

28 March 2018

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THE MERCHANTS TRUST PLC

Final Results for the year ended 31 January 2018

The following comprises extracts from the company's annual report for the year ended 31 January 2018. The full annual report is being made available to be viewed on or downloaded from the company's website at www.merchantstrust.co.uk. Copies will be posted to shareholders shortly.

MANAGEMENT REPORT

Chairman's Statement

Your board is delighted to announce that, with shareholder approval at our Annual General Meeting, your company will have achieved 36 consecutive years of dividend growth. We are proud of this progressive dividend policy and the company's continued recognition as one of the Association of Investment Companies' 'Dividend Heroes'.

Highlights of the year

- A rising dividend for 36 consecutive years
- Second highest yield in its sector
- Investment performance ahead of benchmark
- New borrowing secured at much lower interest rate

In a key development during the year, the company announced the refinancing of the first tranche of its long-term borrowings, replacing it with new borrowings at a much lower interest rate. This has many potential benefits for shareholders, such as enhancing earnings per share and the flexibility to grow the dividend faster.

A year of positive asset returns for shareholders

This has been a strong year for Merchants in both absolute and relative terms. In a buoyant year overall for global stock markets, Merchants outperformed the FTSE All-Share, its benchmark index. Our Net Asset Value (NAV) total return was +14.5% with debt at market value, outperforming the benchmark total return of +11.3%. This investment return placed the company 6 out of 25 funds in its peer group. The board would like to thank our fund manager, Allianz Global Investors, on a very good year for Merchants.

Gearing helped the NAV performance for the year, adding a net 2% to total return, after taking account of the cost of finance and movements in the value of debt. A full table of attribution is shown on page 10 of the annual report.

You will find more information on the performance of the investment portfolio, including stock selections and portfolio changes, in the Investment Manager's Review on page 18 of the annual report. In a year in which the only certainty was uncertainty, with various geopolitical challenges at play, global economic growth nevertheless steadily improved whilst interest rates have risen, albeit from historical lows.

While the board is pleased to see the outperformance over the last year, longer term trends are important. On a cumulative basis, over 5 years, the NAV total return was 49.1%, which was once again ahead of the benchmark (+45.9%)#.

The company's share price rose by 7.8% over the year, from 452.5p to 488.0p. On a total return basis (which includes net dividends) the value of the shares increased by 13.3%.

The benchmark for the year ended 31 January 2018 was FTSE All-Share Index and prior to that it was FTSE 100 Index

A genuine high yield UK equity fund: 36 consecutive years of dividend growth

The board is recommending a final dividend of 6.3p (2017: 6.1p) which will increase the total dividend for the year to 24.8p (2017: 24.2p), a rise of 2.5%. Significantly, this will be the 36th consecutive year in which we have grown the dividend and we are proud to be recognised as an AIC 'Dividend Hero';

this is an elite group of investment trust companies that have increased their dividends each year for 20 years or more.

The board monitors the company's yield relative to other investment trusts in the UK Equity Income sector. At 31 January 2018, the company's yield of 5.2% ranked Merchants second highest in the sector – and well above the sector average of 3.5%. The company has consistently offered its shareholders a high yield and dividends have grown ahead of inflation over the long term. This period under review was generally a good year for the level of dividend receipts generated by Merchants' portfolio holdings. In addition, the weakness of sterling against the US dollar early in the year (which has now reversed) helped, since almost a third of income comes from dividends paid in foreign currencies. The improved level of income generation, and the benefits of debt refinancing, have allowed the directors to raise the dividend by a greater amount than in recent years.

It remains the board's aim to continue Merchants' distinguished dividend track record. We are confident that the manager's policy of identifying individual stocks with strong franchises and sound finances, and ones that it believes can deliver a high level of income and good overall return, will facilitate that. The board believes that, by investing in a portfolio of such stocks, Merchants can continue to create security and growth of income over the medium to long term.

The final dividend of 6.3p will be paid on 30 May 2018 to shareholders on the register on 20 April 2018. The dividend is fully covered by the revenue generated by the company's portfolio and there are significant reserves.

Stewardship and engagement

The manager devotes considerable resources to stewardship responsibilities on behalf of shareholders. Allianz Global Investors engages on matters including governance, capital management, remuneration, strategy, sustainability and other issues. The manager votes at all general meetings of portfolio companies and also engages regularly with executives and boards. A new section in the Investment Manager's Review on page 27 of the annual report has been included for shareholders, giving some background to the twenty three corporate engagements that have taken place during the year. Further detail on environmental, social and governance issues, and stewardship is shown in the Strategic Report on page 51 of the annual report. It also sets out where shareholders can see the voting decisions that Allianz Global Investors have made on their behalf.

New borrowing at much lower interest rates

Investment trusts like Merchants aim to enhance their investment returns by borrowing money to buy more assets (known as 'gearing'). The company has gearing in the form of long term debt amounting to £112 million, all deployed in the market for investment purposes. Our gearing averaged 19.7% throughout the year, compared to 22.7% last year. At the end of the year, our gearing level was 18.1% compared to 19.0% at 31 January 2017.

Towards the end of the financial year we refinanced a debenture taken out in 1987 (when the Bank of England base rate stood at 8.375%) with new borrowing at a much lower interest rate (2.96%). This replacement of the expensive debenture with lower cost borrowing is significant for the company. Not only does it reduce interest payment costs significantly (the weight average cost of debt decreased from 8.5% to 6.1%), enhancing the revenue earnings per share, but it also reduces capital costs and presents the possibility of growing the dividend faster in the future.

The debt refinancing allows the investment manager to invest with a long-term view. Having secured the new borrowing for the next 35 years at an interest rate of just under 3%, the investment manager is able to invest in a selection of higher yielding stocks listed on the FTSE All-Share Index, whose average dividend yield is 4% at the time of writing.

This year's annual report

We regularly review the content and layout of Merchants' annual report to ensure that, as well as providing statutory information, the report is informative, interesting and visually compelling. The board is mindful of the ever-increasing numbers of private individuals who have chosen to buy Merchants' shares in recent years, so this year's report carries new case studies as well as expanded profiles on the Company's largest holdings. There is also a new Investment Process section, where the manager explains its long-term value focus, underpinned by fundamental analysis, and how this informs stock selection. In addition, there is more information on stewardship and engagement activities as described above.

We hope that these enhancements will provide insight into our investment management process. As always, we welcome feedback from all shareholders, as well as suggestions that we can consider for future years.

The Board

There have been no changes to the composition of the board during the year. Details of the directors are set out on page 54 of the annual report.

Strategy and Strategic Report

The Strategic Report is on page 42 of the annual report. At our annual strategy day last year, we took a more in-depth look at the matters we consider at each board meeting, including our position relative to our peer group and benchmark, borrowing strategy and a review of marketing strategy.

Increasing demand for Merchants' shares

1. Marketing communications

As a board, we are keen to grow the number of individual shareholders that hold Merchants' shares and we carefully consider the level of marketing expenditure that should be allocated to targeted marketing activity. The Merchants' marketing programme includes electronic communications with existing and potential investors and substantial liaison with national and industry journalists, since positive press coverage can be highly influential.

Targeted online and print advertising is also undertaken on a very selective basis, where the potential benefits are judged to merit the cost. The most recent campaign has focused on the company's 'Dividend Hero' status, with the following strapline: 'Experienced. Disciplined. Determined. All you want from a hero.'

Online trading platforms have largely replaced the traditional stockbroker as the destination for investors wishing to buy shares in recent years and our communication programme targets both platform providers and investors. Marketing activity has been instrumental in creating sustained and ongoing demand for Merchants' shares through these platforms. Approximately 42.2% (2017: 38.4%) of the company's shares are now held by investors on these platforms, an increase of 3.8% (or an extra 4.1 million shares) in just one year.

We are keen to sustain this demand since this can reduce discount levels and ultimately lower running costs, which benefits all of the company's shareholders.

2. Meeting shareholders

As part of our strategy to keep the company 'front of mind' for existing and potential shareholders, the investment manager and other members of the Allianz Global Investors team dedicate considerable time to promoting Merchants around the country in a comprehensive schedule of meetings that targets institutions, private investors and the wealth manager community. Roadshow activity is a proven way of maintaining relationships with key analysts and holders of the company's shares, as well as encouraging share purchases from new buyers.

Enhanced online access for Merchants' investors

The Merchants Trust website (www.merchantstrust.co.uk) is the company's 'shop window' and is at the heart of our marketing communications strategy. As well as the very latest performance statistics, visitors to the site can also access a wealth of information, including: 'Video Hub' face to face interviews with the investment manager; useful information on platform investing; educational content; and a complete literature library of current and historical documents.

During the period under review, the website was redesigned in a 'responsive' format that provides an optimal viewing experience for visitors using all forms of devices – mobile phones, tablets and desktop computers. As well as a much cleaner 'look and feel', the redesign has added substantial new content that the board believes shareholders will appreciate. Via the site, visitors can also sign up to receive monthly Merchants fact sheets by email, as well as other useful information.

Key Investor Information Document (KIID)

Key Investor Information Documents (KIIDs) were published in January 2018 for investment trusts and many other investment products. The KIID is a standardised pan-European document containing product, risk, charges and other information. It is a regulatory requirement that investors are provided with a KIID before they invest and your chosen platform provider or stockbroker should provide you with a copy before accepting your investment instructions. The KIID's standardised format is intended to allow potential investors to compare funds easily. However, there are concerns in the industry that differing interpretations of the requirements may have resulted in KIIDs that prove to be unhelpful for investors. We take the view that any prospective investor should not rely solely on the KIID when making their investment decision. There is more information about the KIID on page 106 of the annual report.

Annual General Meeting

We strongly encourage shareholders on the register or with letters of representation from their nominee on the register to attend the annual general meeting of the company. This will be held on Wednesday, 16 May 2018 at 12 noon at Grocers' Hall, Princes Street, London EC4Y 0JP. For those shareholders unable to attend, filmed AGM video content will be added to the Merchants' dedicated website as soon as it becomes available.

Outlook

When I wrote to shareholders at the end of September, in the Half-yearly Report, I noted the rising risk profile for the UK economy and these concerns remain as valid now as they were six months ago. There remain further 'speed bumps' in the form of geopolitical and economic risks that will create short-term volatility along the way. High levels of consumer debt and the impact of inflation on real earnings, as well as uncertainty in the corporate sector caused by Brexit are all concerns. However, interest rates, although nudging upwards, remain very low by historic standards. Add to this the weak pound (which helps exporters), historically high employment levels and the fact that the UK stock market is predominantly exposed to economies outside the UK, and one can begin to understand why markets have remained near to all-time highs since September.

In uncertain times, it is useful to remember that The Merchants Trust will celebrate its 130th anniversary in 2019 and that the company has a long and distinguished history of delivering income and capital returns through many uncertain periods over the years. The investment manager continues to invest in a portfolio comprising solid businesses with good prospects for growth and attractive dividends that are priced at a level from which they can deliver good total returns for shareholders.

Looking ahead we think it's vital to continue doing what we've always done at The Merchants Trust. We leverage Allianz Global Investors' investment expertise to ensure The Merchants Trust always has a portfolio of attractive UK stocks. Above all, we believe that the company is well positioned to continue meeting its objectives of paying a high and growing dividend yield and delivering attractive total returns, for both existing and new investors, for many years to come.

Simon Fraser
Chairman
28 March 2018

Risk Policy

The board operates a risk management policy to ensure that the level of risk taken in pursuit of the board's objectives and in implementing its strategy are understood. The principal risks identified by the board are set out in the table on pages 49 and 50 of the annual report, together with the actions taken to mitigate these risks. The process by which the directors monitor risk is described in the Audit Committee Report on page 65 of the annual report.

Risk mapping

The chart in the annual report on page 48 shows the board's assessment of the principal risks facing the company. These have been grouped into three types: Investment and Portfolio Risks; Business and Strategy Risks; and Operational Risks. Risks are rated as 'red' or 'high' when the risk is of concern and sufficient mitigation measures are not possible or not yet in place; 'amber' or 'moderate' when the risk is of concern but sufficient measures are defined and have been or are being implemented; and 'green' or 'acceptable' when the risk is acceptable and no further measures are needed. The nature of the company's business means that a certain amount of risk must be taken for its objectives to be met therefore it is not surprising that portfolio risk types earn amber ratings.

Principal risks

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This takes the form of a matrix which sets out risk types, key risks identified and their status, the controls and mitigation in place to address these risks, together with the evidence of controls and gives an assessment of the risk using a traffic-light system, as shown at the bottom of the chart, to confirm the outcome of the assessment of the risk .

The principal risks are broadly unchanged from the previous year.

Risk appetite

The board identifies risks, considers controls and mitigation, the probability of the event, and assesses residual risk. It then evaluates whether its risk appetite is satisfied. The board confirms for the year ended 31 January 2018 that its assessment of risk is in line with its risk appetite for all key risks.

Investment and Portfolio Risks	Controls and mitigation examples	Rating
1.1 Market volatility	The board receives regular reporting from the manager on macro-economic intelligence received from its internal and external sources. The investment process is primarily bottom-up which manages the risk of impact if predictions are inaccurate. The portfolio is stress tested at least monthly.	Amber
1.2 Market liquidity and valuations	Board policies restrict the size of investments in individual companies and sectors. Liquidity reports including stock disposal times are evaluated by the manager at least monthly.	Green
1.3 Counterparty	The manager operates on a delivery versus payment system, therefore reducing the risk of counterparty default.	Green
1.4 Currency	The board monitors currency movement and determines hedging policy as appropriate.	Green

Business and Strategy Risks	Controls and mitigation examples	Rating
2.1 Shareholder relations	A review of shareholder lists takes place at each board meeting. Reports on shareholder sentiment are received from the manager and brokers and reviewed by the board. Significant movements in shareholder accounts are reported to the board. The AGM is the core interface between the company and shareholders in demonstrating accountable and transparent management of the company.	Amber
2.2 Strategic	Board policies restrict the size of investments in individual companies and sectors.	Amber
2.3 Investment performance	The investment manager attends all board meetings to discuss performance with the directors. The board manages these risks by giving investment guidelines which are monitored at each meeting. The board reviews the investment performance of the company against the benchmark and peer group. The board regularly discusses composition and succession planning to ensure that sufficient board members have the appropriate background and knowledge to evaluate performance.	Amber
2.4 Financial	The rolling income forecast (including special dividends), balance sheet and expenses are reviewed at every board meeting. Reporting from the custodian covering internal controls in place over custody of investments and over appointment and monitoring of sub-custodians is produced and reviewed at least annually. The board's investment restrictions are input in trading systems to impose a pre-trade check. The manager discusses derivative activity during a monthly risk call. Any overdue dividend debtors are monitored by the manager and variance analyses of income from meeting to meeting are provided to the board. The board annually reviews and approves the accounting policy for the income/capital split.	Green
2.5 Liquidity and gearing	The board meets with the portfolio managers and considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines that are monitored and reported on by AllianzGI. Regular compliance information is prepared by the manager and submitted to lenders in accordance with the covenant requirements.	Amber
2.6 Market demand	The board regularly reviews the level of discount and shares can be bought back by the company at discounts greater than an agreed level when there is demand to do so.	Green
Operational Risks	Controls and mitigation examples	Rating
3.1 Organisation set up and process	Business continuity plans are in place and are reviewed and tested on an annual basis by the manager. The manager engages an external party to audit its control environment, submitting the annual results to the board.	Green

3.2 Outsourcing and third party	<p>The board receives formal assurance reports from all of its direct service providers and the manager carries out regular monitoring of outsourced administration functions, this includes compliance visits and risk reviews where necessary. Results of these reviews are supplied to the board.</p> <p>Agreed Service Level Agreements (SLAs) and Key Performance Indicators (KPIs) are in place with each service provider and the board receives reports outlining performance against these.</p> <p>The company secretary reports to the board that the contracts with service providers are reasonable and competitive.</p>	Green
3.3 Regulatory	<p>The board maintains close relations with its advisers and makes preparations for mitigation of these risks as and when they are known or can be anticipated.</p>	Amber
3.4 Corporate governance	<p>The board takes regular advice on best practice.</p>	Green
3.5 Human resources	<p>Manager and board succession plans are in place. Cover is available for core members of the relevant teams of the manager, and work can be carried out by other team members should the need arise.</p>	Green
3.6 Financial crime, fraud and cyber security	<p>AllianzGI has anti-fraud, anti-bribery policies and robust procedures in place. The board is alert to the risks of financial crime and threat of cyber attacks and reviews how third party service providers handle these threats. These reports confirm that all systems are secure and are updated in response to any new threats as they arise.</p>	Amber

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 "The Financial Reporting Standard applicable in the UK & Republic of Ireland" (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the net return of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, comprising FRS 102, subject to any material departures disclosed and explained in 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 confirm that they have complied with the above requirements in preparing the financial statements.

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

The directors each have a duty to make themselves aware of any “relevant audit information” and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors’ Report on pages 59 and 60 of the annual report.

The directors are responsible for ensuring that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the company’s investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company’s website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

The directors at the date of approval of this report, each confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company’s performance, business model and strategy.

For and on behalf of the board

Simon Fraser
Chairman
28 March 2018

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LISTED EQUITY HOLDINGS as at 31 January 2018

Name	Value (£)	% of listed holdings	Principal Activities
Royal Dutch Shell 'B'	52,123,968	7.6	Oil & Gas Producers
GlaxoSmithKline	43,160,213	6.3	Pharmaceuticals & Biotechnology
BP	36,317,057	5.3	Oil & Gas Producers
HSBC Holdings	34,037,343	5.0	Banks
UBM	28,581,749	4.2	Media
Lloyds Banking Group	28,245,800	4.1	Banks
BHP Billiton	26,614,322	3.9	Mining
Standard Life Aberdeen	23,499,203	3.4	Financial Services
BAE Systems	21,317,052	3.1	Aerospace & Defence
Prudential	21,055,775	3.1	Life Insurance
Top Ten Holdings	314,952,482	46.0	
Legal & General Group	20,287,500	3.0	Life Insurance
SSE	20,162,250	2.9	Electricity
Tate & Lyle	15,489,810	2.3	Food Producers
Greene King	15,216,300	2.2	Travel & Leisure
SThree	12,700,093	1.8	Support Services
Kier Group	12,505,154	1.8	Construction & Materials
Sainsbury (J)	12,463,620	1.8	Food & Drug Retailers
Pennon Group	12,432,134	1.8	Gas, Water & Multiutilities
Diageo	12,409,250	1.8	Beverages
Barclays	12,195,120	1.8	Banks
Meggitt	12,138,830	1.8	Aerospace & Defence
National Express Group	11,409,410	1.7	Travel & Leisure
Inmarsat	11,295,355	1.6	Mobile Telecommunications
Land Securities Group	10,969,200	1.6	Real Estate Investment Trusts
Tyman	10,650,000	1.6	Construction & Materials
Senior	10,540,239	1.5	Aerospace & Defence
Ashmore Group	10,490,181	1.5	Financial Services
National Grid	10,411,664	1.5	Gas, Water & Multiutilities
WPP	10,220,000	1.5	Media
Ladbrokes Coral Group	10,200,000	1.5	Travel & Leisure
Bovis Homes Group	10,188,150	1.5	Household Goods & Home Constructions
IG Group Holdings	10,171,152	1.5	Financial Services
Morgan Advanced Materials	10,143,530	1.5	Electronic & Electrical Equipments
Marks & Spencer Group	10,048,355	1.5	General Retailers
Antofagasta	10,001,800	1.5	Mining
Balfour Beatty	9,260,297	1.3	Construction & Materials
TP ICAP	7,748,820	1.1	Financial Services
Equiniti Group	7,555,729	1.1	Support Services
Man Group	7,480,230	1.1	Financial Services
Hansteen Holdings	7,003,107	1.0	Real Estate Investment Trusts

Name	Value (£)	% of listed holdings	Principal Activities
NEX Group	6,480,179	0.9	Financial Services
FirstGroup	5,371,650	0.8	Travel & Leisure
Sirius Real Estate Ltd	5,364,000	0.8	Real Estate Investment & Services
CRH	5,354,600	0.8	Construction & Materials
St Ives	4,011,363	0.6	Support Services
Total Listed Equities	685,321,554	100.0	

UNLISTED EQUITY HOLDINGS as at 31 January 2018

Name	Value (£)	% of unlisted holdings	Principal Activities
First Debenture Finance**	23,483	84.0	Financial Services
Fintrust Debenture*	4,486	16.0	Financial Services
Total Unlisted Equities	27,969	100.0	

* These companies are the lenders of the company's Stepped Rate Loan and Fixed Rate Interest Loan; more details are available in Note 9 on page 92 of the annual report.

In liquidation

Written Call Options

As at 31 January 2018, the market value of the open option positions was £(51,450), (2017: £(85,100)) resulting in an underlying exposure to 2.5% of the portfolio (valued at strike price).

INCOME STATEMENT
for the year ended 31 January 2018

	Revenue £	Capital £	Total Return £
			(Note C)
Gains on investments at fair value through profit or loss	-	54,592,570	54,592,570
(Losses) on foreign currencies	-	(17,161)	(17,161)
Income	32,633,321	-	32,633,321
Investment management fee	(844,297)	(1,567,980)	(2,412,277)
Administration expenses	(814,610)	(1,403)	(816,013)
Profit before finance costs and taxation	30,974,414	53,006,026	83,980,440
Finance costs: interest payable and similar charges	(3,242,407)	(5,939,250)	(9,181,657)
Profit on ordinary activities before taxation	27,732,007	47,066,776	74,798,783
Taxation	-	-	-
Profit after taxation attributable to ordinary shareholders	27,732,007	47,066,776	74,798,783
Earnings per ordinary share (basic and diluted) (Note B)	25.50p	43.29p	68.79p

BALANCE SHEET
at 31 January 2018

	£	£
Fixed assets		
Investments held at fair value through profit or loss		685,349,523
Current assets		
Others receivables	724,372	
Cash and cash equivalents	20,095,813	
	20,820,185	
Current liabilities		
Other payables	(2,197,081)	
Derivative financial instruments	(51,450)	
	(2,248,531)	
Net current assets		18,571,654
Total assets less current liabilities		703,921,177
Creditors: amounts falling due after more than one year		(110,443,317)
Total net assets		593,477,860
Capital and Reserves		
Called up share capital		27,182,116
Share premium account		33,717,572
Capital redemption reserve		292,853
Capital reserve		506,426,346
Revenue reserve		25,858,973
Equity shareholders' funds		593,477,860
Net asset value per ordinary share		545.8p

INCOME STATEMENT
for the year ended 31 January 2017

	Revenue £	Capital £	Total Return £
			(Note C)
Gains on investments held at fair value through profit or loss	-	54,569,087	54,569,087
Gains on foreign currencies	-	10,785	10,785
Income	31,123,179	-	31,123,179
Investment management fee	(773,904)	(1,437,251)	(2,211,155)
Administration expenses	(868,194)	(1,410)	(869,604)
Profit before finance costs and taxation	29,481,081	53,141,211	82,622,292
Finance costs: interest payable and similar charges	(3,320,438)	(6,085,717)	(9,406,155)
Profit on ordinary activities before taxation	26,160,643	47,055,494	73,216,137
Taxation	-	-	-
Profit after taxation attributable to ordinary shareholders	26,160,643	47,055,494	73,216,137
Earnings per ordinary share (basic and diluted) (Note B)	24.06p	43.28p	67.34p

BALANCE SHEET
at 31 January 2017

	£	£
Fixed assets		
Investments held at fair value through profit or loss		643,432,401
Current assets		
Others receivables	504,132	
Cash and cash equivalents	14,484,822	
	14,988,954	
Current liabilities		
Other payables	(36,996,999)	
Derivative financial instruments	(85,100)	
	(37,082,099)	
Net current liabilities		(22,093,145)
Total assets less current liabilities		621,339,256
Creditors: amounts falling due after more than one year		(76,021,706)
Total net assets		545,317,550
Capital and Reserves		
Called up share capital		27,182,116
Share premium account		33,717,572
Capital redemption reserve		292,853
Capital reserve		459,359,570
Revenue reserve		24,765,439
Equity shareholders' funds		545,317,550
Net asset value per ordinary share		501.5p

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 January

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total Shareholders Funds £
Net assets at 1 February 2017	27,182,116	33,717,572	292,853	459,359,570	24,765,439	545,317,550
Revenue profit	-	-	-	-	27,732,007	27,732,007
Dividends on ordinary shares	-	-	-	-	(26,638,473)	(26,638,473)
Capital profit	-	-	-	47,066,776	-	47,066,776
Net assets at 31 January 2018	27,182,116	33,717,572	292,853	506,426,346	25,858,973	593,477,860
Net assets at 1 February 2016	27,182,116	33,717,572	292,853	412,304,076	24,611,248	498,107,865
Revenue profit	-	-	-	-	26,160,643	26,160,643
Dividends on ordinary shares	-	-	-	-	(26,094,832)	(26,094,832)
Unclaimed Dividends	-	-	-	-	88,380	88,380
Capital profit	-	-	-	47,055,494	-	47,055,494
Net assets at 31 January 2017	27,182,116	33,717,572	292,853	459,359,570	24,765,439	545,317,550

CASH FLOW STATEMENT

For the year ended 31 January

	2018 £	2017 £
Operating activities		
Profit before finance costs and taxation*	83,980,440	82,622,292
Less: Gains on investments at fair value	(54,592,570)	(54,569,087)
Less: Losses (gains) on foreign currency	17,161	(10,785)
Purchase of fixed asset investments held at fair value through profit or loss	(155,820,497)	(115,799,369)
Sales of fixed asset investments held at fair value through profit or loss	167,788,923	130,849,550
(Increase) decrease in other receivables	(220,240)	442,682
Increase in other payables	53,361	87,656
Net cash inflow from operating activities	41,206,578	43,622,939
Financing activities		
Repayment of Stepped Rate Interest Loan	(34,000,000)	-
Net proceeds from 2.96% Fixed Loan Notes 2052	34,655,594	-
Interest paid	(9,552,550)	(9,557,445)
Dividends paid on cumulative preference stock	(42,997)	(42,997)
Dividends paid on ordinary shares	(26,638,473)	(26,094,832)
Unclaimed dividends over 12 years	-	88,380
Net cash outflow from financing activities	(35,578,426)	(35,606,894)
Increase in cash and cash equivalents	5,628,152	8,016,045
Cash and cash equivalents at the start of the year	14,484,822	6,457,992
Effect of foreign exchange rates	(17,161)	10,785
Cash and cash equivalents at the end of the year	20,095,813	14,484,822
Comprised of:		
Cash and cash equivalents	20,095,813	14,484,822

* Cash inflow from dividends was £31,649,577 (2017: £30,624,230) and cash inflow from interest was £26 (2017: £6,433).

Notes

Note A

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments held at fair value through profit or loss and in accordance with applicable United Kingdom law and UK Accounting Standards (UK GAAP), including Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and in line with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued by the Association of Investment Companies (AIC SORP) in November 2014 and updated in January 2017.

Note B

The earnings per ordinary share have been calculated using a weighted average number of shares in issue during the year of 108,728,464 (2017: 108,728,464 shares).

Note C

The total return column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The net profit for the year represents the company’s total comprehensive income.

Included in the cost of investments are transaction costs and stamp duty on purchases which amounted to £780,986 (2017: £651,785). Transaction costs on sales amounted to £103,363 (2017: £93,688).

Note D

Valuation – As the company’s business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 102 Section 11: ‘Basic Financial Instruments’ and Section 12: ‘Other Financial Instruments’. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of the financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers’ valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2015.

After initial recognition unquoted stocks are valued by the board on an annual basis.

Note E

	2018	2017
	£	£
Dividends paid on ordinary shares of 25p:		
Third interim dividend 6.1p paid 23 February 2017 (2016: 6.0p)	6,632,436	6,523,708
Final dividend 6.1p paid 18 May 2017 (2016: 6.0p)	6,632,436	6,523,708
First interim dividend 6.1p paid 11 August 2017 (2016: 6.0p)	6,632,436	6,523,708
Second interim dividend 6.2p paid 16 November 2017 (2016: 6.0p)	6,741,165	6,523,708
	26,638,473	26,094,832

Dividends payable at the year end are not recognised as a liability under FRS 102 Section 32 'Events After the End of the Reporting Period'. Details of these dividends are set out below.

	2018	2017
	£	£
Third interim dividend 6.2p paid 2 March 2018 (2017: 6.1p)	6,741,165	6,632,436
Final proposed dividend 6.3p payable 30 May 2018 (2017: 6.1p)	6,849,893	6,632,436
	13,591,058	13,264,872

The proposed final dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

All dividends disclosed in the tables above have been paid or are payable from the revenue reserves.

Note F

The financial information for the year ended 31 January 2018 has been extracted from the statutory accounts for that year. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006. The annual report has not yet been delivered to the Registrar of Companies.

The financial information for the year ended 31 January 2017 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

The full annual report is available to be viewed or downloaded from the company's website at www.merchantstrust.co.uk. Neither the contents of the company's website nor the contents of any website accessible from hyperlinks on the company's website (or any other website) is incorporated into, or forms part of this announcement.