment policy of the Company, although any significant changes are required to be approved by shareholders at a general meeting. Day-to-day management of the Company's assets has been delegated, via the AIFM, to the Investment Manager.

Investment Process

The Investment Manager believes that, over the long-term, share prices reflect the underlying business fundamentals of companies and hence investments are made based on research undertaken on individual companies. This is known as a "bottom up" investment process. This process involves a disciplined evaluation of potential investments through meeting investee companies. New investments are not made without the Investment Manager having first met the management of the investee company, undertaken further analysis and written detailed notes to outline the underlying investment merits. A company's value is estimated in two stages, quality then price. Quality is defined by reference to management, business focus, balance sheet and corporate governance. Price is assessed relative to key financial ratios and business prospects. Top-down investment factors are secondary in the Investment Manager's portfolio construction, with diversification rather than formal controls guiding stock and sector weights.

The Investment Manager's portfolios are generally run conservatively, with an emphasis on traditional buy-and-hold and, when they see anomalous price movements within stock markets, to top-slice or top-up positions. This approach usually results in low turnover within portfolios.

Portfolios are managed by the Investment Manager on a team basis, with individual fund managers carrying out their own research and analysis. All ideas are shared via formal committees and common databases, with desk heads ensuring consistency. Further information on the investment process and risk controls employed by the Investment Manager is contained on page 76.

Benchmark

In assessing its performance, the Company compares its returns with the returns of the FTSE All-Share Index (total return).

Key Performance Indicators ("KPIs")

The Board uses a number of financial performance measures to assess the Company's success in achieving its objective and determining the progress of the Company in pursuing its investment policy. The main KPIs identified by the Board in relation to the Company, which are considered at each Board meeting, are shown in the following table:

KPI	Description
Performance of NAV	The Board considers the Company's NAV total return figures to be the best indicator of performance over time and this is therefore the main indicator of performance used by the Board. The figures for each of the past ten years are set out on page 17.
Performance against benchmark index	The Board measures performance over the medium to long term, on a total return basis against the benchmark index – the FTSE All-Share Index (total return). Cumulative performance figures for the past ten years are set out on page 17. The figures for this year and the past three and five years are set out on page 15 and a graph showing performance against the benchmark index over the past five years is shown on page 16.
Revenue return per Ordinary share	The Board monitors the Company's net revenue return (earnings per share). The revenue returns per Ordinary share for each of the past ten years are set out on page 17.
Dividend per share	The Board monitors the Company's annual dividends per Ordinary share. The dividends per share for each of the past ten years are set out on page 17.
Share price performance	The Board monitors the performance of the Company's share price on a total return basis. Cumulative performance figures for the past ten years are set out on page 17. The returns for this year and for the past three and five years are set out on page 15 and a graph showing the share price total return performance against the benchmark index over the past five years is included on page 16.
Discount/premium to NAV	The discount/premium relative to the NAV per share represented by the share price is closely monitored by the Board. A graph showing the history of the premium/discount for the past five years is included on page 16.
Ongoing charges	The Board monitors the Company's operating costs carefully. Ongoing charges for the year and the previous year are disclosed on page 14.

Principal Risks and Uncertainties

There are a number of risks which, if realised, could have a material adverse effect on the Company and its financial condition, performance and prospects. The risks and uncertainties faced by the Company are reviewed by the Audit Committee in the form of a risk matrix and the principal risks and uncertainties facing the Company at the current time, together with a description of the mitigating actions the Board has taken, are set out in the table below. The Board has carried out a robust assessment of these risks, which include those that would threaten its business model, future performance, solvency or liquidity. The principal risks associated with an investment in the Company's shares are published monthly in the Company's factsheet and they can be found in the pre-investment disclosure document ("PIDD") published by the Manager, both of which are available on the Company's website.

Overview of Strategy continued

Description	Mitigating Action
Investment performance – performance of the portfolio when measured against the benchmark.	The Board meets the Manager on a regular basis and keeps investment performance under close review. Representatives of the Investment Manager attend all Board meetings and a detailed formal appraisal of the Standard Life Aberdeen Group is carried out annually by the Management Engagement Committee. The Board sets, and monitors, the investment restrictions and guidelines, and receives regular reports which include performance reporting on the implementation of the investment policy, the investment process, risk management and application of the guidelines. Investment risk within the portfolio is managed in three ways: • Adherence by the Investment Manager to the investment process in order to minimise investments in poor quality companies and/or overpaying. • Diversification of investment - seeking to invest in a wide variety of companies with strong balance sheets and the earnings power to pay increasing dividends. In addition, investments are diversified by sector in order to reduce the risk of a single large exposure. The Company invests mainly in equities, preference shares and convertibles. • Adherence by the Investment Manager to the investment limits set by the Board (see page 12). **Investment in smaller companies** Rather than holding a number of smaller companies' shares, the Company invests indirectly in this part of the equity market through one holding in Aberdeen Smaller Companies Income Trust PLC, which is also managed by the Manager. The Directors regularly review this holding (currently 9.1% of the Company's portfolio). All of the directors of Aberdeen Smaller Companies Income Trust PLC are independent of Shires Income PLC. The Manager does not charge any management fee in respect of the amount of the Company's assets attributable to this holding. **Investment in preference shares** The Company has longstanding holdings in a number of preference shares with no fixed redemption dates, as detailed on page 27 (representing 27.5% of the Company's portfolio). The Directors regularly review these investments, which are held primarily to enhance the income generation of the Company. By their nature, their price movements will be subject to a number of factors and, in normal market conditions, will tend to respond less to pricing movements in equity markets. Issue sizes of these preference shares are normally relatively small and with associated low secondary market liquidity. As explained in the Chairman's Statement on page 4, there remains uncertainty over the longer-term future prospects, particularly the duration, for some of these securities and the Board and the Manager will keep them closely under review.
Failure to maintain and grow the dividend over the longer term – the level of the Company's dividends and future dividend growth will depend on the performance of the underlying portfolio.	The Directors review detailed income forecasts at each Board meeting. The Company has built up significant revenue reserves which can be drawn upon should there be a shortfall in revenue returns.

Widening of discount – a number of factors including the setting of an unattractive strategic proposition, changing investor demand and investment underperformance may lead to a decrease in demand for the Company's shares and a widening of the difference between the share price and the net asset value per share.	The Board monitors the Company's share price relative to the net asset value per share and keeps the level of discount at which the Company's shares trade under review. The Board also keeps the investment objective and policy under review and holds an annual strategy meeting where it reviews investor relations reports and updates from the Investment Manager and the Company's Broker. The Directors are updated at each Board meeting on the composition of, and any movements in, the shareholder register.
Financial and economic – the financial and economic risks associated with the portfolio could result in losses to the Company.	The financial and economic risks associated with the Company include market risk, liquidity risk and credit risk, all of which the Investment Manager seeks to mitigate. Further details of the steps taken to mitigate the financial risks associated with the portfolio are set out in note 18 to the financial statements.
Gearing – a fall in the value of the Company's investment portfolio could be exacerbated by the impact of gearing. It could also result in a breach of loan covenants.	The Board sets the gearing limits within which the Investment Manager can operate. Gearing levels and compliance with loan covenants are monitored on an ongoing basis by the Manager and at regular Board meetings. In the event of a possible impending covenant breach, appropriate action would be taken to reduce borrowing levels. The financial covenants attached to the Company's borrowings currently provide for significant headroom. The maximum equity gearing level is 35% of net assets at the time of draw down, which constrains the amount of gearing that can be invested in equities which are more volatile than the fixed interest part of the portfolio. The Board and the Investment Manager keep under review options available to protect a portion of the portfolio from a sudden decline in markets.
Regulatory – failure to comply with relevant laws and regulations could result in fines, loss of reputation and potentially loss of an advantageous tax regime.	The Board and Manager monitor changes in government policy and legislation which may have an impact on the Company and the Audit Committee monitors compliance with regulations by reviewing internal control reports from the Manager. From time to time the Board employs external advisers to advise on specific matters.
Operational – the Company is dependent on third parties for the provision of all systems and services (in particular, those of the Standard Life Aberdeen Group) and any control failures and gaps in their systems and services could result in a loss or damage to the Company.	The Board receives reports from the Manager on its internal controls and risk management and receives assurances from all its other significant service providers on at least an annual basis, including on matters relating to cyber security. Written agreements are in place with all third party service providers. The Manager monitors closely the control environments and quality of services provided by third parties, including those of the Depositary and Custodian, through service level agreements, regular meetings and key performance indicators. Further details of the internal controls which are in place are set out in the Audit Committee's Report on pages 42 and 43.

Overview of Strategy continued

Board Investment Limits

In order to ensure adequate diversification, the Board has set absolute limits on maximum holdings and exposures in the portfolio at the time of acquisition. These can only be over-ridden with Board approval. The current limits include the following:

- Maximum 10% of total assets invested in the equity securities of overseas companies;
- Maximum 7.5% of total assets invested in the securities of one company (excluding Aberdeen Smaller Companies Income Trust PLC); and
- Maximum 5% of quoted investee company's ordinary shares (excluding Aberdeen Smaller Companies Income Trust PLC).

Preference shares

The Company also invests in preference shares, primarily to enhance the income generation of the Company. The majority of these investments are in large financial institutions. Issue sizes are normally relatively small and associated low volumes of trading could give rise to a lack of liquidity. The maximum holding in preference shares is managed by the first guideline referred to above. In addition, the Company cannot hold more than 10% of any investee company's preference shares.

Traded options contracts

The Company enters into traded option contracts, also primarily to enhance the income generation of the Company. The risks associated with these option contracts are managed through the principal guidelines below, which operated in the year under review:

- Call options written to be covered by stock;
- Put options written to be covered by net current assets/borrowing facilities;
- Call options not to be written on more than 100% of a holding of stock;
- Call options not to be written on more than 30% of the equity portfolio; and
- Put options not to be written on more than 30% of the equity portfolio.

External Agencies

In addition to the services provided to the Company by the Standard Life Aberdeen Group, the Board has contractually delegated to external agencies certain services, including: depositary services (which include the safekeeping of the Company's assets) (BNP Paribas Securities Services, London Branch) and share registration services (Equiniti Limited). Each of these services was entered into after full and proper consideration by the Board of the quality and cost of services offered. In addition, day-to-day accounting and administration services are provided, through delegation by the Manager, by BNP Paribas Securities Services.

Promoting the Company

The Board recognises the importance of promoting the Company to prospective investors both for improving liquidity and enhancing the value and rating of the Company's shares. The Board believes an effective way to achieve this is through subscription to, and participation in, the promotional programme run by the Standard Life Aberdeen Group on behalf of a number of investment trusts under its management. The Company's financial contribution to the programme is matched by the Standard Life Aberdeen Group. The Manager's marketing and investor relations teams report to the Board giving analysis of the promotional activities as well as updates on the shareholder register and any changes in the make-up of that register.

The purpose of the promotional programme is both to communicate effectively with existing shareholders and to gain new shareholders with the aim of improving liquidity and enhancing the value and rating of the Company's shares. Communicating the long-term attractions of the Company is key and therefore the Company also supports the Manager's investor relations programme which involves regional roadshows, promotional and public relations campaigns.

Board Diversity

The Board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the Board in order to allow it to fulfil its obligations. The Board also recognises the benefits and is supportive of the principle of diversity in its recruitment of new Board members. The Board will not display any bias for age, gender, race, sexual orientation, religion, ethnic or national origins, or disability in considering the appointment of its Directors. In view of its size, the Board will continue to ensure that all appointments are made on the basis of merit against the specification prepared for each appointment and the Board does not therefore consider it appropriate to set measurable objectives in relation to its diversity.

At 31 March 2018, there were three male Directors and one female Director.

Environmental, Social and Human Rights Issues

The Company has no employees as the Board has delegated the day-to-day management and administrative functions to the Manager. There are therefore no disclosures to be made in respect of employees. The Company's socially responsible investment policy is set out below.

Socially Responsible Investment Policy

The Directors, through the Investment Manager, encourage companies in which investments are made to adhere to best practice in the area of corporate governance and socially responsible investing. They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary, to improve their policies in both areas.

The Manager's ultimate objective, however, is to deliver superior investment returns for the Company's shareholders. Accordingly, whilst the Manager will seek to favour companies which pursue best practice in these areas, this must not be to the detriment of the return on the investment portfolio.

UK Stewardship Code and Proxy Voting as an Institutional Shareholder

Responsibility for actively monitoring the activities of portfolio companies has been delegated by the Board to the Manager which has sub-delegated that authority to the Investment Manager.

The full text of the Company's response to the Stewardship Code may be found on its website.

Modern Slavery Act

Due to the nature of the Company's business, being a company that does not offer goods and services to customers, the Board considers that it is not within the scope of the Modern Slavery Act 2015 because it has no turnover. The Company is therefore not required to make a slavery and human trafficking statement. In any event, the Board considers the Company's supply chains, dealing predominantly with professional advisers and service providers in the financial services industry, to be low risk in relation to this matter.

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Viability Statement

The Board considers the Company, with no fixed life, to be a long term investment vehicle but, for the purposes of this viability statement, has decided that three years is an appropriate period over which to report. The Board considers that this period reflects a balance between a longer term investment horizon and the inherent uncertainties within equity markets.

In assessing the viability of the Company over the review period, the Directors have focused upon the following factors:

- The principal risks and uncertainties detailed on pages 9 to 11 and the steps taken to mitigate these risks.
- The ongoing relevance of the Company's investment objective.
- The liquidity of the Company's portfolio. The majority of the portfolio is invested in readily realisable listed securities.
- The level of ongoing expenses. The Company's annual expenses, excluding the cost of the dividend, are expected to continue to be more than covered by annual investment income.
- The level of gearing. This is closely monitored and the financial covenants attached to the Company's borrowings provide for significant headroom.

In making its assessment, the Board has considered that there are other matters that could have an impact on the Company's prospects or viability in the future, including a large economic shock, significant stock market volatility, and changes in regulation or investor sentiment.

Taking into account the Company's current position and the potential impact of its principal risks and uncertainties, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of three years from the date of approval of this Report.

Outlook

The Board's view on the general outlook for the Company can be found in the Chairman's Statement on pages 5 and 6 whilst the Investment Manager's views on the outlook for the portfolio are included on pages 23 and 24.

On behalf of the Board
Robert Talbut
Chairman
29 May 2018

Results

	31 March 2018	31 March 2017	% change
Total investments	£96,541,000	£97,826,000	–1.3
Shareholders' funds	£80,465,000	£81,477,000	–1.2
Market capitalisation[A]	£77,994,000	£72,969,000	+6.9
Net asset value per share (see page 81 for definition)	268.24p	271.61p	–1.2
Net asset value per share (ex-income)[B]	260.52p	264.50p	–1.5
Share price (mid-market on London Stock Exchange)	260.00p	243.25p	+6.9
Discount to NAV (cum-income)	3.1%	10.4%	
Discount to NAV (ex-income)	0.2%	8.0%	
Gearing (see page 80 for definition)			
Net gearing	20.8%	21.1%	
Dividend and earnings			
Revenue return per share[C]	13.69p	13.08p	+4.7
Dividend per share[D]	13.00p	12.75p	+2.0
Dividend cover (see page 80 for definition)	1.05	1.03	
Revenue reserves[E]	£6,795,000	£6,508,000	
Operating costs			
Ongoing charges ratio[F]	0.95%	1.04%	

[A] Represents the number of Ordinary shares in issue in the Company multiplied by the Company's share price.
[B] Based on capital only NAV (see page 66 for details)
[C] Measures the revenue earnings for the year divided by the weighted average number of Ordinary shares in issue (see Statement of Comprehensive Income).
[D] The figures for dividend per share reflect the years in which they were earned (see note 9 on pages 62 and 63).
[E] The revenue reserve figure does not take account of the third interim or final dividend amounting to £2,100,000 (2017 – £2,025,000) combined.
[F] Considered to be an Alternative Performance Measure. Ongoing charges ratio calculated in accordance with guidance issued by the AIC as the total of the management fee and administrative expenses divided by the average net asset value including income throughout the year (see note 22 on page 74 for the calculation) .

Performance (total return)

	1 year % return	3 year % return	5 year % return
Net asset value[A]	+3.3	+19.6	+46.3
Share price[A] (based on mid-market)	+12.2	+21.0	+44.7
FTSE All-Share Index	+1.2	+18.6	+37.6

[A] Alternative Performance Measure (see pages 2, 74 and 81).
All figures are for total return and assume re-investment of net dividends excluding transaction costs.
Source: Aberdeen Fund Managers, Morningstar & Factset

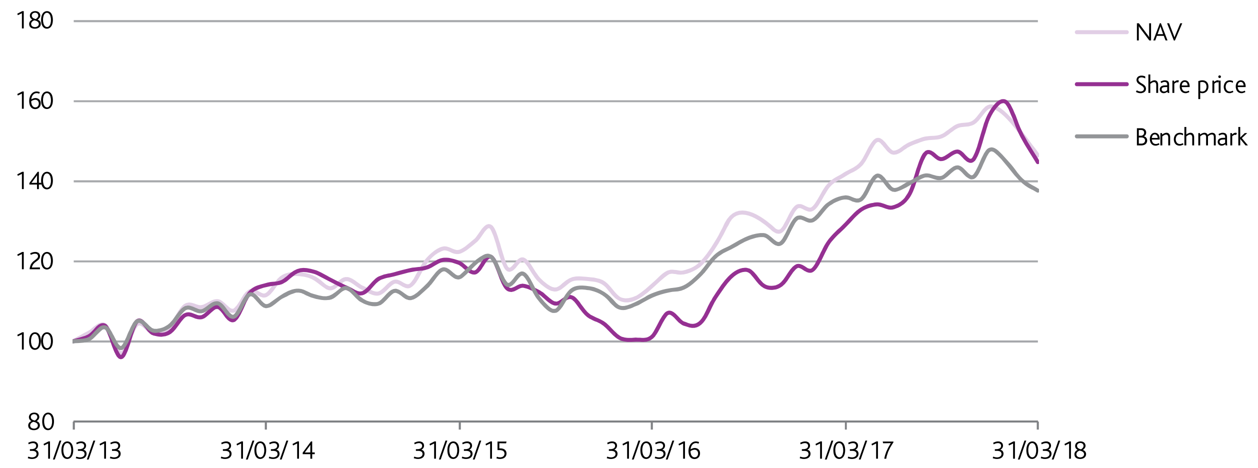
Dividends

	Rate per share	xd date	Record date	Payment date
First interim dividend	3.00p	5 October 2017	6 October 2017	27 October 2017
Second interim dividend	3.00p	4 January 2018	5 January 2018	26 January 2018
Third interim dividend	3.00p	5 April 2018	6 April 2018	27 April 2018
Proposed final dividend	4.00p	5 July 2018	6 July 2018	27 July 2018
2017/18	**13.00p**			
First interim dividend	3.00p	6 October 2016	7 October 2016	28 October 2016
Second interim dividend	3.00p	5 January 2017	6 January 2017	27 January 2017
Third interim dividend	3.00p	6 April 2017	7 April 2017	28 April 2017
Final dividend	3.75p	6 July 2017	7 July 2017	28 July 2017
2016/17	**12.75p**			

Performance

Total Return of NAV and Ordinary Share Price vs FTSE All-Share Index

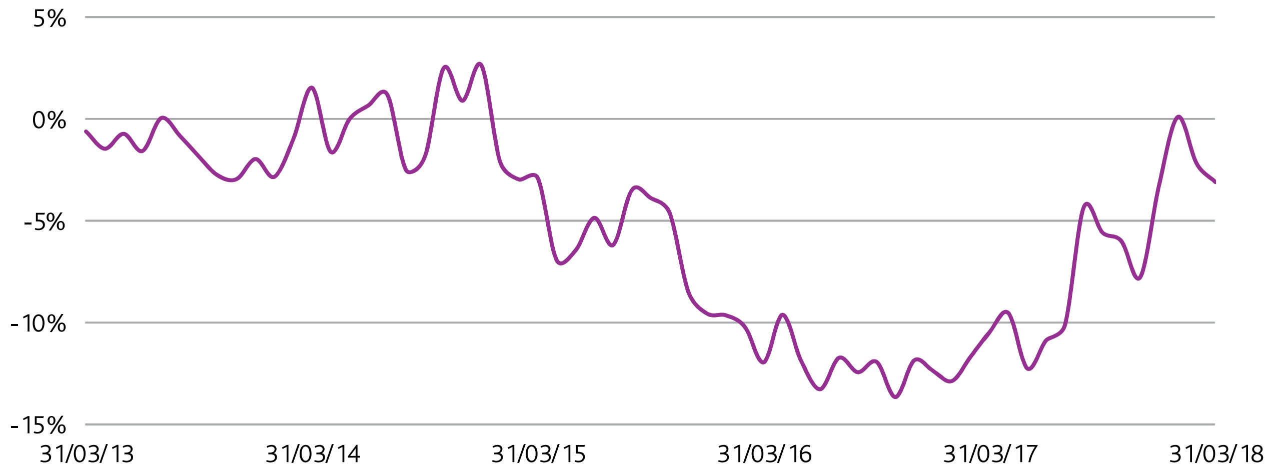
Figures are total return and have been rebased to 100 at 31 March 2013



Source: Aberdeen Fund Managers, Morningstar & Lipper

Ordinary Share Price Premium/(Discount) to NAV (cum-income)

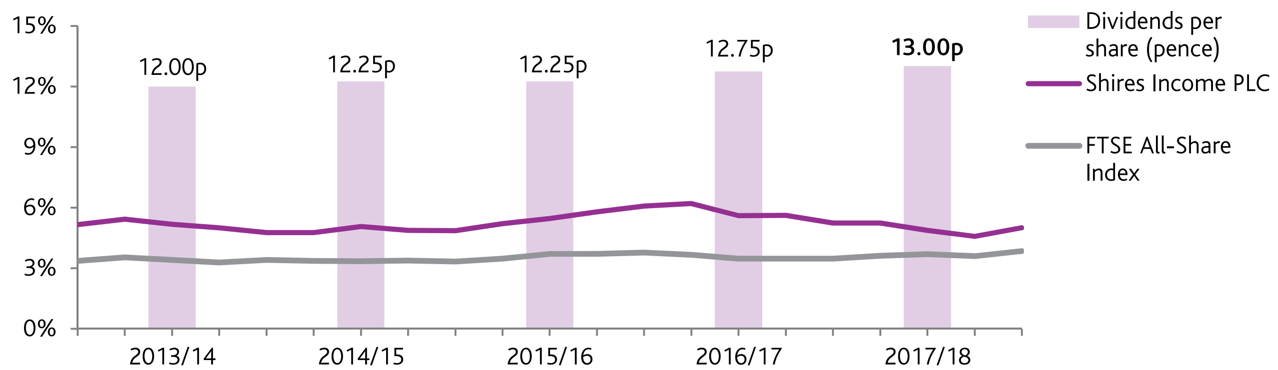
Five years to 31 March 2018



Source: Morningstar & Lipper

Net Dividend Yield

Five years to 31 March 2018



Ten Year Financial Record

Year to 31 March	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue available for ordinary dividends (£'000)	5,536	3,512	3,292	3,615	3,556	3,789	3,877	3,617	3,925	4,106
Per share (p)										
Net revenue earnings	18.8	11.8	11.1	12.2	11.9	12.6	12.9	12.1	13.1	13.7
Net dividends paid/proposed	19.75	12.00	12.00	12.00	12.00	12.00	12.25	12.25	12.75	13.00
Net total earnings	(112.9)	85.3	22.6	7.4	53.5	26.0	23.1	(17.8)	54.5	9.4
Net asset value	118.5	186.8	197.5	192.9	234.4	248.4	259.5	229.4	271.6	268.2
Share price (mid-market)	109.0	184.0	190.0	194.5	233.0	252.3	252.0	202.0	243.3	260.0
Shareholders' funds (£m)	35.2	55.5	58.6	57.3	70.3	78.7	77.8	68.8	81.5	80.5

The figures for 2011 to 2017 are for the Company only, following the dissolution of the subsidiaries in May 2011.

Cumulative Performance

Rebased to 100 at 31 March 2008

As at 31 March	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net asset value	100.0	47.2	74.3	78.5	76.7	93.2	98.8	103.2	91.2	108.0	106.7
Net asset value total return[A]	100.0	52.2	92.4	104.1	108.5	140.0	156.2	171.2	159.3	198.3	204.9
Share price performance	100.0	49.5	83.6	86.4	88.4	105.9	114.7	114.5	91.8	110.6	118.2
Share price total return[A]	100.0	55.3	105.5	116.1	127.0	161.4	184.1	193.1	163.3	208.1	233.5
Benchmark performance	100.0	67.8	99.4	104.8	102.6	115.5	121.5	125.2	116.0	136.3	133.0
Benchmark total return[A]	100.0	70.7	107.6	117.0	118.6	138.5	150.7	160.6	154.4	188.2	190.6

NAV figures are based on Company only values following the dissolution of the subsidiaries in May 2011.
[A] Total return figures are based on reinvestment of net income.

Investment Manager's Review

Highlights

- Outperformance of benchmark despite a difficult market for income holdings
- NAV total return of 3.3% compared to the benchmark total return of 1.2%
- 4.7% growth in revenue per share
- Mixture of UK mid-cap and international equities delivered resilient returns

Portfolio Strategy

We take a long term approach to investing, believing that whilst there might be volatility in the short and even medium term, share prices will ultimately reflect the fundamental value of a company. Consequently there has been no change to our approach to the construction of the portfolio during the year under review.

The Company's investment portfolio is invested in equities, preference shares and convertible shares. At the year-end 71.9% of the portfolio was invested in equities, 27.5% was invested in preference shares with the remainder in convertibles.

Equity Market Review

After strong gains characterised the start of 2017, the market began the period under review with more muted returns, although equities continued to perform well and index performance was reflective of a more normalised level of return. Smaller companies on average performed approximately twice as strongly as the broader market in the first half of the year through to September.

Politics has dominated sentiment surrounding the domestic economy throughout the year. Brexit has been at the forefront of investors' minds and the associated uncertainty was increased by Prime Minister Theresa May's decision to call a snap election in June. The ensuing result saw her party lose their majority, a contrast to the consensus expectation when the poll was called. Markets, however, reacted quite calmly and sterling weakness provided further support for businesses with significant levels of overseas earnings.

Inflation ran at higher levels through the first part of the year, before the initial impact of sterling weakness began to annualise from July onwards. The elevated level of inflation, combined with the low levels of unemployment, led the Bank of England to suggest that interest rates could rise sooner rather than later. In the event, the Monetary Policy Committee increased interest rates for the first time in a decade in November, taking the base rate from 0.25% to 0.5%.

One theme was the clear signs of improvement in the European economies as the region as a whole made progress, with France particularly strong as the market looks ahead to the sustained benefit from President Macron's reforms. A number of potentially troublesome elections were navigated without the feared populist and anti-EU agenda making significant progress. In Italy they were able to recapitalise some of the more distressed banks without re-igniting a debt crisis. In Europe, Spain had to deal with the Catalonian regional Government attempting to declare independence. Whilst there was commentary about the potential for this to destabilise the European Continent, an uncontrolled departure never seemed particularly likely.

The US economy has also prospered throughout the financial year. Despite some sabre rattling over North Korea and political tensions relating to the 2018 budget and the need to extend the debt ceiling, growth was sufficiently strong to allow the Federal Reserve to increase interest rates in line with expectations. Towards the end of the period, President Trump successfully pushed through tax reform in the US, lowering corporate tax and driving earnings upgrades for US domestic companies. In aggregate, the changes are estimated to deliver 6% upgrades to US company earnings.

Geopolitics have also influenced the oil price. Crude started the period in a volatile manner and declined by almost 20% between April and June as demand dipped seasonally before rebounding through the remainder of 2017. In 2018, strong global demand growth and limited supply expansion has pushed Brent oil to above $80 a barrel. The portfolio remains underweight to the oil and gas producers but such significant swings in the commodity's price can have a marked effect on relative performance.

Equity markets enjoyed a strong finish to 2017. Overall it was a very good year for equities with smaller companies rising by 18.2% and although larger companies were unable to keep up with this rate of return they delivered a perfectly respectable 12%. That strength did not carry over into the New Year, however. Despite an initially strong start, markets had a disappointing January with the FTSE All-Share declining by 1.9% in total return terms and small caps doing slightly better registering losses of 0.8%. The initial stages of the sell-off were in part a result of a belief that interest rates would be raised sooner and perhaps further than had been expected. Indeed, the Bank of England's February Quarterly Inflation Report highlighted this. Meanwhile as labour markets continue to tighten there may be three or perhaps four rate increases in the US this year. As a result the so-called bond proxies such as tobacco and in some instances pharmaceuticals and beverages have been weak at the start of the year. Conversely, mining and banks have been strong.

At the start of 2018 we have seen geopolitical tensions increase again, with the risk of sanctions against Iran and Russia increased following actions in Syria and the UK. The appointment of hawkish politicians as Secretary of State and Head of the National Security Agency in the US has increased the perceived risk, although the language from the US towards North Korea has softened markedly. President Trump has now moved on to address global trade, targeting what is described as an unfair trade relationship between China and the US.

The possibility of increased tariffs hit equities in the first quarter of 2018, although our view would be that a more moderate solution is likely to be reached and the first quarter of 2018 was the worst one for six years. Smaller companies performed marginally better. Technology stocks led the market lower as they did in many markets. A combination of high valuations and a rising popular and political backlash against some of their operating and financial practices gave investors cause for concern.

In the UK economy, March brought the Chancellor's Spring statement which saw growth expectations for 2018 revised slightly upwards. With unemployment at its lowest level since 1975 and productivity again improving, the Bank of England held interest rates flat again at its May meeting. Meanwhile, some further progress was made with the Brexit negotiations and the hope remains that a worst case scenario of a 'no-deal' exit will be avoided.

Equities have benefited from strong earnings per share ("EPS") growth though the fourth quarter (15% for the US) and the US tax cuts will boost S&P 500 EPS by approximately 6% this year. In aggregate we expect global EPS to rise about 9% this year, with 3% coming from the US tax cut. Indeed, over the past few months we have seen one of the strongest and broadest upgrades to analyst estimates in recent history. Notably while US multiples are slightly higher year on year, for global markets as a whole the past year's gains have been entirely due to earnings, not price/earnings expansion.

The debate over equity valuation continues. Under conditions of low and stable inflation, equity multiples are largely driven by growth, and secondarily by credit spreads. The picture has not yet changed decisively and so the rise in equity markets alongside the rise in treasury yields until February (and the compression of credit spreads) should not have come as a surprise.

Investment Performance

In the year to the end of March 2018, the total return on net assets was 3.3%, compared to our benchmark, the FTSE All-Share Index, which returned 1.2%.

The largest contributor to performance was again the investment in Aberdeen Smaller Companies Income Trust ("ASCIT"). In the year, the strengthening of sterling combined with rising markets has led to another year of smaller companies outperforming large cap and ASCIT took advantage of these trends.

Within the managed equity proportion of the portfolio, the most notable positive sector contributions came from Chemicals, Healthcare and from Financials as well as an underweight position in Utilities. While Utilities offer attractive yields, we remain cautious given the limited growth potential and the heightened risk of regulation.

The underweight position in Oil & Gas was a negative sector contribution as oil rallied hard into the year end. Inevitably, the position will cause some underperformance. The overweight position in Tobacco was a drag on performance with stocks struggling as bond yields rose and there were concerns around the growth potential from next generation products. We continue to like the cash generation of these businesses.

AVEVA was the most positive contributor of the individual stock positions within the portfolio. The shares rallied on the deal to combine with Schneider, giving the company a process management platform to merge with its leading software offering. With a new CEO in place and positioned to take advantage of any recovery in oil & gas spending, we believe the company is well placed with strong long term prospects.

Chesnara performed well, helped by the acquisition and integration of Legal & General Nederland coupled with a strong underlying performance in the rest of the group, where the UK operations generated cash ahead of expectations while Movestic, the company's Swedish division, delivered good growth.

Croda International's shares outperformed over the period benefitting from a robust demand environment and self-help which translated into an improvement in sales growth in the company's Personal Care division and margin improvement in the company's Life Sciences business.

BHP Billiton was a positive contributor, as it benefitted from strengthening commodity prices. Although we remain underweight the mining sector, BHP's capital discipline and cost focus is resulting in improving free cashflow and reduced net debt.

Novo Nordisk, one of the few ex-UK stocks held within the portfolio, rebounded strongly through the period, after concerns around competitive position and pricing were addressed. We continue to like the defensive position in the diabetes market, one that is likely to deliver sustainable growth given the demographic and diet changes we have seen.

Investment Manager's Review continued

The portfolio also benefitted from avoiding a number of large cap stocks that under-performed significantly in the year. We held no WPP, which fell 33% as global advertising spend by consumer goods groups slowed. We also held no Reckitt Benckiser, which fell 15% as growth slowed, and no Shire which fell 23%. The last of these has recovered in the New Year due to bid speculation.

The main sources of negative performance for the portfolio were concentrated, with two positions detracting a total of 3.4% from performance. The Company runs a concentrated equity portfolio, creating the risk of negative impacts from single investments. We seek to protect against this by investing in quality companies with long term strength and although this year two companies in particular disappointed, this was offset by positive performance elsewhere.

The largest detractor was **Provident Financial**. The company's shares significantly underperformed following a profit warning which highlighted deterioration in trading at the company's Home Collected Credit business, an investigation into Vanquis Bank by the Financial Conduct Authority, the decision to cancel the dividend, and the removal of the company's Chief Executive. We were particularly disappointed to discover that due to the FCA investigation the company had stopped selling its highly profitable 'Repayment Option Plan' to new customers in April 2016 but did not deem this worthy of public disclosure.

Inmarsat was also a significant under performer. The share price was weak over the period due to underperformance in the company's maritime division, uncertainty around payments from Ligado (an American satellite company), and stress to the balance sheet given the requirement for additional investment in the aviation division where the roll-out of the company's services is taking longer than expected.

Gearing and Preference Share Portfolio

Gearing decreased marginally during the year from 21.1% to 20.8%. The gearing is notionally invested in the preference share portfolio. At the year-end these securities had a value of £26.7 million, materially in excess of net indebtedness which stood at £16.7 million. This part of the portfolio provides a core level of high income and would, in normal conditions, be expected to be more resilient than equities in the event of a fall in the market.

The preference share portfolio outperformed the equity portion of the portfolio during the year. However, in March 2018 there was a material fall in the price of preference shares as the asset class reacted negatively to the news that Aviva was considering cancelling at par value certain preference shares issued by members of its group, including the 7.875% General Accident preference shares held by the Company. Aviva subsequently announced that it had decided not to cancel the relevant preference shares in the manner originally proposed at this time, and the preference shares in the Company's portfolio (including those issued by General Accident) have regained their prior valuations. Furthermore, with equity markets pulling back at the start of 2018, the equity portfolio delivered a 1.4% total return, just ahead of the FTSE All-Share Index. In such a market, the high fixed return of the preference share portfolio proved its value, with a return of 12.2% over the year.

Revenue Account

Earnings per share increased by 4.7% over the year to 13.69p. The Company aims to invest in companies with the ability to grow dividends over time and a number of holdings delivered dividend growth during the period. The mining stocks in the portfolio used strong free cashflow to increase dividends, with both BHP Billiton and Rio Tinto delivering increases after cutting their dividends in 2016. Other material increases came from Compass Group and Associated British Foods. Holdings in consumer goods companies such as Unilever and Diageo continued to deliver incremental year-on-year dividend growth, and Standard Chartered reinstated its dividend at the end of the period and we expect it to deliver further increases. In addition, dividends denominated in US dollars or Euros from companies such as Royal Dutch Shell, Vodafone and BP, continued to benefit from the relative strength of those currencies through much of the year. These benefits more than off-set dividend cuts from Pearson and Provident Financial.

The following table details the Company's main sources of income over the last five years.

	2018 %	2017 %	2016 %	2015 %	2014 %
Ordinary dividends	59.1	54.0	53.0	54.6	52.5
Preference dividends	33.0	35.8	37.7	35.0	36.1
Aberdeen Smaller Companies	4.4	4.6	4.8	4.3	4.9
Fixed interest and bank interest	0.1	0.1	0.2	0.2	0.2
Traded option premiums	3.4	5.5	4.3	5.9	6.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total income (£'000s)	**4,916**	**4,695**	**4,361**	**4,665**	**4,534**

Portfolio Activity

We introduced twelve new holdings during the period.

Unibail is Europe's largest listed commercial property company active in development, investment and operations of shopping centres, offices and convention and exhibition venues. The business benefits from a portfolio of high quality assets and a strong balance sheet. The rental streams provide a high level of earnings visibility which manifest themselves in an attractive dividend that has been growing ahead of inflation.

Nestle, as the largest food and beverage company in the world, has an unmatched product and brand portfolio and genuine global reach. This includes 34 brands that generate sales in excess of CHF 1bn each. 85% of sales are into markets where the company is either #1 or #2 and 45% are into emerging markets. The small value, everyday purchase consumable nature of what they sell results in an attractive and predictable earnings stream. The new CEO has outlined a plan to return the company to mid-single digit levels of organic growth alongside margin expansion and portfolio management to improve returns. The balance sheet is strong, combining low levels of leverage with the value of their 11% stake in L'Oreal. Although the yield is below the market yield we regard it as very safe. Additionally, given the prospects outlined above, which could result in a period of double digit earnings growth that persists into the medium term, we believe that there is the potential for a marked pick- up in the rate of dividend growth.

Euromoney is a provider of high value data and analytics to the banking, asset management and commodity sectors. With 90% of their content being proprietary they have no direct competitors. Approximately one third of revenues are derived from emerging markets. The business has been through a transition that has seen them shed traditional print and advertising based assets and replace them with digital content, sponsorship and events. As a result they now benefit from high levels of subscriptions which account for 62% of sales and other recurring revenues. This in turn translates into a business model that benefits from a negative working capital profile resulting in favourable cash conversion dynamics. Following a period of investment, the company is now well positioned to deliver improving margins and returns. These, allied to a strong balance sheet and solid cash flow, should allow them to grow the dividend at a rate nicely ahead of inflation into the medium term.

Nordea is the largest bank in the Nordic region with over 10 million retail customers. Additionally, it is the Number 1 wholesale bank in the Nordics and is also the largest private bank, asset manager and life and pensions provider in the region. Nordea management is highly regarded, led by the Chairman, Bjorn Wahlroos, who has a very strong reputation for shareholder value creation, not only at Nordea but also at Sampo, an insurance company. The company has one of the strongest credit ratings of any international bank and successfully navigated the financial crisis without any government support. The bank's Return on Equity of 18% has actually gone up since 2007 which shows the strength of the business franchise. This is very different from nearly all their European peers. Additionally despite the increased capital requirements over the last decade the dividend has more than doubled and appears secure with the potential for modest ongoing growth.

GIMA produce packaging machines for tobacco companies. Their machines are more flexible than the very high volume mainstream packing machines of their competitors. This allows the tobacco companies to more easily produce variants of both cigarettes and packs. This capability has become increasingly valuable as developed markets have imposed plain packaging regulation which has in turn forced the tobacco companies to differentiate through alternative means. A key opportunity for the business lies in the field of next generation products ("NGPs"). They have a 65% share in this market, largely for Philip Morris's IQOS product. The capabilities around flexibility are a key advantage in this market. The tobacco companies are directing increasing proportions of their capital expenditure budgets towards NGPs and our conversations with them suggest that they anticipate NGPs becoming very significant revenue generators for them in the medium term. A negative working capital profile alongside a low requirement for capex means that despite the high levels of anticipated growth, the company is able to pay an attractive dividend yield that is in turn expected to grow well ahead of inflation.

Big Yellow are the UK's leading provider of self-storage facilities. They operate primarily freehold sites in London and the South East. Although this is a very fragmented market new supply is constrained by the difficulty of finding suitable sites. Good quality locations will often have higher alternative uses. There is significant potential for growth in demand as awareness rises, Big Yellow have the highest level of consumer awareness in the industry. By way of comparison, the Australian market has 3 times the space per person compared to the UK. In the US this metric is 12 times. Rental growth accelerates as occupancy rises and with three quarters of their estate registering occupancy in excess of 70% they are well placed to grow their income. Demand is correlated with housing transactions as customers use storage when they move house. There is however no obvious correlation with house prices. Around one third of space is occupied by businesses with this market being driven by the rise of small scale e-commerce. The balance sheet is conservative with a loan to value of 26% and the strong earnings growth has resulted in a near 4% yield that has grown at almost 20% over the last three years.

London Metric Properties specialise in owning distribution centres for omni-channel retailing. The growth of e. tailing drives an increasing need for logistics space because of the requirement to carry deeper stock and importantly to be able to handle returns. £1 of on-line sales requires roughly 3x the space needed to service £1 of store based sales. Supply remains constrained because the sites with the most favourable transport logistics are largely already occupied. Customers are normally very sticky because of the operational risks associated with making changes to their supply chain. The company has low levels of development risk due to its strategy of pre-letting large projects and developing partnerships. The company's REIT status means that the majority of profits are distributed to shareholders as a dividend, which is currently producing a yield in excess of 4.5%. The opportunities to both add space and drive up rents should result in growth in excess of inflation, whilst gearing will remain under control with LTV running between 30% and 40%.

Telecom Plus is an independent multi-utility supplier based in the UK, operating under the brand name "The Utility Warehouse". Services offered include fixed telephony, mobile telephony, broadband, gas and electricity. The offering is attractive to consumers who appreciate the bundled offering that delivers cost savings, a single point of contact, a highly regarded service culture and a simple single bill. The business is likely to be a beneficiary of the regulatory changes that are impacting the single variable tariffs structure in the energy industry as these will serve to make their products more price competitive. An innovative sales model reduces direct costs and provides a welcome flexibility in the cost base. This, alongside the cash generative nature of the business, results in an attractive and growing dividend yield.

Bunzl has been weak as investors have become increasingly concerned that Amazon will become a significant competitor for them. Our belief is that Bunzl is well positioned to counter this threat. The products they sell are low value but important to the customer. There is limited scope for Amazon to compete on price. In addition, Bunzl have a superior service offering in part supported by their in-house delivery capability which Amazon cannot replicate. Suppliers, especially the larger ones, favour Bunzl over Amazon because it allows them to retain more control over their pricing architecture. Lastly, Bunzl's highest margin business is selling safety wear and here they have their own brands. The company has a long track record of steadily compounding returns and we expect that to continue.

Rio Tinto, a diversified miner, has been through something of a transformation in recent years as the mining industry has found itself in turmoil. The company has been through a cost cutting programme the benefits of which are now starting to emerge and which will be further boosted by productivity improvements. The prospects for their tier 1 assets are improving as the market moves to favour premium grade iron ore for environmental reasons. The prospects for their aluminium business are much improved, aided by constraints to low cost and polluting Chinese production, structural growth in demand and the location of some of their assets which allows them to benefit from hydro power. The balance sheet is now much stronger and the yield is set at an attractive level.

Relx, formerly known as Reed Elsevier, is a publisher of academic journals and data provider to industries such as reinsurance. Over recent years it has diversified away from its historic weighting to scientific journals, creating a valuable and steadily growing data services business. Meetings with management have demonstrated a strong culture which focuses on incremental margin improvement and stable, long term earnings growth. This had delivered steady dividend growth over time.

Kone is a Finnish manufacturer of escalators and elevators with a leading position in Asia. The attraction of the business to us is its exposure to aftermarket servicing of installed products which creates a repeatable, and growing, cashflow stream. The yield at 4% is attractive, with potential for further growth.

We exited seven holdings throughout the year.

Elementis acquired the personal care business Summit Reheisis. This is in line with their strategy but the scale of the acquisition will limit the company's dividend paying capability for some time. Therefore we decided to sell down the position in June.

We exited from **Pearson** in September. The prospects for Pearson's US Higher Education business are increasingly opaque. Although we believe that they should be able to transition their business to one that encompasses a digital business model the timescale and cost to do so raise significant questions about their ability to deliver growth in their dividend.

Capita was exited in November after experiencing difficult trading conditions. Despite the welcome and successful sale of their asset servicing business, the balance sheet remained stretched and we believed that a significant risk remained that the dividend would be cut by the incoming CEO. That proved to be correct, with the dividend being cut, along with a plan for further disposals and cost cutting. We sold half the holding and wrote calls over the remainder.

We exited **Essentra**, taking the view that the company has a significant turnaround programme ahead of them. Whilst they are demonstrably making progress we believe that the valuation is already pricing in a fair degree of success.

In the case of **Inchcape** we felt that there were better quality investments available and, as such, the decision to exit was less about the prospects for Inchcape and more about allocating assets to areas that we thought had better medium term prospects.

Wood Group has for some time been one of the ways that we have sought to address the portfolio's underweight position to the oil majors, with our preference for service companies as opposed to producers. However, the acquisition of Amec Foster Wheeler brings significant contract risk. Whilst the valuation is cheap if they can successfully integrate this business, our experience has taught us that the downside risk could also be sizable.

We also exited **Provident Financial.** The stock has performed poorly after a series of profit warnings and the decision was taken to exit. More commentary on this stock is provided above in the Investment Performance section.

Stewardship

We believe that, as long term owners of the businesses in which we are invested, it is not sufficient merely to seek out assets that we believe to be undervalued, it is also incumbent upon us to take a proactive approach to our stewardship of these companies. Therefore, we engage extensively with our investee companies. We have attended a range of meetings with chairmen, non-executive directors and other stakeholders. Topics covered have included the composition of the board, environmental and social issues, and remuneration. Risk is a very broad subject that is interpreted in varying manners by different companies. However, by engaging on this subject we secure a deeper understanding of how the boards of our investee companies perceive and seek to manage these issues. Such interactions also enable us to push for improved disclosure and better management practices and on occasion different decisions where appropriate. We have had conversations regarding companies' financing choices. We find that it is always worthwhile communicating our preference for conservatively structured balance sheets that place a company's long term fortunes ahead of possible short term share price gains. Such activity is by its nature time consuming but we regard it as an integral aspect of our role as long term investors.

Outlook

Uncertainty in markets remains high in our view, generally robust macro-economic data balanced with concerns that we are entering a late cycle environment and around how the market will react to evolving monetary policy. Industrial production, as well as broader economic and earnings growth have been strong and were well above trend in the second half of 2017. Indicators suggest that this strength has mostly carried over into 2018, though January data in the US has been softer than expected, reflecting weather distortions. Developed market growth this year is set to be the strongest since 2011 and there are signs that it is becoming more self-sustaining, as capex, labour productivity and hence potential growth have all risen above their post-crisis averages while households have become less cautious.

Emerging Markets have been slightly more subdued, with Industrial Production growth slowing, and a sharper than anticipated slowdown in China remains perhaps the largest downside risk to a constructive 2018 outlook. Policymakers have been tightening financial conditions and the country is still carrying large credit and investment imbalances, increasing the chances of a policy mistake. So far, however, the Chinese economy seems to be adjusting as well as can be expected to less accommodative financial conditions. Industrial and thus broader economic growth has slowed, but domestic consumer spending has been resilient, allowing overall growth to slow moderately rather than abruptly.

Against this reasonably solid economic backdrop long-term interest rates rose significantly across each of the major developed markets except Japan. And after rallying especially strongly through most of January, a significant equity correction took place in what seems to have been an overbought market, with most markets initially losing all of the year to date gains. Equity volatility naturally increased during this episode and though it has moderated again since early February, it remains well above the levels that prevailed through 2017. This may signal a more persistent shift towards more normal levels of market volatility after an extended period of a low-volatility environment.

Furthermore, supply side challenges have not disappeared, trade policy is becoming more restrictive, and there are few places where steps are being taken to lift longer-term growth. Despite tightening labour markets and the pick-up in commodity prices, underlying inflation rates have barely budged outside of the US, with most remaining well below central bank targets. The upshot is that there will be few central banks looking to quickly remove monetary policy accommodation over the next two years, although the expectation should be for bond yields to continue to rise.

In the UK specifically, the exit from the EU continues to dominate the political and economic landscape. Our base case remains a modest-moderate Canadian style Free Trade Agreement ("FTA") outcome from negotiations given stated preferences and the political and economic incentives at play. There remains a large amount of uncertaintly. In any case, the impact of the vote is likely to be slower growth in the UK than other OECD markets for some time to come,

Investment Manager's Review continued

even if a worst case scenario is unlikely. While we expect to see interest rates rise over time, the economic situation makes it unlikely that we will see increases in rates materially ahead of expectations.

The long-term negative correlation between equities and fixed interest securities is likely to continue unless there is an inflation or term premium shock that causes yields to rise but growth expectations to decline. Broker and market commentary has focused on when bond yields are "too high" for equities on the basis of relative valuation. The answer is that growth usually drives the spread between the two, and that ultimately higher rates will impact equities only when the rate cycle delivers, or is expected to deliver, a meaningful economic slowdown or recession. Historically, as long as core inflation has remained within a range of 1%-3%, increases in bond yields have had little impact on equity valuations, and so we don't see conditions as driving a de-rating of equity valuations yet. Having said that, after a persistent rally over the past two years, equity markets are more finely balanced, as shown by marked sell offs in the year to date and any companies disappointing on earnings can expect to be de-rated readily.

The broad distribution of revenue streams from both domestic and international markets provides some protection from UK specific risks. We believe that our approach of investing in good quality businesses with balance sheet strength giving management options even through difficult times, means the portfolio is well positioned to weather any corrections and continue to deliver attractive returns.

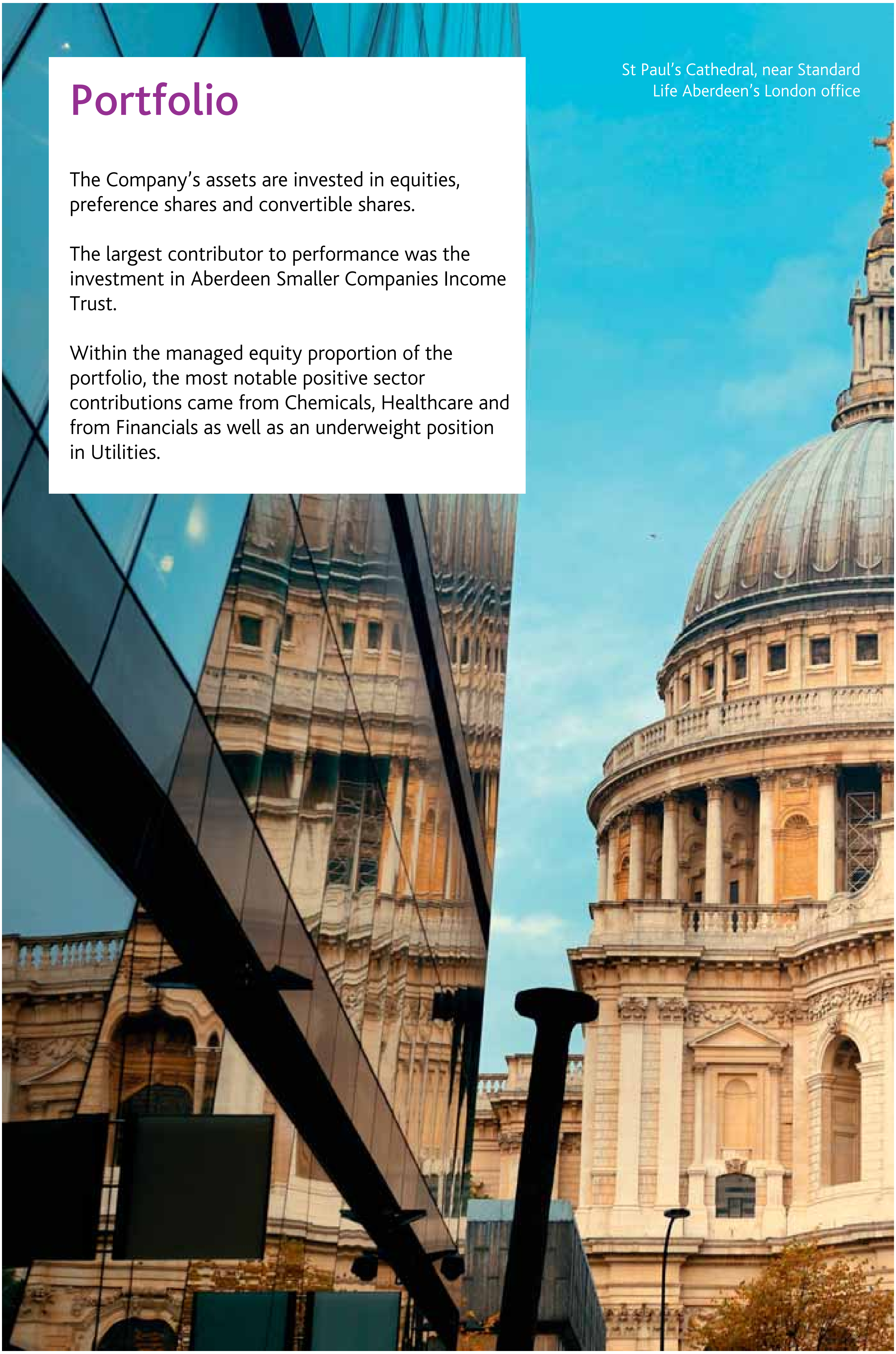
Aberdeen Asset Managers Limited
29 May 2018

Portfolio

The Company's assets are invested in equities, preference shares and convertible shares.

The largest contributor to performance was the investment in Aberdeen Smaller Companies Income Trust.

Within the managed equity proportion of the portfolio, the most notable positive sector contributions came from Chemicals, Healthcare and from Financials as well as an underweight position in Utilities.



St Paul's Cathedral, near Standard Life Aberdeen's London office

Investment Portfolio - Ordinary Shares

As at 31 March 2018

Company	Valuation 2018 £'000	Total portfolio %	Valuation 2017 £'000
Aberdeen Smaller Companies Income Trust	8,769	9.1	6,522
Royal Dutch Shell 'B'	3,028	3.1	3,364
Chesnara	3,007	3.1	2,772
Unilever	2,986	3.1	3,171
British American Tobacco	2,954	3.1	3,562
AstraZeneca	2,864	3.0	2,874
Prudential	2,641	2.7	2,504
GlaxoSmithKline	2,453	2.5	2,921
BP	2,090	2.2	1,995
Vodafone	2,083	2.2	2,232
Ten largest investments	**32,875**	**34.1**	
BHP Billiton	2,049	2.1	2,147
HSBC Holdings	1,910	2.0	2,881
Compass	1,752	1.8	1,885
Schroders	1,642	1.7	1,994
Close Brothers	1,500	1.6	1,984
Sage Group	1,457	1.5	1,601
Croda International	1,455	1.5	1,136
BBA Aviation	1,371	1.4	1,632
Unibail-Rodamco	1,311	1.4	–
Nordea Bank	1,296	1.3	–
Twenty largest investments	**48,618**	**50.4**	
Imperial Brands	1,286	1.4	1,353
Weir Group	1,207	1.3	1,150
Rolls Royce	1,203	1.2	1,041
Experian	1,199	1.2	1,270
Rotork	1,166	1.2	998
Standard Chartered	1,158	1.2	1,954
Diageo	1,148	1.2	781
National Grid	1,115	1.2	1,510
Assura	1,101	1.1	375
Londonmetric Property	995	1.0	–
Thirty largest investments	**60,196**	**62.4**	
Rio Tinto	975	1.0	–
Aveva	965	1.0	872
Novo-Nordisk	886	0.9	699
Inmarsat	828	0.9	1,944
Telecom Plus	739	0.8	–
Big Yellow	639	0.7	–
Ultra Electronic Holdings	593	0.6	808
Nestlé	508	0.5	–
Associated British Foods	473	0.5	495
Gima TT	431	0.4	–
Forty largest investments	**67,233**	**69.7**	
Euromoney Institutional Investor	428	0.4	–
Hansteen	392	0.4	735
Bunzl	381	0.4	–
Relx	352	0.4	–
KONE	331	0.3	–
Manx Telecom	302	0.3	326
Total Ordinary shares	**69,419**	**71.9**	

Investment Portfolio - Other Investments

As at 31 March 2018

Company	Valuation 2018 £'000	Total portfolio %	Valuation 2017 £'000
Convertibles			
Balfour Beatty Cum Conv 10.75p 01/07/2020	550	0.6	575
Total Convertibles	**550**	**0.6**	
Preference shares[A]			
Ecclesiastical Insurance Office 8 5/8%	6,233	6.4	5,851
Royal & Sun Alliance 7 3/8%	5,699	5.9	5,481
General Accident 7.875%	4,896	5.1	4,683
Santander 10.375%	4,816	5.0	4,620
Standard Chartered 8.25%	3,842	4.0	3,531
R.E.A. Holdings 9%	1,086	1.1	967
Total Preference shares	**26,572**	**27.5**	
Total Other Investments	**27,122**	**28.1**	
Total Investments	**96,541**	**100.0**	

[A] None of the preference shares listed have a fixed redemption date.

Purchases and/or sales effected during the year result in 2017 and 2018 values not being directly comparable.

Distribution of Assets and Liabilities

As at 31 March 2018

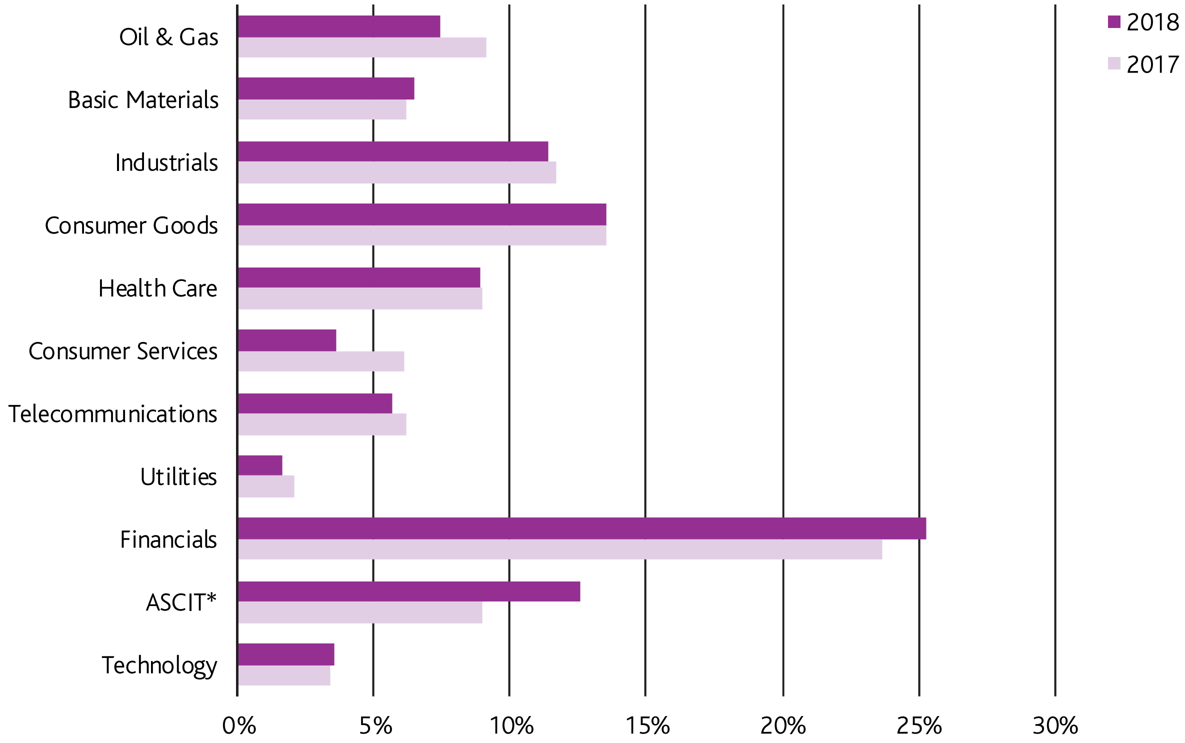
	Valuation at 31 March 2017 £'000	%	Movement during the year Purchases £'000	Sales £'000	Gains/ (losses) £'000	Valuation at 31 March 2018 £'000	%
Listed investments							
Ordinary shares	72,118	88.5	11,313	(11,727)	(2,285)	69,419	86.2
Convertibles	575	0.7	–	–	(25)	550	0.7
Preference shares	25,133	30.9	–	–	1,439	26,572	33.0
Total investments	97,826	120.1	11,313	(11,727)	(871)	96,541	119.9
Current assets	2,881	3.5				3,197	4.0
Current liabilities	(19,230)	(23.6)				(9,276)	(11.5)
Non current liabilities	–	–				(9,997)	(12.4)
Net assets	**81,477**	**100.0**				**80,465**	**100.0**
Net asset value per Ordinary share	**271.6p**					**268.2p**	

Portfolio

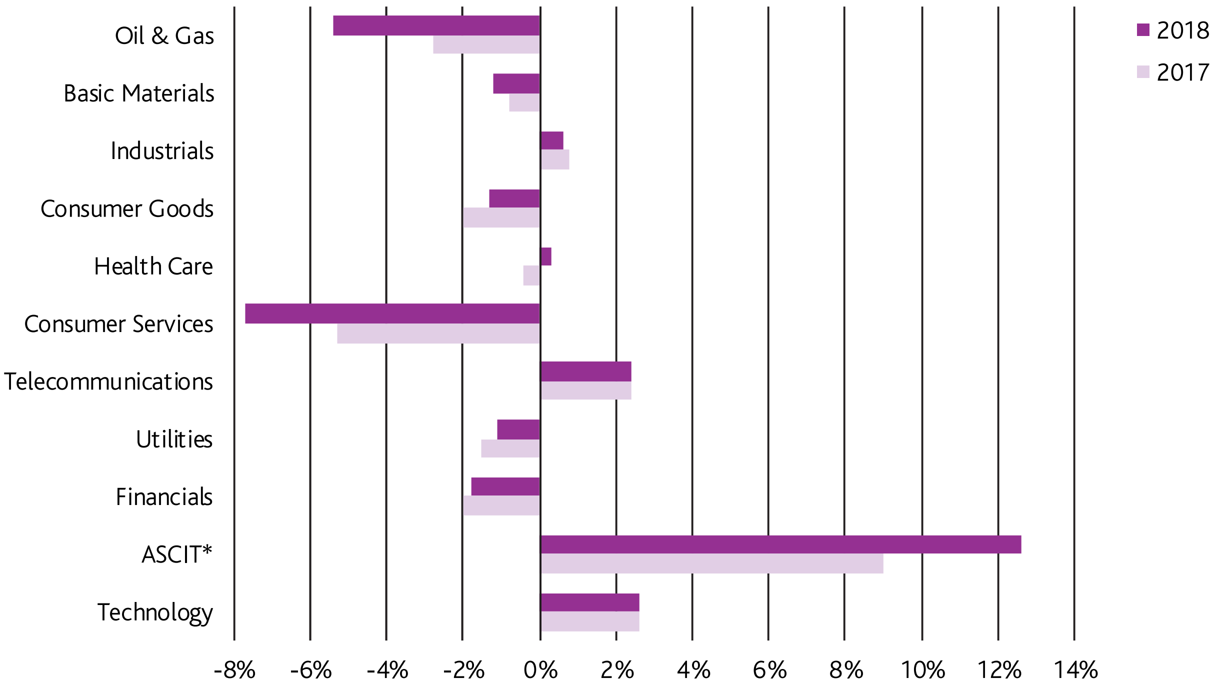
Sector Analysis

As at 31 March 2018

Analysis of Listed Equity Portfolio



Shires Income PLC relative to the FTSE All-Share Index



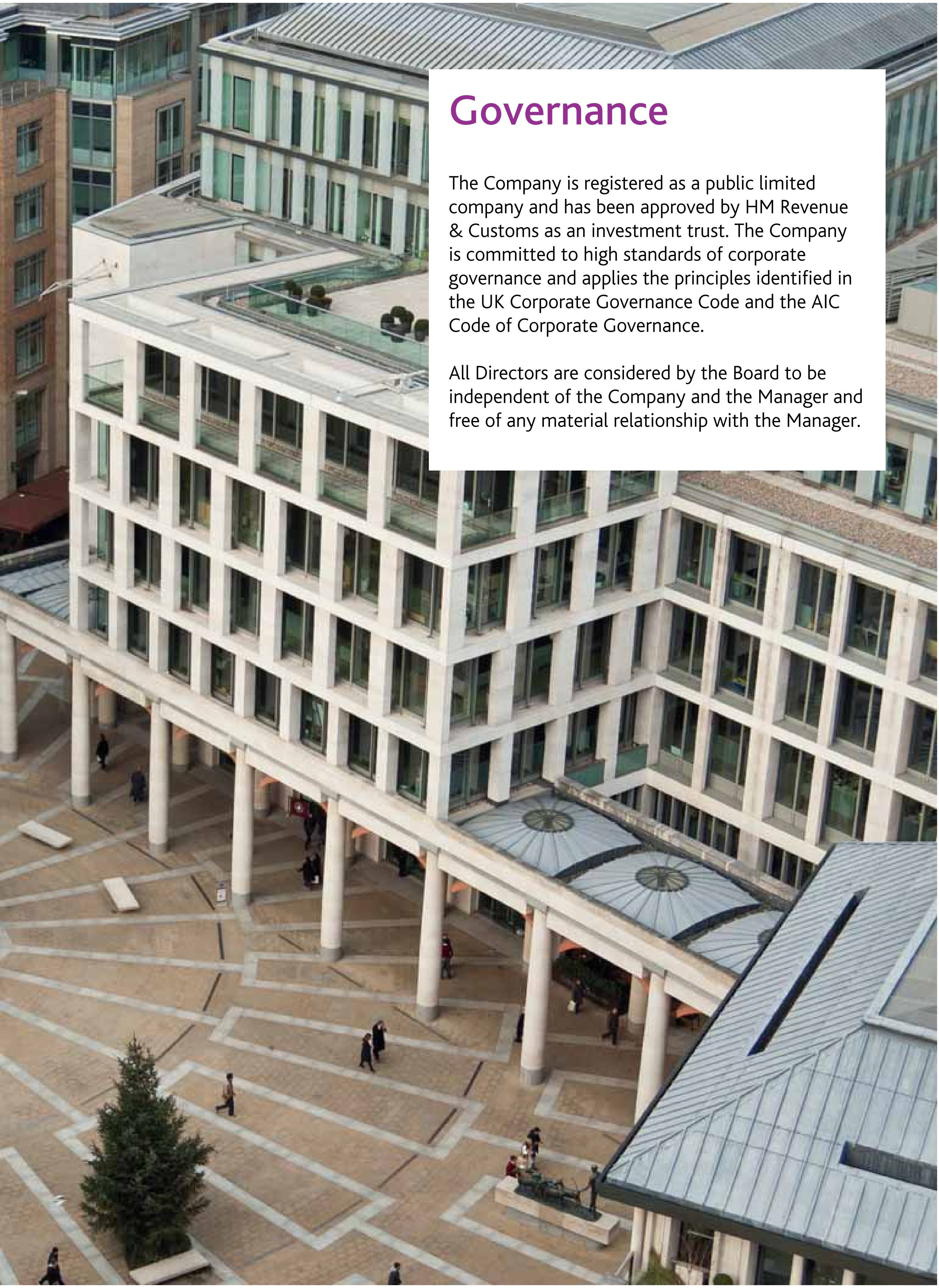
*The Company's investment in Aberdeen Smaller Companies Income Trust PLC ("ASCIT") is classified under "Financials" for FTSE classification purposes.

Paternoster Square,
City of London

Governance

The Company is registered as a public limited company and has been approved by HM Revenue & Customs as an investment trust. The Company is committed to high standards of corporate governance and applies the principles identified in the UK Corporate Governance Code and the AIC Code of Corporate Governance.

All Directors are considered by the Board to be independent of the Company and the Manager and free of any material relationship with the Manager.



Your Board of Directors

The Directors' details, all of whom are non-executive and independent of the Manager, are set out below. The Directors supervise the management of the Company and represent the interests of shareholders.

Robert Talbut

Status: Independent non-executive Chairman and Chairman of the Management Engagement Committee.

Length of Service: 3 years, appointed a Director in April 2015.

Experience: Was formerly Chief Investment Officer of Royal London Asset Management and has over 30 years of financial services experience. He has represented the asset management industry through the chairmanship of both the ABI Investment Committee and the Asset Management Committee of the Investment Association. He has also been a member of the Audit & Assurance Council of the FRC and the Financial Conduct Authority's Listing Authority Advisory Panel. He is Chairman of EFG Asset Management (UK) Limited and a non-executive director of Pacific Assets Trust plc, Schroder UK Mid Cap Fund plc and JPMorgan American Investment Trust PLC.

Last re-appointed to the Board: 8 July 2015.

Committee membership: Audit Committee, Management Engagement Committee (Chairman), Remuneration Committee.

Robin Archibald C.A.

Status: Independent non-executive Director.

Length of Service: 1 year, appointed a Director on 1 May 2017.

Experience: Has a wide range of experience in advising and managing transactions in the UK closed-ended funds sector over his thirty five year career as a corporate financier including with Samuel Montagu, S G Warburg and Natwest Markets. He retired from Winterflood Investment Trusts in May 2014, where he was formerly Head of Corporate Finance and Broking. He is currently a non-executive director of Albion Technology & General VCT PLC, Ediston Property Investment Company PLC, Capital Gearing Trust PLC and Henderson European Focus Trust plc.

Last appointed to the Board: 11 July 2017.

Committee membership: Audit Committee, Management Engagement Committee, Remuneration Committee.

Marian Glen

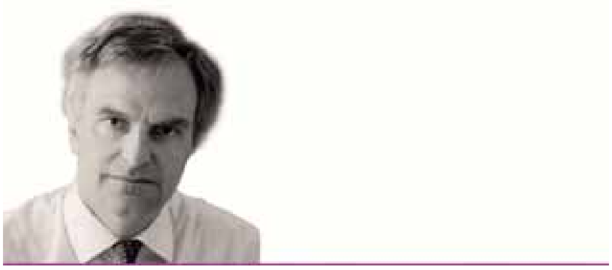
Status: Independent non-executive Director and Chairman of the Remuneration Committee.

Length of Service: 5 years, appointed a Director in January 2013.

Experience: Currently a member of the Audit and Risk Committee of the Water Industry Commission for Scotland and a non-executive director of Martin Currie Global Portfolio Trust PLC and Financial Services Compensation Scheme Limited. She was a non-executive director of Murray Income Trust PLC, Friends Life Group Limited and certain other companies in the Friends Life group of companies. She was formerly the General Counsel of AEGON UK and prior to that was a corporate partner and head of funds and financial services at Shepherd+ Wedderburn.

Last re-appointed to the Board: 6 July 2016.

Committee membership: Audit Committee, Management Engagement Committee, Remuneration Committee (Chairman).



Andrew Robson C.A.

Status: Independent non-executive Director and Chairman of the Audit Committee.

Length of Service: 10 years, appointed a Director in May 2008.

Experience: Is a Chartered Accountant, with many years of experience in investment banking and as a finance director. He was a director of Robert Fleming & Co Limited and SG Hambros and Finance Director of eFinancialGroup Limited and the National Gallery. He has over 15 years of experience as a director of a number of quoted investment trusts and is currently a business adviser, working with smaller UK companies. He is a non-executive director of JPMorgan Smaller Companies Investment Trust plc, Mobeus Income & Growth 4 PLC and Witan Pacific Investment Trust PLC.

Last re-appointed to the Board: 11 July 2017.

Committee membership: Audit Committee (Chairman), Management Engagement Committee, Remuneration Committee.

Directors' Report

The Directors present their report and audited financial statements for the year ended 31 March 2018.

Results and Dividends

The financial statements for the year ended 31 March 2018 are contained on pages 53 to 74. Dividends paid and proposed for the year amounted to 13.0p per Ordinary share.

First, second and third interim dividends for the year, each of 3.0p per Ordinary share, were paid on 27 October 2017, 26 January 2018 and 27 April 2018 respectively. The Directors recommend a final dividend of 4.0p per Ordinary share, payable on 27 July 2018 to shareholders on the register on 6 July 2018. The ex-dividend date is 5 July 2018. Under International Financial Reporting Standards ("IFRS") the third interim and final dividends will be accounted for in the financial year ended 31 March 2019. A resolution in respect of the final dividend will be proposed at the forthcoming Annual General Meeting.

Investment Trust Status

The Company is registered as a public limited company (registered in England and Wales No. 00386561) and is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company has been approved by HM Revenue & Customs as an investment trust subject to it continuing to meet the relevant eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements of Part 2 Chapter 3 Statutory Instrument 2011/2999 for all financial years commencing on or after 1 April 2012. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 March 2018 so as to enable it to comply with the ongoing requirements for investment trust status.

Individual Savings Accounts

The Company has conducted its affairs in such a way as to satisfy the requirements as a qualifying security for Individual Savings Accounts. The Directors intend that the Company will continue to conduct its affairs in this manner.

Capital Structure

The issued Ordinary share capital at 31 March 2018 consisted of 29,997,580 Ordinary shares of 50p each and 50,000 3.5% Cumulative Preference Shares of £1 each. There have been no changes in the Company's issued share capital subsequent to the year end and up to the date of this Report.

Each Ordinary and Cumulative Preference share carries one vote at general meetings of the Company. The Cumulative Preference shares carry a right to receive a fixed rate of dividend and, on a winding up of the Company, to the payment of such fixed cumulative preferential dividends to the date of such winding up and to the repayment of the capital paid up on such shares in priority to any payment to the holders of the Ordinary shares.

The Ordinary shares, excluding any treasury shares, carry a right to receive dividends and, on a winding up or other return of capital, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

There are no restrictions on the transfer of Ordinary or Cumulative Preference shares in the Company other than certain restrictions which may from time to time be imposed by law.

Management Agreement

The Company has appointed Aberdeen Fund Managers Limited ("AFML"), a wholly owned subsidiary of Standard Life Aberdeen plc, as its alternative investment fund manager. AFML has been appointed to provide investment management, risk management, administration and company secretarial services and promotional activities to the Company. The Company's portfolio is managed by Aberdeen Asset Managers Limited ("AAML") by way of a group delegation agreement in place between AFML and AAML. In addition, AFML has sub-delegated administrative and secretarial services to Aberdeen Asset Management PLC and promotional activities to AAML. Details of the management fee and fees payable for promotional activities are shown in notes 4 and 5 to the financial statements.

The management agreement is terminable on not less than six months' notice. In the event of termination by the Company on less than the agreed notice period, compensation is payable to the Manager in lieu of the unexpired notice period.

Substantial Interests

As at 31 March 2018, the following interests in the issued Ordinary share capital of the Company had been disclosed in accordance with the requirements of the FCA's Disclosure Guidance and Transparency Rules:

Shareholder	Number of Ordinary shares held	% of Ordinary shares held
Aberdeen Asset Managers Limited Retail Plans[A]	5,196,909	17.3

[A] Non-beneficial interest

There have been no changes notified to the Company between the year end and the date of approval of this Report.

Directors

The Board comprises four non-executive Directors. Their names and biographies are shown on pages 32 and 33, and indicate their range of skills and experience as well as length of service. Mr R. Archibald was appointed as a Director on 1 May 2017 and Mr A. Davidson retired on 11 July 2017.

All Directors are considered by the Board to be independent of the Company and the Manager. Each Director has the requisite high level and range of business and financial experience which enables the Board to provide clear and effective leadership and proper governance of the Company.

Mr A. Robson is a non-executive director of Witan Pacific Investment Trust PLC ("WPC"). WPC's executive manager is Witan Investment Services Limited. WPC operates a multi-manager structure and Aberdeen Asset Management Asia Limited, part of the Standard Life Aberdeen Group, manages a part of WPC's assets. Despite his consequent involvement in two investment trusts (including this one) where the Standard Life Aberdeen Group has an investment management relationship, the remainder of the Board is unanimous in its opinion that Mr Robson remains independent in his role as a Director of the Company.

The Directors attended scheduled Board and Committee meetings during the year ended 31 March 2018 as shown in the following table (with their eligibility to attend the relevant meetings in brackets):

Director	Board	Audit Committee	Management Engagement Committee	Remuneration Committee
R. Talbut	5 (5)	2 (2)	1 (1)	1 (1)
R. Archibald	5 (5)	2 (2)	1 (1)	1 (1)
A. Davidson[A]	2 (2)	1 (1)	- (-)	- (-)
M. Glen	5 (5)	2 (2)	1 (1)	1 (1)
A. Robson	5 (5)	2 (2)	1 (1)	1 (1)

[A] Retired 11 July 2017

The Board meets more frequently when business needs require.

Mr R. Talbut retires by rotation at the Annual General Meeting. Having served for more than nine years, Mr A. S. Robson will also retire at the Annual General Meeting. Being eligible, both Messrs Talbut and Robson offer themselves for re-appointment.

The Board believes that Messrs Talbut and Robson remain independent of the Manager and free from any relationship which could materially interfere with the exercise of their judgement on issues of strategy, performance, resources and standards of conduct and confirms that, following formal performance evaluations, their performance continues to be effective and demonstrates commitment to the role. The Board therefore recommends the re-appointment of Messrs Talbut and Robson at the Annual General Meeting.

Directors' and Officers' Liability Insurance

The Company maintains insurance in respect of Directors' and Officers' liabilities in relation to their acts on behalf of the Company. In addition, the Company has entered into a separate deed of indemnity with each of the Directors reflecting the scope of the indemnity in the Articles of Association. Under the Articles of Association, each Director is entitled to be indemnified out of the assets of the Company to the extent permitted by law against any loss or liability incurred by him or her in the execution of his or her duties in relation to the affairs of the Company.

Management of Conflicts of Interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest. As part of this process, each Director prepares a list of other positions held and all other conflict situations that may need to be authorised either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential, or actual, conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed at each Board meeting.

No Director has a service contract with the Company although all Directors are issued with letters of appointment. There were no contracts during, or at the end of the year, in which any Director was interested.

The Company has a policy of conducting its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and has procedures in place that are proportionate to the Company's circumstances to prevent them. The Manager also adopts a group-wide zero-tolerance approach and has its own detailed policy and procedures in place to prevent bribery and corruption. Copies of the Manager's anti-bribery and corruption policies are available on its website.

In relation to the corporate offence of failing to prevent tax evasion, it is the Company's policy to conduct all business in an honest and ethical manner. The Company takes a zero-tolerance approach to facilitation of tax evasion whether under UK law or under the law of any foreign country and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships.

Corporate Governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company has applied the principles identified in the UK Corporate Governance Code (the "UK Code"), as published in April 2016 and effective for financial years commencing on or after 17 June 2016, which is available on the Financial Reporting Council's website: frc.org.uk.

The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance as published in July 2016 (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 principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The AIC Code and AIC Guide are available on the AIC's website: theaic.co.uk.

The Board considers that reporting in accordance with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

The Board confirms that, during the year, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the chief executive (A.1.2);
- executive directors' remuneration (D.1.1 and D.1.2); and
- the need for an internal audit function (C.3.6).

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions. The Company is also non-compliant with Provision A.4.1 of the UK Code which states that the Board should appoint a Senior Independent Director. The Board has considered whether a Senior Independent Director should be appointed and has concluded that, given the size of the Board and the fact that it is comprised entirely of non-executive Directors, this is unnecessary at the present time. However the Chairman of the Audit Committee leads the evaluation of the Chairman and may be contacted by shareholders if they have any concerns that cannot be resolved through discussions with the Chairman.

The full text of the Company's Corporate Governance Statement can be found on its website.

Board Committees

The Board has appointed committees with specific responsibilities as set out below. Copies of the terms of reference of each committee are available on the Company's website, or upon request from the Company.

Audit Committee

The Audit Committee's Report is contained on pages 42 to 44.

Management Engagement Committee

The Management Engagement Committee comprises all Directors of the Company and is chaired by Mr R. Talbut. The purpose of the Committee is to review the terms of the agreements with the Manager including, but not limited to, the management fee, and also to review the performance of the Manager in relation to the achievement of the Company's objectives. These reviews were conducted during the year and the outcomes are noted below. In addition, the Committee conducts an annual review of the performance, terms and conditions of the Company's other main third party suppliers.

The key terms of the management agreement and fees payable to the Manager are set out on page 34 and in notes 4 and 5 to the financial statements. The Board believes the fee arrangements are competitive with reference to other investment trusts with a similar investment mandate and are priced appropriately given the level of service provided by the Standard Life Aberdeen Group. As stated above, the Committee reviews the performance of the Manager annually. The Board is satisfied with the Company's performance since the appointment of the Standard Life Aberdeen Group as Manager in 2008 and believes that the Investment Manager has positioned the portfolio well in order to seek to achieve good medium-term and long-term performance in line with the Company's investment objective. It therefore considers the continuing appointment of the Manager on the terms agreed to be in the best interests of shareholders at this time.

Remuneration Committee

During the year a Remuneration Committee was established, comprising all Directors and with Ms M. Glen as Chairman. This separate committee, chaired by an independent non-executive Director other than the Chairman of the Board, was established in line with corporate governance standards. The Committee's duties include reviewing the Company's remuneration policy and determining Directors' remuneration.

Nomination Committee

During the year the Board decided that, due to its size and the fact that it is comprised only of non-executive Directors, it was no longer appropriate to have a separate Nomination Committee, preferring this to be dealt with as a full Board matter. Accordingly, matters relating to Board evaluations, succession planning and identifying candidates to fill Board vacancies are dealt with by the full Board.

As disclosed in last year's Annual Report, following a comprehensive recruitment process Mr R. Archibald was appointed as a Director on 1 May 2017. The Board is satisfied that it has the collective competence and experience of the Company and good working functionality including constructive challenge, to address matters pertaining to the Company.

Going Concern

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of this Report. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the financial statements appear on page 46, and pages 47 to 52.

Each Director confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's Auditor is unaware, and they have taken all the steps that they could reasonably be expected to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Independent Auditor

The Company's Auditor, Ernst & Young LLP, has indicated its willingness to remain in office. The Board will place resolutions before the Annual General Meeting to re-appoint Ernst & Young LLP as Auditor for the ensuing year and to authorise the Directors to determine its remuneration.

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. Shareholders and investors may obtain up to date information on the Company through its website and the Manager's Customer Services Department.

All shareholders have the opportunity to put questions to the Board at the Annual General Meeting and a presentation from the Investment Manager covers the investment performance and strategy during the financial year and the outlook for the year ahead.

Representatives from the Board make themselves available to meet with institutional shareholders in order to gauge their views. The Board's policy is to communicate directly with shareholders and their representative bodies without the involvement of the management group (including the Company Secretary or the Manager) in situations where direct communication is required. In addition, the Company Secretary only acts on behalf of the Board, not the Manager, and there is no filtering of communication. At each Board meeting the Board receives full details of any communication from shareholders to which the Chairman responds personally as appropriate.

It is the Company's aim to give at least 20 working days' notice to shareholders of the Annual General Meeting. As recommended by the AIC Code, the Company makes available the proxy votes cast at general meetings.

Annual General Meeting

The Annual General Meeting will be held at the offices of Standard Life Aberdeen plc, Bow Bells House, 1 Bread Street, London EC4M 9HH on Thursday 5 July 2018 at 12 noon. The Notice of Annual General Meeting is included on pages 83 to 86. Resolutions including the following business will be proposed:

Allotment of Shares

Resolution 8, which is an ordinary resolution, will, if approved, give the Directors a general authority to allot new securities up to one third of the issued Ordinary share capital of the Company as at the date of the passing of the resolution (up to a maximum aggregate nominal amount of £4,999,096 based on the number of Ordinary shares in issue as at the date of this Report), such authority to expire on 30 September 2019 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

The Directors consider that this authority is necessary to retain flexibility although they do not have any intention of exercising the authority at the current time.

Disapplication of Pre-emption Provisions

Resolution 9, which is a special resolution, will, if approved, give the Directors power to allot Ordinary shares (including Ordinary shares held in treasury) for cash, otherwise than pro-rata to existing shareholders, up to a maximum aggregate nominal amount representing 10% of the Company's issued Ordinary share capital as at the date of the passing of the resolution (up to an aggregate nominal amount of £1,499,879 based on the number of Ordinary shares in issue as at the date of this Report). Ordinary shares would only be issued for cash at a premium to the net asset value per share. This authority will expire on 30 September 2019 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting). As noted, this disapplication of pre-emption rights also applies in respect of treasury shares which the Company may sell. The Company has no shares held in treasury as at the date of this Report.

Purchase of the Company's own Ordinary Shares

Resolution 10, which is a special resolution, will be proposed to renew the Company's authority to make market purchases of its own shares. The maximum number of Ordinary shares which may be purchased pursuant to the authority is 14.99% of the issued share capital of the Company as at the date of the passing of the resolution (approximately 4.5 million Ordinary shares). The minimum price which may be paid for an Ordinary share (exclusive of expenses) is 50p. The maximum price which may be paid (exclusive of expenses) is an amount being not more than the higher of (i) 105% of the average of the middle market quotations for the Company's Ordinary shares for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid relating to an Ordinary share on the trading venue where the purchase is carried out.

This authority, if conferred, will only be exercised if to do so would enhance the net asset value per share and is in the best interests of shareholders generally. Shares so repurchased may be held in treasury or cancelled. Any purchase of shares will be made within guidelines established from time to time by the Board. This authority will expire on 30 September 2019 or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting).

The Company did not purchase any of its own shares during the year.

Notice Period for General Meetings

The Company's Articles of Association enable the Company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. In order for this to be effective, the shareholders must also annually approve the calling of meetings on 14 days' notice by separate resolution. Resolution 11, which is a special resolution, seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Companies Act 2006 (as amended by the Shareholders' Rights Regulations) before it can call a general meeting on 14 days' notice. It is the Board's intention to only use this authority where it is merited by the purpose of the meeting.

Recommendation

The Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders and recommend that shareholders vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings totalling 69,112 Ordinary shares.

By order of the Board
Aberdeen Asset Management PLC
Company Secretary
40 Princes Street
Edinburgh EH2 2BY
29 May 2018

Directors' Remuneration Report

This Directors' Remuneration Report comprises three parts:

1. a Remuneration Policy which is subject to a binding shareholder vote every three years (or sooner if varied during this interval) – most recently voted on at the Annual General Meeting on 11 July 2017;
2. an Implementation Report which is subject to an advisory vote on the level of remuneration paid during the year; and
3. an Annual Statement.

The law requires the Company's Auditor to audit certain of the disclosures provided in the Directors' Remuneration Report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included on pages 47 to 52.

Directors' remuneration is determined on an annual basis by the Remuneration Committee, which is chaired by Ms M. Glen and comprises all of the Directors.

Remuneration Policy

The Directors' Remuneration Policy takes into consideration the principles of UK Corporate Governance and the AIC's recommendations regarding the application of those principles to investment companies. There were no changes to the Directors' Remuneration Policy during the year nor are there any proposals for changes in the foreseeable future.

No shareholder views were sought in setting the remuneration policy although any comments received from shareholders are considered.

Directors' fees are set within the limits of the Company's Articles of Association which limit the aggregate fees payable to the Board of Directors per annum. The current limit is £140,000 per annum and may only be increased by shareholder resolution. The Board's policy is that the remuneration of non-executive Directors should be sufficient to attract Directors of the quality required to run the Company successfully. The remuneration should also reflect the nature of the Directors' duties, responsibilities, the value of their time spent and be fair and comparable to that of other investment trusts that are similar in size, and have similar capital structures and investment objectives.

The levels of fees are set out in the table below.

	31 March 2018 £	31 March 2017 £
Chairman	34,000	29,000
Chairman of Audit Committee	28,000	24,000
Director	24,000	21,000

Appointment

- All the Directors are non-executive and are appointed under the terms of Letters of Appointment.
- Directors must retire and be subject to appointment at the first Annual General Meeting after their appointment by the Board, and be subject to re-appointment every three years thereafter. Directors with more than nine years' service are subject to annual re-appointment.
- Any Director newly appointed to the Board will receive the fee applicable to each of the other Directors at the time of appointment together with any other fee then currently payable in respect of a specific role which the new Director is to undertake for the Company.
- Additional fees may be payable where a Director is required to perform services outside the scope of the ordinary duties of a Director.
- No incentive or introductory fees will be paid to encourage a person to become a Director.
- Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.
- Directors are entitled to re-imbursement of out-of-pocket expenses incurred in connection with the performance of their duties, including travel and accommodation expenses as necessary.
- The Company indemnifies its Directors for all costs, charges, losses, expenses and liabilities which may be incurred in the discharge of duties as a Director of the Company.

Performance, Service Contracts, Compensation and Loss of Office

- The Directors' remuneration is not subject to any performance related fee.
- No Director has a service contract.
- No Director was interested in contracts with the Company during the period or subsequently.
- The terms of appointment provide that a Director may be removed without notice.
- Compensation will not be due upon leaving office.
- No Director is entitled to any other monetary payment or any assets of the Company.

Directors' Remuneration Report continued

Directors' & Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

It is the Remuneration Committee's intention that this Remuneration Policy will apply for the three year period ended 31 March 2020.

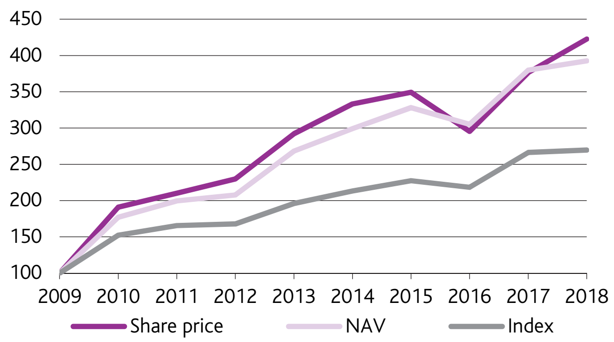
Implementation Report

Review of Directors' Fees

The Remuneration Committee carried out a review of the level of Directors' fees during the year and concluded that there would be no fee increases in respect of the year ending 31 March 2019. Fees were last increased with effect from 1 April 2017 to the levels shown in the table on the previous page.

Company Performance

The graph below shows the share price and NAV total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total return from the FTSE All-Share Index for the nine year period to 31 March 2018 (rebased to 100 at 31 March 2009). This Index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



Statement of Voting at General Meeting

At the Company's last Annual General Meeting, held on 11 July 2017, shareholders approved the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 March 2017. 90.4% of proxy votes were in favour of the resolution, 4.4% were against and 5.2% abstained. At the same meeting, shareholders approved the Directors' Remuneration Policy. 87.6% of proxy votes were in favour of the resolution, 5.6% were against and 6.8% abstained.

A resolution to approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) in respect of the year ended 31 March 2018 will be proposed at the Annual General Meeting.

Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders. The total fees paid to Directors are shown below.

Fees Payable (Audited)

The Directors who served during the year received the following fees, which exclude employers' National Insurance contributions:

Director	2018 £	2017 £
R. Talbut	31,231	21,000
R. Archibald[A]	22,000	-
A. Davidson[B]	9,505	29,000
M. Glen	24,000	21,000
A. Robson	28,000	24,000
Total	**114,736**	**95,000**

[A] Appointed 1 May 2017

[B] Retired 11 July 2017

Fees are pro-rated where a change takes place during a financial year. There were no payments to third parties included in the fees referred to in the table above.

Directors' Interests in the Company (Audited)

The Directors are not required to have a shareholding in the Company. The Directors (including their connected persons) at 31 March 2018 and 31 March 2017 had no interest in the share capital of the Company other than those interests, all of which are beneficial, shown in the table below.

	31 March 2018 Ordinary shares	31 March 2017 Ordinary shares
R. Talbut	14,969	14,969
R. Archibald	-	-
A. Davidson[A]	28,003	27,991
M. Glen	3,000	3,000
A. Robson	15,500	12,500

[A] At date of retirement on 11 July 2017

No Director had an interest in the 3.5% Cumulative Preference shares at any time during the year.

Since the end of the year, Mr R. Archibald has acquired 7,640 Ordinary shares. There have been no other changes to the Directors' interests in the share capital of the Company since the end of the year.

Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, it is confirmed that the above Remuneration Report summarises, as applicable, for the year to 31 March 2018:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions have been taken.

Marian Glen
Chairman of the Remuneration Committee
29 May 2018

Audit Committee's Report

The Audit Committee presents its Report for the year ended 31 March 2018.

Committee Composition

The Audit Committee comprises all of the Directors of the Company with Mr A. Robson acting as Chairman. Mr Robson is a fellow of the Institute of Chartered Accountants in England and Wales and the Board is satisfied that he has recent and relevant financial experience and that the Committee as a whole has competence relevant to the investment trust sector.

The Audit Committee meets at least twice a year to coincide with the annual and half-yearly reporting and audit cycle.

Functions of the Audit Committee

The principal role of the Audit Committee is to assist the Board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Committee has defined terms of reference which are reviewed and re-assessed for their adequacy on at least an annual basis. Copies of the terms of reference are published on the Company's website and are available from the Company on request.

The Committee's main functions are listed below:

- to review and monitor the internal control systems and risk management systems (including review of non-financial risks) on which the Company is reliant (the Directors' statement on the Company's internal controls and risk management is set out below);
- to consider whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the half-yearly and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager;
- to review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's annual and half-yearly financial statements, announcements and related formal statements;
- to review the content of the Annual Report and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- to meet with the Auditor to review the proposed audit programme of work and the findings of the Auditor. The Committee also uses this as an opportunity to assess the effectiveness of the audit process;
- to develop and implement policy on the engagement of the Auditor to supply non-audit services. Fees paid to the Auditor during the year for non-audit services amounted to £2,000 (2017: £2,000) and related to the provision of iXBRL tagging services. All non-audit services must be approved in advance by the Audit Committee and will be reviewed in the light of statutory requirements and the need to maintain the Auditor's independence;
- to review a statement from the Standard Life Aberdeen Group detailing the arrangements in place within the group whereby staff may, in confidence, escalate concerns about possible improprieties in matters of financial reporting or other matters;
- to make recommendations in relation to the re-appointment of the Auditor or the appointment of a new Auditor and to approve the remuneration and terms of engagement of the Auditor; and
- to monitor and review the Auditor's independence, objectivity, effectiveness, resources and qualification.

Activities During the Year

The Audit Committee met twice during the year when, amongst other things, it considered the Annual Report and the Half-Yearly Financial Report. Representatives of the Standard Life Aberdeen Group's internal audit, risk and compliance departments reported to the Committee at these meetings on matters such as internal control systems, risk and the conduct of the business in the context of its regulatory environment.

Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks, that it has been in place for the year ended 31 March 2018 and up to the date of approval of the Annual Report, that it is regularly reviewed by the Board and accords with the FRC's guidance on internal controls.

The Board has overall responsibility for ensuring that there is a system of internal controls in place and a process for reviewing its effectiveness. Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly extends to operational and compliance controls and risk management. The Board has prepared its own risk register which identifies potential risks relating to strategy; investment management; shareholders; promotional activities; gearing; regulatory and financial obligations; third party service providers and the Board. The Board considers the potential cause and possible impact of these risks as well as reviewing the controls in place to mitigate these potential risks. A risk is rated by having a likelihood and an impact rating and is plotted on a "heat map".

Clear lines of accountability have been established between the Board and the Manager. The Board receives regular reports covering key performance and risk indicators and considers control and compliance issues brought to its attention. In carrying out its review, the Board has had regard to the activities of the Standard Life Aberdeen Group, its internal audit and compliance functions and the Auditor.

The Board has reviewed the effectiveness of the Standard Life Aberdeen Group's system of internal control including its annual internal controls report prepared in accordance with the International Auditing and Assurance Standards Board's International Standard on Assurances Engagements ("ISAE") 3402, "Assurance Reports on Controls at a Service Organization". The Board has also reviewed the Standard Life Aberdeen Group's process for identifying and evaluating the significant risks faced by the Company and the policies and procedures by which these risks are managed.

Risks are identified and documented through a risk management framework by each function within the Standard Life Aberdeen Group's activities. Risk is considered in the context of the FRC's guidance on internal controls and includes financial, regulatory, market, operational and reputational risk. This helps the internal audit risk assessment model identify those functions for review. Any weaknesses identified are reported to the Board and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

The key components designed to provide effective internal control are outlined below:

- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers;
- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance; the emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception;
- as a matter of course the Standard Life Aberdeen Group's compliance department continually reviews its operations; and
- at its meeting in May 2018, the Audit Committee carried out an annual assessment of internal controls for the year ended 31 March 2018 by considering documentation from the Standard Life Aberdeen Group including the internal audit and compliance functions and taking account of events since 31 March 2018.

The Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place within the Standard Life Aberdeen Group, has decided to place reliance on those systems and internal audit procedures.

Financial Statements and Significant Issues

During its review of the Company's financial statements for the year ended 31 March 2018, the Audit Committee considered the following significant issues, in particular those communicated by the Auditor during its planning and reporting of the year end audit:

Valuation and Existence of Investments

How the issue was addressed - The Company's investments have been valued in accordance with the accounting policies as disclosed in note 2 to the financial statements. All investments are in quoted securities in active markets, are considered to be liquid and have been categorised as Level 1 within the IFRS 7 fair value hierarchy. The portfolio holdings and their pricing is reviewed and verified by the Manager on a regular basis and management accounts, including a full portfolio listing, are prepared for each Board meeting. The Company uses the services of an independent Depositary (BNP Paribas Securities Services, London Branch) to hold the assets of the Company. The Depositary checks the consistency of its records with those of the Manager on a monthly basis and reports to the Board on an annual basis.

Recognition of Investment Income

How the issue was addressed - The recognition of investment income is undertaken in accordance with the stated accounting policies. In addition, the Directors review the Company's income, including income received, revenue forecasts and dividend comparisons at each Board meeting.

Maintenance of Investment Trust Status

How the issue was addressed - Approval of the Company as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 for financial years commencing on or after 1 April 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis by the Manager and reported at each Board meeting.

Accounting Treatment of Preference Shares

How the issue was addressed – As explained in notes 3 and 11 to the financial statements, during the year and following a review of the previous accounting treatment, the Company, in consultation with the Manager and Auditor, changed the classification of its preference shares from 'debt securities' to 'equity securities' and reversed the accumulated amortisation of the premium on the purchase of preference shares, amounting to £1,482,000. Given the quantum of the adjustment, the Audit Committee reviewed the accounting treatment in detail as part of the discussions with the Manager and Auditor. The Audit Committee noted that the adjustment did not result in any impact to the net asset value per share of the Company, the revenue or capital earnings per share, or any of the individual reserve balances.

Review of Auditor

The Audit Committee has reviewed the effectiveness of the Auditor, Ernst & Young LLP ("E&Y"), including:

- Independence - the Auditor discusses with the Audit Committee, at least annually, the steps it takes to ensure its independence and objectivity and makes the Committee aware of any potential issues, explaining all relevant safeguards.
- Quality of audit work - including the ability to resolve issues in a timely manner, its communications and presentation of outputs, and its working relationship with management.
- Quality of people and service - including continuity and succession plans.

Tenure of the Auditor

E&Y was appointed as Auditor at the Annual General Meeting on 6 July 2016. In accordance with present professional guidelines the audit partner is rotated after no more than five years and the year ended 31 March 2018 is the second year for which the present partner has served.

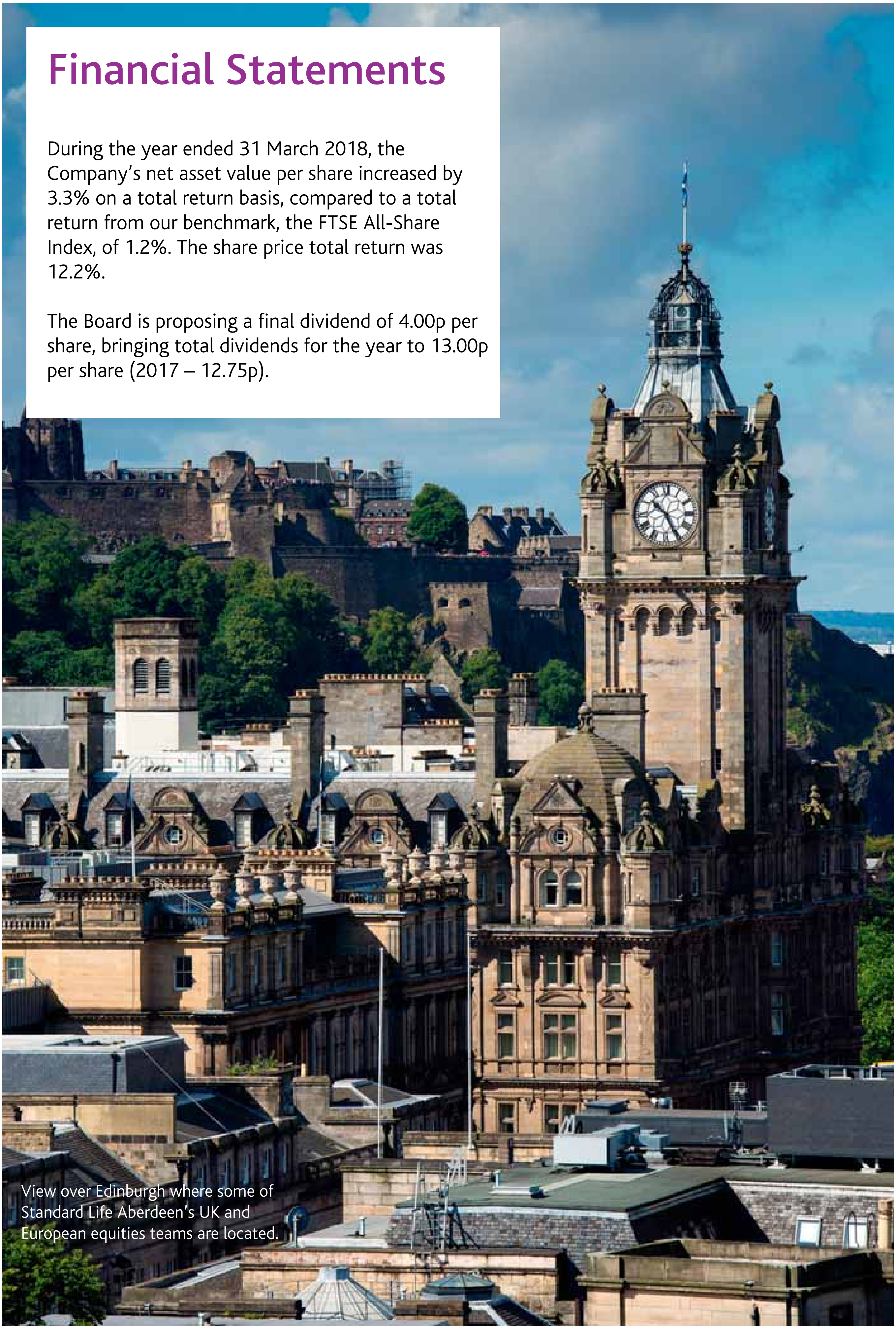
The Audit Committee is satisfied that E&Y is independent and therefore supports the recommendation to the Board that the re-appointment of E&Y be put to shareholders for approval at the Annual General Meeting.

Andrew Robson
Chairman of the Audit Committee
29 May 2018

Financial Statements

During the year ended 31 March 2018, the Company's net asset value per share increased by 3.3% on a total return basis, compared to a total return from our benchmark, the FTSE All-Share Index, of 1.2%. The share price total return was 12.2%.

The Board is proposing a final dividend of 4.00p per share, bringing total dividends for the year to 13.00p per share (2017 – 12.75p).



View over Edinburgh where some of Standard Life Aberdeen's UK and European equities teams are located.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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, and under that law they have chosen to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU subject to any material departures disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, but not for the content of any information included on the website that has been prepared or issued by third parties. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- in the opinion of the Directors, the Annual Report taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's position and performance, business model and strategy; and
- the Strategic Report and Directors' Report 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 the Company faces.

On behalf of the Board
Robert Talbut
Chairman
29 May 2018

Independent Auditor's Report to the Members of Shires Income PLC

Opinion

We have audited the financial statements of Shires Income PLC (the "Company") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of Our Report

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

Conclusions Relating to Principal Risks, Going Concern and Viability Statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures as set out on pages 9 to 11 in the Annual Report that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation as set out on page 9 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement as set out on page 37 in the Annual Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 13 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report to the Members of Shires Income PLC continued

Overview of Our Audit Approach

Key audit matters	• Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment. • Incorrect valuation and existence of the investment portfolio
Materiality	• Materiality of £0.80m which represents 1% of total shareholders' funds of the Company (2017: £0.81m)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or apply appropriate accounting treatment (as described on page 43 in the Audit Committee's Report). Substantially all of the Company's income is received in the form of dividends and option premiums, being £4.74m (2017: £3.87m) and £0.17m (2017: £0.20m) respectively for the year. During the year, the Company received four special dividends, with an aggregate value of £0.62m (2017: £0.05m). The investment income receivable by the Company during the period directly affects the Company's ability to pay a dividend to shareholders. Given the manual and judgemental element involved in allocating special dividends and option premiums between revenue and capital, we considered there to be a fraud risk, in accordance with Auditing Standards, in this area of our audit.	**We performed the following procedures:** Obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends and option premium, and also performed a walkthrough to evaluate the design and effectiveness of controls. We reviewed the income report and identified all special dividends received in the year. We also reviewed the acquisitions and disposals report for any potential special dividends treated as capital to assess if any should be treated as revenue. We reviewed the accounting treatment of all the special dividends identified. We agreed a sample of option contracts to broker statements and verified that the premiums have been correctly recognised in revenue. We agreed a sample of dividend receipts to the corresponding announcement made by the investee company, recalculated the dividend amount received and agreed cash received to bank statements.	**The results of our procedures are:** We noted no issues when obtaining an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends and option premiums. We noted no issues in agreeing all special dividends identified to an independent source and we noted no issues in reviewing the accounting treatment of the special dividends identified. We noted no issues in agreeing the option contracts to broker statements and verified that the premiums have been correctly recognised in revenue. We noted no issues in agreeing the sample of dividend receipts to an independent source, recalculating these amounts and agreeing them to the bank statements.

	We agreed a sample of investee company dividend announcements from an independent source to the income recorded by the Company. We agreed 100% of accrued dividends to an independent source and agreed cash received to bank statements were applicable.	We noted no issues in agreeing the sample of investee company announcements to the income entitlements recorded by the Company. We noted no issues in agreeing 100% of accrued dividend to an independent source and agreeing the cash received to bank statements were applicable.
Incorrect valuation and defective title of the investment portfolio (as described on page 43 in the Audit Committee's Report). The valuation of the assets held in the investment portfolio is the key driver of the Company's investment return. The value of the Company's investment portfolio at 31 March 2018 was £96.54m (2017: £97.83m), consisting entirely of listed equities. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	**We performed the following procedures:** Obtained an understanding of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing and also performed a walkthrough to evaluate the design and effectiveness of controls For all listed investments in the portfolio, we compared the market values and exchange rates applied to an independent source We reviewed pricing exception and stale price reports to highlight and review any unexpected price movements in investments held as at the year-end. We obtained independent confirmation from the Depositary of all securities held at the year end and agreed all securities held from the Company's records to the confirmations received.	**The results of our procedures are:** We noted no issues when obtaining an understanding of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing For all listed investments, we noted no material differences in market value or exchange rates when compared to an independent source. We noted no stale prices or unexpected movements in investments held as at the year end. We noted no issues agreeing all securities held at year-end in the Company's records to those of the Depositary.

An Overview of the Scope of Our Audit

Tailoring the Scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our Application of Materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Independent Auditor's Report to the Members of Shires Income PLC continued

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £0.80m (2017: £0.81m), which is 1% (2017: 1%) of shareholders' funds of the Company. We believe that shareholders' funds of the Company provides us the basis for setting materiality since it is the basis for the key measurement of the Company's performance.

Performance Materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 50%) of our planning materiality, namely £0.60m (2017: £0.41m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected. In the prior year our performance materiality was 50% of materiality as it was our first year of audit.

Given the importance of the distinction between revenue and capital for the Company we also applied a separate tolerable threshold of £0.21m (2017: £0.20m) for the revenue column of the Statement of Comprehensive Income being 5% of profit before tax.

Reporting Threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.04m (2017: £0.04m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations in forming our opinion.

Other Information

The other information comprises the information included in the Annual Report as set out on page 1 to •, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair balanced and understandable [set out on page 46] –** the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting [set out on page 42] –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code [set out on page 36] –** the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- In our opinion, based on the work undertaken in the course of the audit:
    - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
    - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on Which We Are Required to Report by Exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires use to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the Members of Shires Income PLC continued

Explanation as to What Extent the Audit Was Considered Capable of Detecting Irregularities, Including Fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to incomplete or inaccurate revenue recognition relating to the allocation of special dividends and option premiums between revenue and capital. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other Matters we are Required to Address

- Following the recommendation of the audit committee we were appointed by the Company at its annual general meeting on 6 July 2016 to audit the financial statements of the Company for the year ending 31 March 2017 and subsequent financial periods. Our total uninterrupted period of engagement is 2 years, covering the years ending 31 March 2017 to 31 March 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Caroline Mercer (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
29 May 2018

Statement of Comprehensive Income

	Notes	Year ended 31 March 2018 Revenue £'000	Capital £'000	Total £'000	Year ended 31 March 2017 Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	11	–	(2,357)	(2,357)	–	12,863	12,863
Currency (losses)/gains		–	(37)	(37)	–	–	–
Income	3						
Dividend income		4,665	–	4,665	3,603	–	3,603
Interest income/(expense)		1	1,482	1,483	569	(101)	468
Stock dividends		79	–	79	259	–	259
Traded option premiums		167	–	167	204	–	204
Other income		–	–	–	55	–	55
Money market interest		4	–	4	4	–	4
Underwriting commission		–	–	–	1	–	1
		4,916	(912)	4,004	4,695	12,762	17,457
Expenses							
Management fee	4	(215)	(215)	(430)	(198)	(198)	(396)
Administrative expenses	5	(404)	–	(404)	(386)	–	(386)
Finance costs of borrowings	7	(172)	(172)	(344)	(164)	(164)	(328)
		(791)	(387)	(1,178)	(748)	(362)	(1,110)
Profit/(loss) before taxation		4,125	(1,299)	2,826	3,947	12,400	16,347
Taxation	8	(19)	–	(19)	(22)	20	(2)
Profit/(loss) attributable to equity holders of the Company		**4,106**	**(1,299)**	**2,807**	**3,925**	**12,420**	**16,345**
Earnings per Ordinary share (pence)	10	**13.69**	**(4.33)**	**9.36**	**13.08**	**41.41**	**54.49**

The Company does not have any income or expense that is not included in profit for the year, and therefore the "Profit for the year" is also the "Total comprehensive income for the year", as defined in IAS 1 (revised).

The total column of this statement represents the Statement of Comprehensive Income of the Company, prepared in accordance with IFRS. The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of these financial statements.

Balance Sheet

	Notes	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Non-current assets			
Ordinary shares		69,419	72,118
Convertibles		550	575
Preference shares		26,572	25,133
Securities at fair value	11	96,541	97,826
Current assets			
Other receivables	12	935	1,108
Cash and cash equivalents		2,262	1,773
		3,197	2,881
Creditors: amounts falling due within one year			
Trade and other payables		(276)	(230)
Short-term borrowings		(9,000)	(19,000)
	13	(9,276)	(19,230)
Net current liabilities		(6,079)	(16,349)
Total assets less current liabilities		90,462	81,477
Non-current liabilities			
Long-term borrowings	13	(9,997)	–
Net assets		**80,465**	**81,477**
Share capital and reserves			
Called-up share capital	15	15,049	15,049
Share premium account		19,308	19,308
Capital reserve	16	39,313	40,612
Revenue reserve		6,795	6,508
Equity shareholders' funds		**80,465**	**81,477**
Net asset value per Ordinary share (pence)	17	**268.24**	**271.61**

The financial statements were approved by the Board of Directors and authorised for issue on 29 May 2018 and were signed on its behalf by:

Robert Talbut
Chairman

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 March 2018

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 March 2017	15,049	19,308	40,612	6,508	81,477
(Loss)/profit for the year	–	–	(1,299)	4,106	2,807
Equity dividends (see note 9)	–	–	–	(3,819)	(3,819)
As at 31 March 2018	**15,049**	**19,308**	**39,313**	**6,795**	**80,465**

Year ended 31 March 2017

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 31 March 2016	15,049	19,308	28,192	6,253	68,802
Profit for the year	–	–	12,420	3,925	16,345
Equity dividends (see note 9)	–	–	–	(3,670)	(3,670)
As at 31 March 2017	**15,049**	**19,308**	**40,612**	**6,508**	**81,477**

The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

The accompanying notes are an integral part of these financial statements.

Cash Flow Statement

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Net cash inflow from operating activities		
Dividend income received[A]	4,740	3,164
Interest income received	–	721
Options premium received	176	207
Other income	–	56
Money market interest received	4	5
Management fee paid	(426)	(385)
Other cash expenses	(415)	(349)
Cash generated from operations	4,079	3,419
Interest paid	(310)	(327)
Overseas tax paid	(26)	(2)
Net cash inflows from operating activities	3,743	3,090
Cash flows from investing activities		
Purchases of investments[A]	(11,251)	(8,833)
Sales of investments	11,859	9,313
Net cash inflow from investing activities	608	480
Cash flows from financing activities		
Equity dividends paid	(3,819)	(3,670)
Loan arrangement fees	(6)	–
Net cash outflow from financing activities	(3,825)	(3,670)
Increase/(decrease) in cash and cash equivalents	**526**	**(100)**
Reconciliation of net cash flow to movements in cash and cash equivalents		
Increase/(decrease) in cash and cash equivalents as above	526	(100)
Net cash and cash equivalents at start of year	1,773	1,873
Effect of foreign exchange rate changes	(37)	–
Net cash and cash equivalents at end of year	**2,262**	**1,773**

[A] Non–cash transactions during the year comprised stock dividends of £79,000 (2017 – £259,000).

Notes to the Financial Statements

1. Principal activity

The Company is a closed-end investment company, registered in England and Wales No 00386561, with its Ordinary shares listed on the London Stock Exchange.

2. Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Reporting Interpretations Committee of the IASB ("IFRIC"). The Company adopted all of the IFRS which took effect during the year including amendments to IAS 7 which requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation of changes in financing activities during the year is provided in note 14 on page 65.

The financial statements have also been prepared in accordance with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in February 2018 with consequential amendments (applicable for accounting periods beginning on or after 1 January 2019 but adopted early).

The Company's assets consist substantially of equity shares in companies listed on recognised stock exchanges and in most circumstances are realisable within a short timescale. The Board has set limits for borrowing and regularly reviews actual exposures, cash flow projections and compliance with banking covenants. The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and, for the above reasons, they continue to adopt the going concern basis in preparing the financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations were effective for annual periods beginning on or after 1 January 2018:

IFRS 9 – Financial Instruments (revised)

IFRS 15 – Revenue from Contracts with Customers

IFRS 16 – Leasing (effective for annual periods beginning on or after 1 January 2019)

The following amendments to Standards were effective during the year:

IAS 7 – Disclosure iniative

IAS 12 – Recognition of Deferred Tax Assets for Unrealised Assets

IFRS 12 (AI 2014–2016) – Clarification of the scope of the Standard

The following amendments to Standards are all effective for annual periods beginning on or after 1 January 2018:

IFRS 15 – Clarifications

IFRS 15 – Effective date of IFRS 15

The following amendments to Standards are all effective for annual periods beginning on or after 1 January 2019:

IFRS 9 – Prepayment Features with Negative Compensation

IAS 12 (AI 2015–17) – Income tax consequences of payments on financial instruments classified as equity

In addition, under the Annual Improvements to IFRSs 2014 – 2016 Cycle, a number of Standards are included for annual periods beginning on or after 1 January 2017.

The Company intends to adopt the Standards and Interpretations in the reporting period when they become effective and the Board does not anticipate that the adoption of these Standards and Interpretations in future periods will materially impact the Company's financial results although there will be revised presentations to the Financial Statements and additional disclosures. In forming this opinion the Board notes the fundamental rewrite of accounting rules for financial instruments under IFRS 9, which is applicable for annual periods commencing 1 January 2018 and introduces a new classification model for financial assets. Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held. The Company's portfolio includes preference shares, which have contractual cash flows and the Board has determined it will be appropriate to continue to classify these securities at fair value through profit or loss as they are managed on a fair value basis rather than to collect cash flows. Additionally, the Board does not believe that IFRS 15 will have any impact on the financial statements of the Company as it does not have revenue from contracts with customers.

(b) Investments

All investments have been designated upon initial recognition at fair value through profit or loss. This is because all investments are considered to form part of a group of financial assets which is evaluated on a fair value basis. Investments are recognised or derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned.

The fair value of the financial instruments is based on their quoted bid price at the Balance Sheet date, without deduction for any estimated future selling costs.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as "Gains/(losses) on investments". Also included within this are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase.

(c) Income

Dividend income from equity investments, including all ordinary shares and all preference shares, certain of which have been reclassified as equity instruments during the year from debt securities, is accounted for when the shareholders' rights to receive payment have been established, normally the ex-dividend date.

If a scrip dividend is taken in lieu of a cash dividend, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

In prior years certain preference shares had been classified as debt securities and interest on them was accounted for on an effective interest rate basis. Any amortisation or accretion of the premium or discount respectively on acquisition as a result of using this basis was allocated against the capital reserve. The SORP recommends that such amortisation should be allocated against revenue. The Directors, as advised, believed this treatment was not appropriate for a high yielding investment trust which buys and sells debt securities, and that any premium or discount included in the price of such an investment was a capital item (see notes 3 and 11 for more detailed disclosures of the impact of the change in accounting treatment).

Interest from deposits is dealt with on an effective interest basis.

Underwriting commission is recognised when the underwriting services are provided and is taken to revenue, unless any shares underwritten are required to be taken up, in which case the proportionate commission received is deducted from the cost of the investment.

(d) Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except those where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Accordingly the management fee and finance costs have been allocated 50% to revenue and 50% to capital, in order to reflect the Directors' expected long-term view of the nature of the future investment returns of the Company.

(e) Borrowings

Short-term borrowings, which comprise interest bearing bank loans and overdrafts, are initially recognised at cost, being the fair value of the consideration received, net of any issue expenses. The finance costs, being the difference between the net proceeds of borrowings and the total amount of payments that require to be made in respect of those borrowings, accrue evenly over the life of the borrowings.

Long-term borrowings are measured initially at the fair value of the consideration received, net of any issue expenses, and subsequently at amortised cost using the effective interest method.

(f) Taxation

The tax payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company has no liability for current tax.

Deferred tax is recognised in respect of all temporary differences at the Balance Sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at 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 the temporary differences can be deducted. Deferred tax assets and liabilities are measured at the rates applicable to the legal jurisdictions in which they arise, using tax rates that are expected to apply at the date the deferred tax position is unwound.

(g) Foreign currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Monetary assets and liabilities and those carried at fair value through profit or loss in foreign currencies are translated at the closing rates of exchange at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or the revenue account as appropriate.

(h) Derivatives

The Company may enter into certain derivatives (e.g. traded options). Traded option contracts are restricted to writing out-of-the-money options with a view to generating income. Premiums received on traded option contracts are recognised as income evenly over the period from the date they are written to the date when they expire or are exercised or assigned. Gains and losses on the underlying shares acquired or disposed of as a result of options exercised are included in the capital account. Unexpired traded option contracts at the year end are accounted for at their fair value.

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash in hand and at banks and short-term deposits.

(j) Receivables and payables

Other receivables and prepayments do not carry any interest and are short-term in nature, and are, accordingly, stated at their recoverable amount. Payables are non-interest bearing and are stated at their payable amount.

(k) Dividends payable

Dividends are recognised from the date on which they are declared and approved by shareholders. Interim dividends are recognised when paid.

Notes to the Financial Statements continued

3.	Income	2018 £'000	2017 £'000
	Income from listed investments		
	UK dividend income[A]	4,427	3,562
	Overseas dividend income	238	41
	Interest income from investments[A]	–	568
	Money market interest	4	4
	Stock dividends	79	259
		4,748	4,434
	Other income from investment activity		
	Deposit interest	1	1
	Traded option premiums	167	204
	Underwriting commission	–	1
	Other income	–	55
		168	261
	Total income	**4,916**	**4,695**

[A] During the year the Company's preference share holdings previously classified as debt securities (interest income) were reclassifed as equity instruments (UK dividend income).

In 2017 the amount of £(101,000) included in the capital column of Interest Income represents the amortisation of the premium on the purchase of preference shares referred to in note 2 (c), which were previously classified as 'debt securities'. During the year ended 31 March 2018 and following a review of the previous accounting treatment, the Company changed the classification of its preference shares to 'equity securities' and reversed the accumulated amortisation of £1,482,000 that had been recorded in prior years (see note 11).

		2018			2017		
		Revenue	Capital	Total	Revenue	Capital	Total
4.	Management fees	£'000	£'000	£'000	£'000	£'000	£'000
	Management fees	215	215	430	198	198	396

The management fee is based on 0.45% per annum up to £100 million and 0.40% over £100 million, by reference to the net assets of the Company and including any borrowings up to a maximum of £30 million, and excluding commonly managed funds, calculated monthly and paid quarterly. The fee is allocated 50% to revenue and 50% to capital. The agreement is terminable on six months' notice. The total of the fees paid and payable during the year to 31 March 2018 was £430,000 (2017 – £396,000) and the balance due to AFML at the year end was £105,000 (2017 – £102,000). The Company held an interest in a commonly managed investment trust, Aberdeen Smaller Companies Income Trust PLC, in the portfolio during the year to 31 March 2018 (2017 – same). The value attributable to this holding is excluded from the calculation of the management fee payable by the Company.

5. Administrative expenses	2018 £'000	2017 £'000
Directors' remuneration	115	95
Auditor's remuneration:		
• Fees payable to the Company's Auditor for the audit of the Company's annual accounts	21	21
• Non-audit services		
• fees payable to the Company's Auditor for iXBRL tagging services	2	2
Promotional activities	78	83
Professional fees	35	14
Directors' & Officers' liability insurance	10	10
Trade subscriptions	27	26
Share plan costs	17	16
Registrars fees	33	49
Printing, postage and stationery	25	29
Other administrative expenses	41	41
	404	**386**

The management agreement with AFML also provides for the provision of promotional activities, which AFML has delegated to Aberdeen Asset Managers Limited. The total fees paid and payable under the management agreement in relation to promotional activities were £78,000 (2017 – £83,000). The Company's management agreement with AFML also provides for the provision of company secretarial and administration services to the Company; no separate fee is charged to the Company in respect of these services, which have been delegated to Aberdeen Asset Management PLC.

With the exception of Auditor's remuneration for the statutory audit, all of the expenses above, including fees for non–audit services, include irrecoverable VAT where applicable. For the Auditor's remuneration for the statutory audit, irrecoverable VAT amounted to £4,000 (2017 – £4,000).

6. Directors' remuneration

The Company had no employees during the year (2017 – nil). No pension contributions were paid for Directors (2017 – £nil). Further details on Directors' Remuneration can be found in the Directors' Remuneration Report on pages 39 and 40.

	2018			2017		
	Revenue	Capital	Total	Revenue	Capital	Total
7. Finance costs of borrowings	£'000	£'000	£'000	£'000	£'000	£'000
On bank loans	**172**	**172**	**344**	**164**	**164**	**328**

	2018			2017		
	Revenue	Capital	Total	Revenue	Capital	Total
8. Taxation	£'000	£'000	£'000	£'000	£'000	£'000
(a) Analysis of the charge for the year						
UK corporation tax	–	–	–	20	(20)	–
Overseas tax	19	–	19	2	–	2
Total tax charge	**19**	**–**	**19**	**22**	**(20)**	**2**

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than the effective rate of corporation tax in the UK. The differences are explained in the reconciliation below:

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Profit before taxation	4,125	(1,299)	2,826	3,947	12,400	16,347
Corporation tax at an effective rate of 19% (2017 – 20%)	784	(247)	537	789	2,479	3,268
Effects of:						
Non-taxable UK dividend income	(844)	–	(844)	(760)	–	(760)
Excess management expenses not utilised	105	73	178	–	52	52
Overseas withholding tax	19	–	19	2	–	2
Non-taxable overseas dividends	(45)	–	(45)	(9)	–	(9)
Losses/(gains) on investments not taxable	–	167	167	–	(2,571)	(2,571)
Losses on currency movements	–	7	7	–	–	–
Disallowed expenses	–	–	–	–	20	20
Total tax charge	**19**	**–**	**19**	**22**	**(20)**	**2**

At 31 March 2018 the Company had surplus management expenses and loan relationship debits with a tax value of £4,338,000 (2017 – £4,126,000) in respect of which a deferred tax asset has not been recognised. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

9. Dividends	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the period:		
Third interim dividend for 2017 of 3.00p (2016 – 3.00p) per share	900	900
Final dividend for 2017 of 3.75p (2016 – 3.25p) per share	1,125	975
First two interim dividends for 2018 totalling 6.00p (2017 – 6.00p) per share	1,800	1,800
Refund of unclaimed dividends from previous periods	(8)	(7)
	3,817	3,668
3.5% Cumulative Preference shares	2	2
Total	**3,819**	**3,670**

The third interim dividend of 3.00p for the year to 31 March 2018, which was paid on 27 April 2018, and the proposed final dividend of 4.00p for the year to 31 March 2018, payable on 27 July 2018, have not been included as liabilities in these financial statements.

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

	2018 £'000	2017 £'000
Three interim dividends for 2018 totalling 9.00p (2017 – 9.00p) per share	2,700	2,700
Proposed final dividend for 2018 of 4.00p (2017 – 3.75p) per share	1,200	1,125
	3,900	**3,675**

	2018 £'000	2017 £'000
10. Returns per share		
Returns per Ordinary share are based on the following figures:		
Revenue return	4,106	3,925
Capital return	(1,299)	12,420
Total return	**2,807**	**16,345**
Weighted average number of Ordinary shares	**29,997,580**	**29,997,580**

	2018 Listed investments £'000	2017 Listed investments £'000
11. Non–current assets – Securities at fair value		
Opening book cost	76,532	76,648
Opening investment holdings gains	21,294	8,501
Opening valuation	97,826	85,149
Purchases	11,313	9,092
Sales – proceeds	(11,727)	(9,169)
Sales – net realised (losses)/gains	(1,567)	62
Accreted/(amortised) cost adjustment[A]	1,482	(101)
Fair value movement in the year	(786)	12,793
Total investments held at fair value through profit or loss	**96,541**	**97,826**

[A] In 2017 the amount of £(101,000) represents the amortisation of the premium on the purchase of preference shares, which were previously classified as 'debt securities'. During the year ended 31 March 2018 and following a review of the previous accounting treatment, the Company changed the classification of its preference shares to 'equity securities' and reversed the accumulated amortisation of £1,482,000 that had been recorded in prior years. There is no impact on the fair value of investments as a result of this change, nor on the net asset value per share of the Company, the revenue or capital earnings per share, or any of the individual reserve balances.

	2018 Listed investments £'000	2017 Listed investments £'000
Closing book cost	76,033	76,532
Closing investment holdings gains	20,508	21,294
Total investments held at fair value through profit or loss	**96,541**	**97,826**

(Losses)/gains on investments	2018 £'000	2017 £'000
Net realised (losses)/gains on sales of investments[A]	(1,472)	350
Cost of call options exercised	(95)	(288)
Net realised (losses)/gains on sales	(1,567)	62
Movement in fair value of investments	(701)	12,806
Cost of put options assigned	(85)	(13)
Movement in appreciation of traded options held	(4)	8
	(2,357)	**12,863**

[A] Includes losses realised on the exercise of traded options of £179,000 (2017 – £301,000) which are reflected in the capital column of the Statement of Comprehensive Income.

The cost of the exercising of call options and the assigning of put options is the difference between the market price of the underlying shares and the strike price of the options. The premiums earned on options expired, exercised or assigned of £167,000 (2017 – £204,000) have been dealt with in the revenue account.

The movement in the fair value of traded option contracts has been calculated in accordance with the accounting policy stated in note 2(h) and has been charged to the capital reserve.

During the year expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Statement of Comprehensive Income. The total costs on purchases of investments in the year was £41,000 (2017 – £41,000). The total costs on sales of investments in the year was £3,000 (2017 – £5,000).

All investments are categorised as held at fair value through profit and loss and were designated as such upon initial recognition.

At 31 March 2018 the Company held the following investments comprising more than 3% of the class of share capital held:

Company	Country of Incorporation	Number of shares held	Class of shares held	Class held %
Aberdeen Smaller Companies Income Trust PLC	Scotland	3,120,476	Ordinary	14.1
Ecclesiastical Insurance Office	England	4,240,000	8 5/8% Cum Pref	4.0
Royal & Sun Alliance	England	4,350,000	7 3/8% Cum Pref	3.5
General Accident	Scotland	3,548,000	7.875% Cum Pref	3.2

12. Other receivables	2018 £'000	2017 £'000
Accrued income and prepayments	917	982
Other debtors	2	115
Option contract premium	16	11
	935	**1,108**

None of the above amounts is overdue.

13. Current liabilities	2018 £'000	2017 £'000
Short-term bank loans	9,000	19,000
Option contracts	48	30
Other creditors	228	200
	9,276	**19,230**

Included above are the following amounts owed to AFML for management and secretarial services and for the promotion of the Company.

	2018 £'000	2017 £'000
Other creditors	**133**	**128**

Non-current liabilities	2018 £'000	2017 £'000
Long-term bank loan	10,000	–
Loan arrangement fees	(3)	–
	9,997	–

The Company has an agreement with Scotiabank Europe PLC to provide a loan facility to 30 October 2020 for up to £20,000,000. A £10,000,000 fixed rate loan was drawn down on 1 November 2017 at a rate of 1.956%. This rate is fixed until maturity on 30 October 2020. In addition, at the year end £9,000,000 had been drawn down at an all-in interest rate of 1.45278%, maturing on 3 April 2018. At the date of signing this report the amount drawn down was unchanged at £9,000,000 with an all-in interest rate of 1.46687%, maturing on 4 June 2018.

The terms of the Scotiabank Europe facility contain covenants that gross borrowings may not exceed one-third of adjusted net assets and that adjusted net assets may not be less than £37 million. The Company has met these covenants with significant headroom since inception of the agreement until the date of this Report.

The arrangement expenses incurred on the draw down of the loan are being amortised over the three year term of the loan resulting in a reduction to the carrying value of the loan drawn down being reduced by £3,000 (2017 – £Nil).

14. Analysis of changes in financing during the year	2018 £'000	2017 £'000
Opening balance at 1 April	19,000	19,000
Cashflow:		
Loan arrangement fees	(6)	–
Non cash:		
Unamortised loan arrangement fees	3	–
Closing balance at 31 March	**18,997**	**19,000**

Notes to the Financial Statements continued

15. Called up share capital	2018 Number	2018 £'000	2017 Number	2017 £'000
Allotted, called up and fully paid				
Ordinary shares of 50 pence each	29,997,580	14,999	29,997,580	14,999
3.5% Cumulative Preference shares of £1 each	50,000	50	50,000	50
		15,049		**15,049**

16. Capital reserve	2018 £'000	2017 £'000
At 31 March 2017	40,612	28,192
Net (losses)/gains on sales of investments during year	(1,567)	62
Movement in fair value gains on investments	(786)	12,793
Accreted/(amortised) cost adjustment charged to capital	1,482	(101)
Management fees	(215)	(198)
Interest on bank loans	(172)	(164)
Tax relief on capitalised expenses	–	20
Currency (losses)/gains	(37)	–
Traded options	(4)	8
At 31 March 2018	**39,313**	**40,612**

17. Net asset value per Ordinary share

The net asset value per share and the net assets attributable to the Ordinary shareholders at the year end were as follows:

	2018	2017
Net assets attributable	£80,465,000	£81,477,000
Number of Ordinary shares in issue	29,997,580	29,997,580
Net asset value per share	268.24p	271.61p

The Company also uses net asset value (ex income) per share as an alternative performance measure. This is calculated as follows:

	2018	2017
Net assets attributable	£80,465,000	£81,477,000
Less: Revenue for the year	£(4,106,000)	£(3,925,000)
Add: Dividends during the year	£1,792,000	£1,793,000
Net assets (ex income)	£78,151,000	£79,345,000
Number of Ordinary shares in issue	29,997,580	29,997,580
NAV (ex income) per share	260.52p	264.50p

18. Financial instruments

Risk management

The Company's investment activities expose it to various types of financial risk associated with the financial instruments and markets in which it invests. The Company's financial instruments comprise securities and other investments, cash balances, loans and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may from time to time use FTSE options for protection of the loss of value to the portfolio.

Subject to Board approval, the Company also has the ability to enter into derivative transactions, in the form of traded options, for the purpose of enhancing income returns and portfolio management. During the year, the Company entered into certain derivative contracts. As disclosed in note 3, the premium received and fair value changes in respect of options written in the year were £167,000 (2017 – £204,000). Positions closed during the year realised a loss of £179,000 (2017 – £301,000). The largest position in derivative contracts held during the year at any given time was £94,000 (2017 – £166,000). The Company had open positions in derivative contracts at 31 March 2018 valued at a liability of £48,000 (2017 – £30,000) as disclosed in note 13.

The Board has delegated the risk management function to AFML under the terms of its management agreement with AFML (further details of which are included under note 4). The Board regularly reviews and agrees policies for managing each of the key financial risks identified with the Manager. The types of risk and the Manager's approach to the management of each type of risk, are summarised below. Such approach has been applied throughout the year and has not changed since the previous accounting period. The numerical disclosures exclude short-term debtors and creditors given their relatively low value.

Risk management framework

The directors of AFML collectively assume responsibility for AFML's obligations under the AIFMD including reviewing investment performance and monitoring the Company's risk profile during the year.

AFML is a fully integrated member of the Standard Life Aberdeen Group (the "Group"), which provides a variety of services and support to AFML in the conduct of its business activities, including in the oversight of the risk management framework for the Company. The AIFM has delegated the day to day administration of the investment policy to Aberdeen Asset Managers Limited, which is responsible for ensuring that the Company is managed within the terms of its investment guidelines and the limits set out in its pre-investment disclosures to investors (details of which can be found on the Company's website). The AIFM has retained responsibility for monitoring and oversight of investment performance, product risk and regulatory and operational risk for the Company.

The Group's Internal Audit Department is independent of the Risk Division and reports directly to the Group's co-CEOs and to the Audit Committee of the Group's Board of Directors. The Internal Audit Department is responsible for providing an independent assessment of the Group's control environment.

The Manager conducts its risk oversight function through the operation of the Group's risk management processes and systems which are embedded within the Group's operations. The Group's Risk Division supports management in the identification and mitigation of risks and provides independent monitoring of the business. The Division includes Compliance, Business Risk, Market Risk, Risk Management and Legal. The team is headed up by the Group's Head of Risk, who reports to the Group's co-CEOs. The Risk Division achieves its objective through embedding the Risk Management Framework throughout the organisation using the Group's operational risk management system ("SWORD").

The Group's corporate governance structure is supported by several committees to assist the board of directors of Standard Life Aberdeen plc, its subsidiaries and the Company to fulfil their roles and responsibilities. The Group's Risk Division is represented on all committees, with the exception of those committees that deal with investment recommendations. The specific goals and guidelines on the functioning of those committees are described on the committees' terms of reference.

Notes to the Financial Statements continued

Risk management

The main risks the Company faces from its financial instruments are (i) market risk (comprising interest rate risk, currency risk and price risk), (ii) liquidity risk and (iii) credit risk.

(i) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate movements may affect:

- the fair value of the investments in convertibles and preference shares;
- the level of income receivable on cash deposits; and
- 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 and borrowing decisions.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis. Borrowings comprise fixed rate, revolving, and uncommitted facilities. The fixed rate facilities are used to finance opportunities at low rates and, the revolving and uncommitted facilities to provide flexibility in the short-term. Current bank covenant guidelines state that the gross borrowings will not exceed one-third of adjusted net assets.

The Board reviews on a regular basis the value of investments in convertibles and preference shares.

Interest rate profile

The interest rate risk profile of the portfolio of financial assets and liabilities (excluding ordinary shares and convertibles) at the Balance Sheet date was as follows:

As at 31 March 2018	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
Assets				
UK preference shares	–	8.50	26,572	–
Cash and cash equivalents	–	0.29	–	2,262
Total assets	**–**	**–**	**26,572**	**2,262**
Liabilities				
Short-term bank loans	0.09	1.45	(9,000)	–
Long-term bank loans	2.58	1.96	(9,997)	–
Total liabilities	**–**	**–**	**(18,997)**	**–**

As at 31 March 2017	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Fixed rate £'000	Floating rate £'000
Assets				
UK preference shares	–	8.50	25,133	–
Cash and cash equivalents	–	0.29	–	1,773
Total assets	–	–	**25,133**	**1,773**
Liabilities				
Short-term bank loans	0.72	1.66	(19,000)	–
Total liabilities	–	–	**(19,000)**	–

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on bank loans is based on the interest rate payable, weighted by the total value of the loans.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

The UK preference shares assets have no maturity date.

Short-term debtors and creditors (with the exception of bank loans) have been excluded from the above tables.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the Balance Sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates.

If interest rates had been 100 basis points higher or lower and all other variables were held constant, the Company's:

- profit before tax for the year ended 31 March 2018 would increase/decrease by £23,000 (2017 – £18,000). This is mainly attributable to the Company's exposure to interest rates on its floating rate cash balances. These figures have been calculated based on cash positions at each year end.
- profit before tax for the year ended 31 March 2018 would increase/decrease by £1,183,000 (2017 – increase/decrease by £2,139,000). This is mainly attributable to the Company's exposure to interest rates on its investments in convertibles and preference shares. This is based on a Value at Risk ('VaR') calculated at a 99% confidence level.

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the interest rate risk management process used to meet the Company's objectives. The risk parameters used will also fluctuate depending on the current market perception.

Currency risk

A small proportion of the Company's investment portfolio is invested in overseas securities whose values are subject to fluctuation due to changes in exchange rates.

Management of the risk

The revenue account is subject to currency fluctuations arising on dividends received in foreign currencies and, indirectly, due to the impact of foreign exchange rates upon the profits of investee companies. The Company does not hedge this currency risk. The Company does not have any exposure to foreign currency liabilities.

Price risk

Price risks (ie changes in market prices other than those arising from interest rate or currency risk) may affect the value of the quoted investments.

Management of the risk

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risk arising from factors specific to a particular sector. The allocation of assets to specific sectors and the stock selection process both act to reduce market risk. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to review investment strategy. The investments held by the Company are listed on the recognised stock exchanges.

Price sensitivity

If market prices at the Balance Sheet date had been 10% higher or lower while all other variables remained constant, the profit before tax attributable to Ordinary shareholders for the year ended 31 March 2018 would have increased/decreased by £6,942,000 (2017 – increase/decrease of £7,212,000). This is based on the Company's equity portfolio held at each year end.

(ii) 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 considered to be significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary.

Short-term flexibility is achieved through the use of loan facilities, details of which can be found in note 13. Under the terms of the loan facility, the Manager provides the lender with loan covenant reports on a monthly basis, to provide the lender with assurance that the terms of the facility are not being breached. The Manager will also review the credit rating of a lender on a regular basis.

The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis. Borrowings comprise a revolving loan facility and a fixed term loan facility. The Board has imposed a maximum equity gearing of 35% which constrains the amount of gearing that can be invested in equities which, in normal market conditions, are more volatile than the convertibles and preference shares part of the portfolio. Details of borrowings at 31 March 2018 are shown in note 13.

Maturity profile

The maturity profile of the Company's financial liabilities at the Balance Sheet date was as follows:

At 31 March 2018	Within 1 year £'000	Within 1-5 years £'000	More than 5 years £'000
Trade and other payables	(276)	–	–
Short-term bank loans	(9,012)	–	–
Long-term bank loans	(196)	(10,310)	–
	(9,484)	**(10,310)**	–

At 31 March 2017	Within 1 year £'000	Within 1-5 years £'000	More than 5 years £'000
Trade and other payables	(230)	–	–
Short-term bank loans	(19,640)	–	–
	(19,870)	–	–

(iii) Credit risk

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

Management of the risk

The risk is managed as follows:

- where the Investment Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Company of default;
- investment transactions are carried out with a large number of brokers, whose credit-standing is reviewed periodically by the investment manager, and limits are set on the amount that may be due from any one broker;
- the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the review of failed trade reports on a daily basis. In addition, both stock and cash reconciliations to the Custodian's records are performed on a daily basis to ensure discrepancies are investigated on a timely basis. The Standard Life Aberdeen Group's Compliance department carries out periodic reviews of the Custodian's operations and reports its finding to the Standard Life Aberdeen Group's Risk Management Committee and to the Board of the Company. This review will also include checks on the maintenance and security of investments held;
- transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Investment Manager of the credit worthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board; and
- cash is held only with reputable banks with high quality external credit enhancements.

It is the Investment Manager's policy to trade only with A- and above (Long Term rated) and A-1/P-1 (Short Term rated) counterparties.

None of the Company's financial assets is secured by collateral or other credit enhancements.

Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 March 2018 was as follows:

Notes to the Financial Statements continued

	2018 Balance Sheet £'000	2018 Maximum exposure £'000	2017 Balance Sheet £'000	2017 Maximum exposure £'000
Non-current assets				
Quoted convertibles and preference shares at fair value through profit or loss	27,122	27,122	25,708	25,708
Current assets				
Trade and other receivables	18	18	126	126
Accrued income	905	905	972	982
Cash and cash equivalents	2,262	2,262	1,773	1,773
	30,307	**30,307**	**28,579**	**28,589**

None of the Company's financial assets is past due or impaired.

Fair value of financial assets and liabilities

The fair value of the long–term loan has been calculated at £10,034,000 as at 31 March 2018 (2017 – not applicable) compared to an accounts value in the financial statements of £9,997,000 (2017 – not applicable) (note 13). The fair value of each loan is determined by aggregating the expected future cash flows for that loan discounted at a rate comprising the borrower's margin plus an average of market rates applicable to loans of a similar period of time and currency. The carrying values of fixed asset investments are stated at their fair values, which have been determined with reference to quoted market prices. Traded options contracts are valued at fair value which have been determined with reference to quoted market values of the contracts. The contracts are tradeable on a recognised exchange. For all other short-term debtors and creditors, their book values approximates to fair values because of their short-term maturity.

19. Fair value hierarchy

IFRS 13 'Financial Value Measurement' requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy at 31 March 2018 as follows:

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted investments	a)	96,541	–	–	96,541
Financial liabilities at fair value through profit or loss					
Derivatives	b)	–	(48)	–	(48)
Net fair value		**96,541**	**(48)**	–	**96,493**

As at 31 March 2017	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss					
Quoted investments	a)	97,826	–	–	97,826
Financial liabilities at fair value through profit or loss					
Derivatives	b)	–	(30)	–	(30)
Net fair value		**97,826**	**(30)**	**–**	**97,796**

a) Quoted investments

The fair value of the Company's quoted investments has been determined by reference to their quoted bid prices at the reporting date. Quoted investments included in Fair Value Level 1 are actively traded on recognised stock exchanges.

b) Derivatives

The fair value of the Company's investments in Exchange Traded Options has been determined using observable market inputs on an exchange traded basis although not actively traded and therefore has been classed as Level 2.

The fair value of the Company's investments in Over the Counter Options has been determined using observable market inputs other than quoted prices and included within Level 2.

20. Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the return to its equity shareholders through an appropriate balance of equity capital and debt.

The capital of the Company consists of equity, comprising issued capital, reserves and retained earnings.

The Board monitors and reviews the broad structure of the Company's capital. This review includes the nature and planned level of gearing, which takes account of the Investment Manager's views on the market and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company is not subject to any externally imposed capital requirements.

21. Related party transactions

Directors' fees and interests

Fees payable during the year to the Directors and their interests in shares of the Company are disclosed within the Directors' Remuneration Report on page 40.

Transactions with the Manager

The Company has an agreement with Aberdeen Fund Managers Limited for the provision of management, secretarial, accounting and administration services and for the carrying out of promotional activities in relation to the Company. Details of transactions during the year and balances outstanding at the year end disclosed in notes 4 and 5.

22. Alternative performance measures (unaudited)

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes IFRS and the AIC SORP.

The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies. Total return is considered to be an alternative performance measure. NAV total return involves investing the same net dividend in the NAV of the Company with debt at fair value on the date on which that dividend was earned. Share price total return involves reinvesting the net dividend in the month that the share price goes ex-dividend.

The tables below provide information relating to the NAVs and share prices of the Company on the dividend reinvestment dates during the years ended 31 March 2018 and 31 March 2017.

2018	Dividend rate	NAV	Share price
31 March 2017	N/A	271.61p	243.25p
6 April 2017	3.00p	269.97p	237.75p
6 July 2017	3.75p	275.30p	250.00p
5 October 2017	3.00p	284.05p	271.75p
4 January 2018	3.00p	292.22p	287.00p
31 March 2018	N/A	268.24p	260.00p
Total return		**3.3%**	**12.2%**

2017	Dividend rate	NAV	Share price
31 March 2016	N/A	229.36p	202.00p
7 April 2016	3.00p	225.71p	200.00p
7 July 2016	3.25p	235.38p	203.25p
6 October 2016	3.00p	259.42p	231.00p
5 January 2017	3.00p	258.36p	227.63p
31 March 2017	N/A	271.61p	243.25p
Total return		**24.5%**	**27.5%**

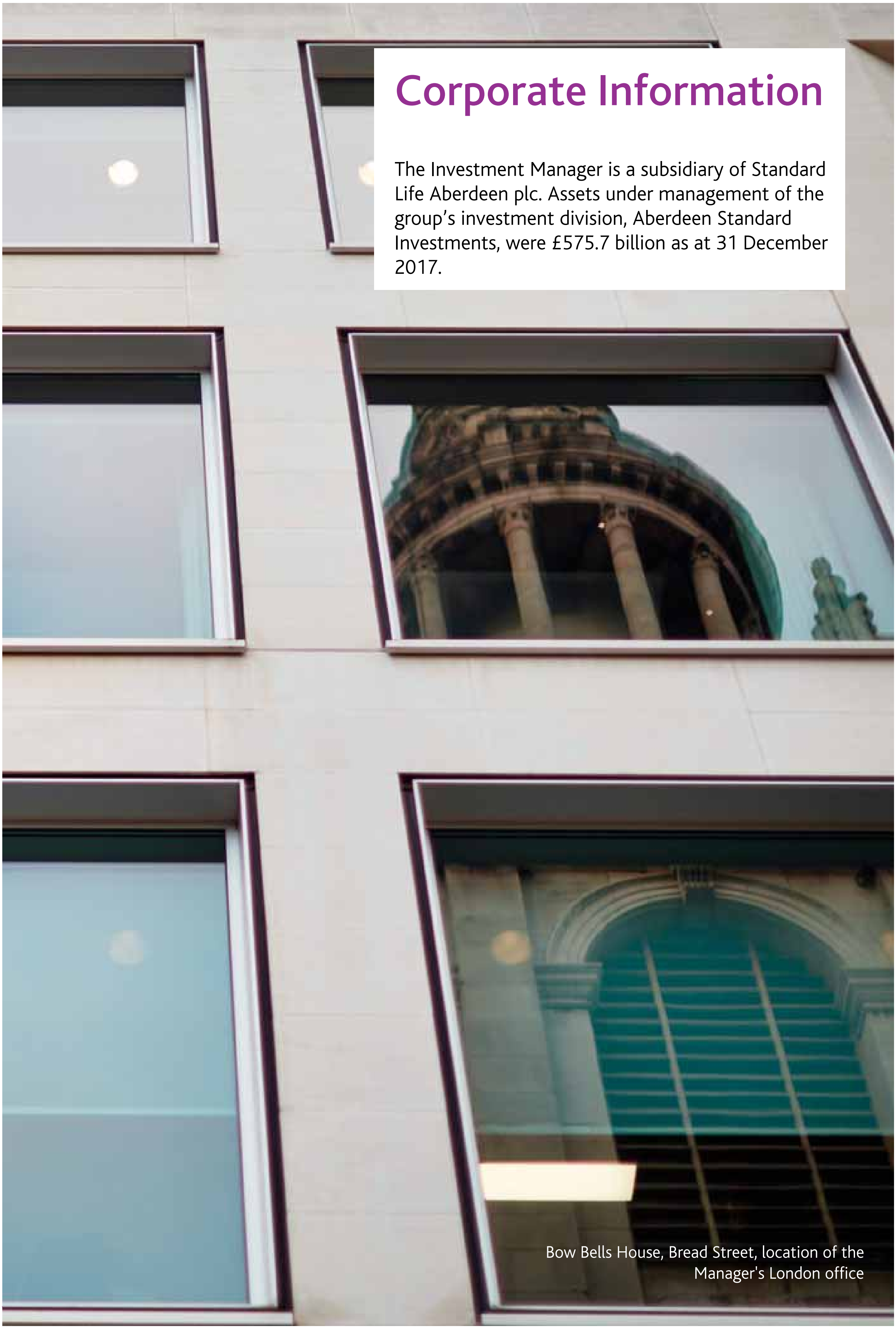
Ongoing charges

Ongoing charges is considered to be an alternative performance measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses and expressed as a percentage of the average net asset values throughout the year.

	2018	2017
Investment management fees (£'000)	430	396
Administrative expenses (£'000)	404	386
Less: non-recurring charges (£'000)	(35)	–
Ongoing charges (£'000)	**799**	**782**
Average net assets (£'000)	**84,343**	**74,911**
Ongoing charges ratio	**0.95%**	**1.04%**

Corporate Information

The Investment Manager is a subsidiary of Standard Life Aberdeen plc. Assets under management of the group's investment division, Aberdeen Standard Investments, were £575.7 billion as at 31 December 2017.



Bow Bells House, Bread Street, location of the Manager's London office

Information about the Investment Manager

Aberdeen Asset Managers Limited

The Company's Investment Manager is Aberdeen Asset Managers Limited, a wholly-owned subsidiary of Standard Life Aberdeen plc. Assets under the management of the group's investment division, Aberdeen Standard Investments, were £575.7 billion as at 31 December 2017.

The Standard Life Aberdeen Group manages assets on behalf of a wide range of clients including 25 UK-listed investment companies which had combined total assets of £10.7 billion as at 31 December 2017.

The Investment Team Senior Manager

Iain Pyle

Senior Investment Manager

Iain is an Investment Director on the UK equities team, having joined Standard Life Investments in 2015. Prior to joining, he was an analyst on the top-ranked Oil & Gas research team at Sanford Bernstein. Iain graduated with a MEng degree in Chemical Engineering from Imperial College and an MSc (Hons) in Operational Research from Warwick Business School. He is a chartered accountant and a CFA Charterholder.

The Investment Process

Philosophy and Style

The Investment Manager's investment philosophy is that markets are not always efficient. We believe that superior investment returns are therefore attainable by identifying good companies that are trading cheaply, defined in terms of the fundamentals that in our opinion drive share prices over the long term. We undertake substantial due diligence before initiating any investment, including company visits, in order to assure ourselves of the quality of the prospective investment. We are then careful not to pay too high a price when making the investment. Subsequent to that investment we then keep in close touch with the company, aiming to meet management at least twice a year. Given our long-term fundamental investment philosophy, we would not expect much turnover in the companies in which we invest. We do, however, take opportunities offered to us by what we see as anomalous price movements within stock markets to either top up or top slice positions, which typically accounts for the bulk of the activity within the portfolio.

Risk Controls

We seek to minimise risk by our in depth research. We do not view divergence from a benchmark as risk – we view investment in poorly run expensive companies that we do not understand as risk. In fact, where risk parameters are expressed in benchmark relative terms, asset – including sector – allocation constitutes a significant constraint on stock selection. Hence diversification of stocks provides our main control.

The Investment Manager's performance and investment risk unit independently monitors portfolio positions, and reports monthly. As well as attributing performance it also produces statistical analysis, which is used by the Investment Manager primarily to check the portfolio is performing as expected, not as a predictive tool.

Investor Information

AIFMD

The Company has appointed Aberdeen Fund Managers Limited as its alternative investment fund manager and BNP Paribas Securities Services, London Branch as its depositary under the AIFMD. Details of the leverage and risk policies which the Company is required to have in place under AIFMD are published in the Company's Pre-investment Disclosure Document ("PIDD") which can be found on its website. The periodic disclosures required to be made by the AIFM under the AIFMD are set out on page 82.

Pre-investment Disclosure Document ("PIDD")

The AIFMD requires Aberdeen Fund Managers Limited, as the alternative investment fund manager of Shires Income PLC, to make available to investors certain information prior to such investors' investment in the Company. The Company's PIDD is available for viewing on its website.

Website

Further information on the Company can be found on its website: shiresincome.co.uk. This provides information on the Company's share price performance, capital structure, stock exchange announcements and monthly factsheets.

Investor Warning: Be alert to share fraud and boiler room scams

The Standard Life Aberdeen Group has been contacted by investors informing us that they have received telephone calls and emails from people who have offered to buy their investment trust shares, purporting to work for the Standard Life Aberdeen Group or for third party firms. The Standard Life Aberdeen Group has also been notified of emails claiming that certain investment companies under our management have issued claims in the courts against individuals. These may be scams which attempt to gain your personal information with which to commit identity fraud or could be 'boiler room' scams where a payment from you is required to release the supposed payment for your shares. These callers/senders do not work for the Standard Life Aberdeen Group and any third party making such offers/claims has no link with the Standard Life Aberdeen Group.

The Standard Life Aberdeen Group does not 'cold-call' investors in this way. If you have any doubt over the veracity of a caller, do not offer any personal information, end the call and contact our Customer Services Department.

The Financial Conduct Authority provides advice with respect to share fraud and boiler room scams: fca.org.uk/consumers/scams

Keeping You Informed

Detailed information on the Company, including price, performance information and a monthly fact sheet is available from its website and the TrustNet website (trustnet.com). Alternatively you can call 0808 500 0040 (free when dialing from a UK landline).

If you have any questions about your Company, the Manager or performance, please telephone the Aberdeen Customer Services Department (direct private investors) on 0808 500 0040. Alternatively, you may email Aberdeen at inv.trusts@aberdeenstandard.com or write to Aberdeen Investment Trusts, PO Box 11020, Chelmsford, Essex CM99 2DB.

Shareholder Enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc shareholders holding their shares in the Company directly should contact the registrars, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by telephoning on 0371 384 2508. Lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday (excluding bank holidays). Calls may be recorded and monitored randomly for security and training purposes.

Changes of address must be notified to the registrars in writing. Any general enquiries about the Company should be directed to the Company Secretary, Shires Income PLC, 40 Princes Street, Edinburgh EH2 2BY or by emailing company.secretary@aberdeenstandard.com.

Direct Investment

Investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively, for retail clients, shares can be bought directly through Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA.

Aberdeen's Investment Plan for Children

Aberdeen runs an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to the eligibility criteria as stated within the terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per company, while regular savers may invest from £30 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is

Investor Information continued

no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Aberdeen's Investment Trust Share Plan

Aberdeen runs a Share Plan (the "Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors simply pay Government Stamp Duty (currently 0.5%) where applicable. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing Aberdeen in writing at any time. In common with other schemes of this type, all investments are held in nominee accounts. Investors have full voting and other rights of share ownership.

Stocks and Shares ISA

An investment of up to £20,000 can be made in the 2018/2019 tax year.

The annual ISA administration charge is £24 + VAT, calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Investors have full voting and other rights of share ownership. Under current legislation, investments in ISAs can grow free of capital gains tax.

ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per company of £250.

Dividend Tax Allowance

The annual tax-free allowance on dividend income is £2,000 for the 2018/2019 tax year. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company provides registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Literature Request Service

For literature and application forms for the Company and the Aberdeen Group's investment trust products, please contact:

Telephone: 0808 500 4000
Website: invtrusts.co.uk/en/investmenttrusts/literature-library

For information on the Investment Plan for Children, Share Plan, ISA or ISA Transfer please contact:

Aberdeen Investment Trust Administration
PO Box 11020
Chelmsford
Essex CM99 2DB
Telephone: 0808 500 0040
(free when dialing from a UK landline)

Terms and conditions for the Aberdeen managed savings products can also be found under the literature section of invtrusts.co.uk.

Online Dealing Details

Investor information

There are a number of other ways in which you can buy and hold shares in this investment trust.

Online dealing

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company. Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms. Some well-known online providers, which can be found through internet search engines, include:

- AJ Bell You Invest
- Alliance Trust Savings
- Barclays Stockbrokers
- Charles Stanley Direct
- Halifax Share Dealing
- Hargreave Hale
- Hargreaves Lansdown
- Idealing
- Interactive Investor/TD Direct
- Selftrade Equiniti
- The Share Centre
- Stocktrade

Discretionary private client stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management & Financial Advice Association at: pimfa.co.uk.

Financial advisers

To find an adviser on investment trusts, visit: unbiased.co.uk.

Regulation of stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority:
Tel: 0800 111 6768 or at fca.org.uk/firms/systems-reporting/register/search
Email: register@fca.org.uk

Suitable for Retail/NMPI Status

The Company's shares are intended for investors, primarily in the UK, including retail investors, professionally-advised private clients and institutional investors who are seeking a high level of income, together with the potential for growth of both income and capital from a diversified portfolio substantially invested in UK equities but also in preference shares, convertibles and fixed income securities, and who understand and are willing to accept the risks of exposure to equities. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs, and intends to continue to do so for the foreseeable future, in order that its shares can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments ("NMPIs").

The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream pooled investment products because they are shares in an investment trust.

Note

Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

The information on pages 77 to 79 has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority.

Glossary of Terms and Definitions

AIC	The Association of Investment Companies.
AIFMD	The Alternative Investment Fund Managers Directive. The AIFMD is European legislation which created a European-wide framework for regulating managers of 'alternative investment funds' ("AIFs"). It is designed to regulate any fund which is not a UCITS fund and which is managed and/or marketed in the EU. The Company has been designated as an AIF and the Manager acts as the AIFM.
Alternative Performance Measure or APM	A financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
Benchmark	This is a measure against which an Investment Trust's performance is compared. The Company's benchmark is the FTSE All-Share Index. The index averages the performance of a defined selection of listed companies over specific time periods.
Call Option	An option contract which gives the buyer the right, but not the obligation, to purchase a specified amount of an asset at an agreed price by a future specified date.
Closed-End Fund	A collective investment scheme which has a fixed number of shares which are not redeemable from the fund itself. Unlike open-ended funds, new shares/units are not created by managers to meet demand from investors; instead, shares are purchased (or sold) only in the market. Closed-end funds are normally listed on a recognised stock exchange, such as the London Stock Exchange, and shares can be bought and sold on that exchange.
Convertibles	Fixed income securities, which can be converted into equity shares at a future date.
Discount	The amount by which the market price per share of an Investment Trust is lower than the Net Asset Value per share. The discount is normally expressed as a percentage of the Net Asset Value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
FCA	Financial Conduct Authority.
Gearing and Equity Gearing	Net gearing is calculated by dividing total borrowings less cash or cash equivalents, by shareholders' funds expressed as a percentage. Equity gearing is the sum of the investments in ordinary shares, both listed and unlisted, and convertibles, expressed as a proportion of shareholders' funds.
Investment Manager or AAML	Aberdeen Asset Managers Limited is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the Company's investment manager. It is authorised and regulated by the FCA.
Investment Trust	A type of Closed-End Fund which invests in other securities, allowing shareholders to share the risks, and returns, of collective investment.
Key Information Document or KID	The Packaged Retail and Insurance-based Investment Products ("PRIIPS") Regulation requires the Manager, as the Company's PRIIP 'manufacturer', to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available via the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

Leverage	For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its Net Asset Value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.
Manager, AIFM or AFML	Aberdeen Fund Managers Limited is a wholly owned subsidiary of Standard Life Aberdeen plc and acts as the Alternative Investment Fund Manager for the Company. It is authorised and regulated by the FCA.
Net Asset Value or NAV	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The Net Asset Value divided by the number of shares in issue produces the Net Asset Value per share. The NAV can be shown as cum-income per the Balance Sheet or ex-income as shown in note 17.
Ongoing Charges	Ratio of expenses as a percentage of average daily shareholders' funds calculated as per the AIC's industry standard method.
Preference Shares	These entitle the holder to a fixed rate of dividend out of the profits of a company, to be paid in priority to other classes of shareholder.
Pre-Investment Disclosure Document ("PIDD")	The AIFM and the Company are required to make certain disclosures available to investors in accordance with the AIFMD. Those disclosures that are required to be made pre-investment are included within a PIDD, which can be found on the Company's website.
Premium	The amount by which the market price per share of an Investment Trust exceeds the Net Asset Value per share. The premium is normally expressed as a percentage of the Net Asset Value per share.
Price/Earnings Ratio	This is calculated by dividing the market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Put Option	An option contract which gives the buyer the right, but not the obligation, to sell a specified amount of an asset at an agreed price by a future specified date.
Standard Life Aberdeen Group	The Standard Life Aberdeen plc group of companies.
Total Assets	Total Assets as per the balance sheet less current liabilities (before deducting Prior Charges as defined above).
Total Return	Total Return involves reinvesting the net dividend in the month that the share price goes ex-dividend. The NAV Total Return involves investing the same net dividend in the NAV of the Company on the date to which that dividend was earned.

AIFMD Disclosures (unaudited)

Aberdeen Fund Managers Limited 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 pre-investment disclosure document ("PIDD") which can be found on the Company's website.

There have been no material changes to the disclosures contained within the PIDD since its most recent update in June 2017.

The periodic disclosures as required under the AIFMD to investors are made below:

- information on the investment strategy and sector investment focus and principal stock exposures is included in the Strategic Report;
- none of the Company's assets are subject to special arrangements arising from their illiquid nature;
- the Strategic Report, note 18 to the financial statements and the PIDD together 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 AFML; and
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code. In accordance with the Remuneration Code, the AIFM's remuneration policy is available from the Company Secretary, Aberdeen Asset Management PLC, on request and the remuneration disclosures in respect of the AIFM's reporting period for the year ended 30 September 2017 and the period ended 31 December 2017 are available on the Company's website.

Leverage

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

	Gross Method	Commitment Method
Maximum level of leverage	2.50:1	2.00:1
Actual level at 31 March 2018	1.44	1.46

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 have been no changes to the circumstances in which the Company may be required to post assets as collateral and no guarantees granted under the leveraging arrangement. Changes to the information contained either within this Annual Report or the PIDD in relation to any special arrangements in place, the maximum level of leverage which AFML 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.

The information on this page has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Fund Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ninetieth Annual General Meeting of Shires Income PLC (the "Company") will be held at the offices of Standard Life Aberdeen plc, Bow Bells House, 1 Bread Street, London, EC4M 9HH on Thursday 5 July 2018 at 12 noon to transact the following business:

To consider and, if thought fit, pass the following as Ordinary Resolutions:

1. To receive and adopt the Directors' Report and audited financial statements of the Company for the year ended 31 March 2018 together with the Auditor's Report thereon.
2. To receive and adopt the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) for the year ended 31 March 2018.
3. To approve a final dividend of 4.0p per Ordinary share in respect of the year ended 31 March 2018.
4. To-re-appoint Mr R. Talbut as a Director of the Company.
5. To re-appoint Mr A. Robson as a Director of the Company.
6. To re-appoint Ernst & Young LLP as Auditor of the Company.
7. To authorise the Directors to determine the remuneration of the Auditor for the year to 31 March 2019.
8. That, in substitution for any pre-existing power to allot or grant rights to subscribe for or to convert any security into shares in the Company, but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("relevant securities") up to an aggregate nominal amount of £4,999,096 or, if less, the number representing 33.33% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution provided that such authorisation expires on 30 September 2019 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority, and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, pass the following as Special Resolutions:

9. That, subject to the passing of resolution 8 in the notice convening the meeting at which this resolution is to be proposed (the "Notice of Meeting") and in substitution for all existing powers, the Directors be and are hereby generally empowered pursuant to Section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in Section 560 (1) of the Act) for cash pursuant to the authority under Section 551 of the Act conferred by resolution 8 in the Notice of Meeting as if Section 561 of the Act did not apply to any such allotment, provided that this power:
   (i) expires on 30 September 2019 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if that power had not expired; and
   (ii) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,499,879 or, if less, the number representing 10% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution.

   This power applies in relation to the sale of shares which is an allotment of equity securities that immediately before the allotment are held by the Company as treasury shares as if in the opening paragraph of this resolution the words "subject to the passing of resolution 8 in the notice convening the meeting at which this resolution is to be proposed (the "Notice of Meeting") and" and "pursuant to the authority under Section 551 of the Act conferred by resolution 8 in the Notice of Meeting" were omitted.
10. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with Section 701 of the Companies Act 2006 (the "Act"), to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid Ordinary shares of 50p each in the capital of the Company ("shares"), and to cancel or hold in treasury such shares, provided that:
    (i) the maximum aggregate nominal value of the Ordinary shares hereby authorised to be purchased shall be limited to £2,248,318 or, if less, the number representing 14.99% of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for a share shall be 50p (exclusive of expenses);

Notice of Annual General Meeting continued

(iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount being not more than the higher of:
  a) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; or
  b) the higher of the price of the last independent trade and the highest current independent bid relating to a share on the trading venue where the purchase is carried out; and

(iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 September 2019 or, if earlier, at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

11. That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution.

By order of the Board
Aberdeen Asset Management PLC
Company Secretary
40 Princes Street
Edinburgh EH2 2BY
29 May 2018

Registered Office
Bow Bells House
1 Bread Street
London EC4M 9HH

Notes:

(i) A member is entitled to appoint a proxy or proxies to exercise all or any of their rights to attend, speak and vote on their behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. If a member wishes to appoint more than one proxy, they should contact the Company's Registrars, Equiniti Limited, on 0371 384 2508 (charges for calling this number are determined by the caller's service provider. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday excluding bank holidays). The Equiniti overseas helpline number is +44 (0)121 415 7047.

(ii) A form of proxy for use by members is enclosed with the Annual Report. Completion and return of the form of proxy will not prevent any member from attending the meeting and voting in person. To be valid, the form of proxy should be lodged, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, at the address stated thereon, so as to be received not less than 48 hours (excluding non-working days) before the time of the meeting.

(iii) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the meeting a member must first have his or her name entered in the Company's register of members at 6.30 p.m. on 3 July 2018 (or, in the event that the meeting is adjourned, at 6.30 p.m. on the day which is two business days before the time of the adjourned meeting). Changes to entries on that register after that time shall be disregarded in determining the rights of any member to attend and vote at the meeting.

(iv) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website: euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(v) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrar (ID RA19) not less than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

(vi) CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(viii) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("Nominated Persons"). Nominated Persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in notes i) and ii) above does not apply to Nominated Persons. The rights described in these notes can only be exercised by members of the Company.

(ix) No Director has a service contract with the Company but copies of Directors' letters of appointment will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice and for at least 15 minutes prior to the meeting and during the meeting.

(x) As at close of business on 29 May 2018 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 29,997,580 Ordinary shares of 50p each and 50,000 Cumulative Preference shares of £1 each. Accordingly, the total number of voting rights in the Company as at 29 May 2018 is 30,047,580.

(xi) Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.

(xii) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.

(xiii) The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditor's Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address, and be sent to: the Company Secretary, Shires Income PLC, 40 Princes Street, Edinburgh EH2 2BY.

(xiv) Information regarding the meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's website: shiresincome.co.uk.

(xv) Under Section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:
   a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
   b) the answer has already been given on a website in the form of an answer to a question; or
   c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(xvi) Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in this notice of Annual General Meeting or in any related documents (including the proxy form) is not to be used for the purposes of serving information or documents on, or otherwise communicating with, the Company for any purposes other than those expressly stated.

(xvii) There are special arrangements for holders of shares through the Aberdeen's Investment Plan for Children, Aberdeen's Investment Trust Share Plan and Investment Trust ISA. These are explained in the 'Letter of Direction' which such holders will have received with this report

Contact Addresses

Directors
Robert Talbut
Robin Archibald
Marian Glen
Andrew Robson

Registered Office
Bow Bells House
1 Bread Street
London EC4M 9HH

Company Secretary
Aberdeen Asset Management PLC
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Registrar
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Shareholder Helpline: 0371 384 2508*

(*Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday excluding bank holidays. Charges for calling telephone numbers starting with '03' are determined by the caller's service provider.)

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Auditor
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Solicitors
Dentons LLP

United States Internal Revenue Service FATCA Registration Number ("GIIN")
4PPXT6.99999.SL.826

Legal Entity Identifier ("LEI")
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