

Lincoln Income Trust

**Manager's Annual Report and Distribution Statement
May 2007**

**Presented by
Lincoln Unit Trust Managers Limited**

About Lincoln Financial Group

Lincoln Financial Group is committed to helping customers look to the future and achieve financial security through its range of life, pension and investment products. Today, Lincoln manages assets of £5.68 billion*.

Lincoln can trace its UK roots back to 1934 and serves the needs of customers nationwide either direct or through independent intermediaries. Lincoln is dedicated to building excellent customer service by offering the highest levels of customer care and information as well as a comprehensive range of competitive products.

We are part of Lincoln National Corporation which is listed as LNC on the New York Stock Exchange. Based in Philadelphia in the USA, Lincoln National Corporation was founded in 1905 and has a proud heritage of over 100 years financial strength and security, with long term credit ratings of A+ from Standard & Poor's, A from AM Best, A from Fitch** and total assets of over \$234 billion*** under management.

* Figures correct as at 28 February 2007.

** Figures as at 31 January 2007. All ratings have a "stable" or credit watch positive outlook as defined by the respective agencies.

*** Figures correct as at 31 December 2006.

Unitholders' Meeting

The unitholders met on 8 November 2006 to vote upon the following resolutions:

- i) To delete the geographical restriction within the Trust Deed.
- ii) To delete the existing investment objective and policy, and to adopt the new investment objective and policy.

Both resolutions were carried. The new investment objective and policy can be found below.

Objective of the Lincoln Income Trust

The objective of the trust is to provide income and obtain capital growth.

The trust will invest predominantly in transferable securities of UK listed and/or UK domiciled companies. The trust may also invest in other transferable securities, collective investment schemes, money market instruments, deposits, cash and near cash.

The Manager's policy for achieving this is to select investments which will best meet the objective, to review these investments frequently, and to respond flexibly to changing market conditions. Its policy is to use liquidity when appropriate, so that the fund may not be fully invested at all times. Its policy is also, in special circumstances, to hedge against price fluctuations.

Trust status

The trust is an Authorised Unit Trust Scheme under section 243 of The Financial Services and Markets Act 2000 and is categorised as a UCITS scheme in the New Collective Investment Schemes (COLL) Sourcebook. The trust is constituted by a Trust Deed made between the Manager and the Trustee, a copy of which may be inspected at the registered office of the Manager.

PEP/ISA eligibility

The Manager will ensure that all units held in PEPs and ISAs are qualifying investments under the Personal Equity Plan Regulations 1989 (as amended) and the Individual Savings Account Regulations 1998 (as amended) respectively.

The Lincoln Cash Trust does not qualify for PEP status. However, the trust satisfies the conditions for a cash ISA.

Unit Trust Literature

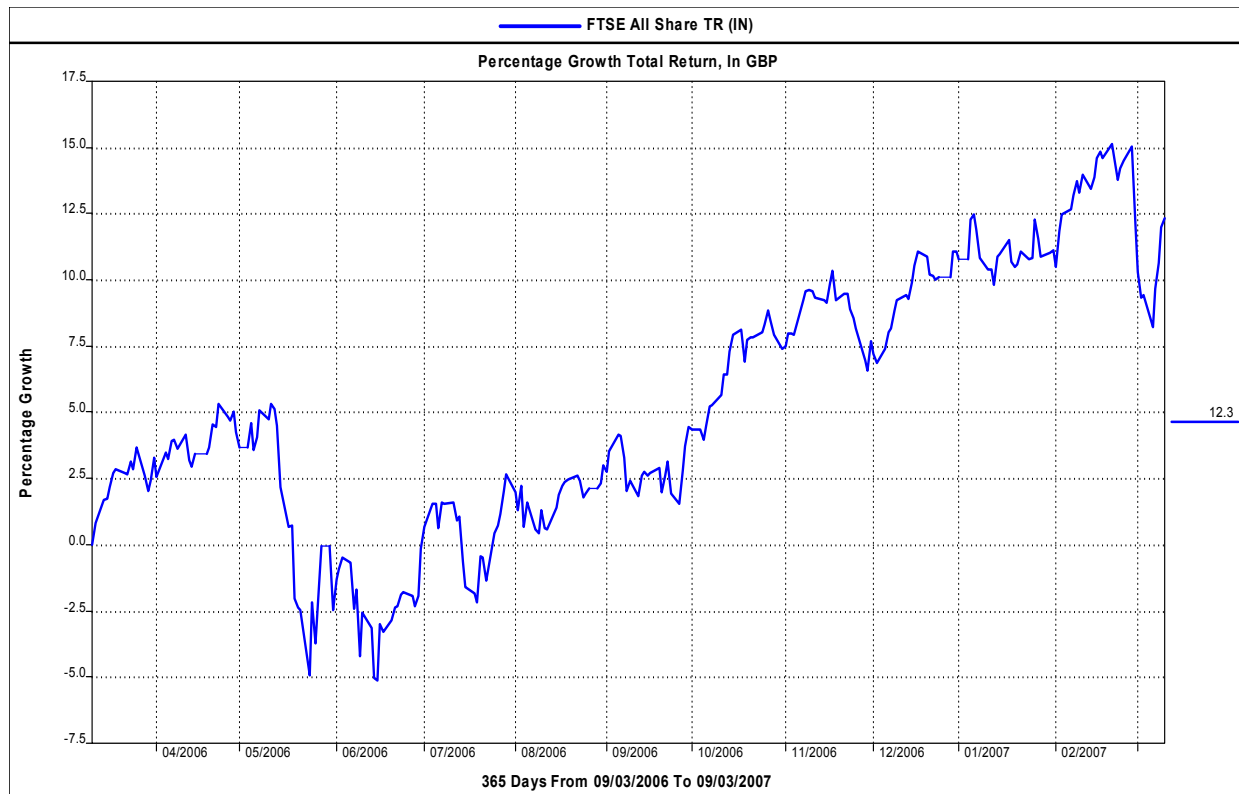
The full Prospectus, Simplified Prospectus, full reports and accounts, and the Short Report (replacing the Short Form Report) are all available upon request to the Manager.

Copies of these, except the full Prospectus, can also be found on the Internet by accessing www.lutm.co.uk.

Manager's Investment Report

Market review for the year ended 10 March 2007

Over the year to 10 March 2007, the FTSE All-Share Index rose by 12.3% in total return terms. Global equity markets were generally strong over the period and the UK was no exception. The utility sector was the best performing sector over the period, followed by consumer services, telecoms and basic materials. All these sectors achieved total returns in excess of 20%. A weaker oil price combined with company specific factors dragged the oil & gas sector down by almost 8%. The healthcare and technology sectors produced broadly flat returns over the period.



Source: Lipper

Portfolio positioning for the period 11 March 2006 to 10 March 2007

During the year under review, the FTSE All-Share index returned 12.3%. In comparison, the net asset value in pence per unit for the Lincoln Income Trust rose by 9.5%, inclusive of income. (It should be noted that, as at the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years).

In structuring the portfolio, Mondrian assesses value by analysis of the potential for company earnings and dividends to grow over the long-term. By relating these to current share prices, Mondrian seeks to find companies that are undervalued. Stock selection is the primary driver for structuring the portfolio, although sector allocation is monitored to ensure that we are not excessively exposed to a particular area.

During the period, we added a number of new stocks to the portfolio. Amongst these were Smiths Group, which has an attractive portfolio in high-value aerospace and medical businesses and SABMiller, an international brewer that has developed a number of strong positions in various emerging markets as well as moving up the value chain in developed markets. The current valuation is attractive. In Europe, we initiated holdings in France Telecom, Deutsche Telecom and Telefonica. UK telecoms companies are currently less attractive than their European peers and we sold the holding in Vodafone to fund these purchases. In France, we also started to build positions in Carrefour, the leading food retailer, Renault, the car manufacturer and Total, the oil producer. In the Netherlands, we added ING, the bancassurer.

Manager's Investment Report (continued)**Portfolio positioning for the period 11 March 2006 to 10 March 2007** (continued)

In the small & mid-cap area, we introduced Spirax-Sarco which is the world leader in using steam and water in industrial processes and De La Rue, which is the world's largest commercial security printer and papermaker, producing over 150 national currencies, together with the manufacture of cash handling equipment. We also added Punch Graphix, which manufactures printing systems and Bodycote, who are a global leader in heat treatment and testing services. Bodycote operates in an industry that has high barriers to entry and should benefit from the trend to outsource these critical, but non-core services by manufacturers. We also include Ultra Electronics, who supply electronic and electro-mechanical products to the aerospace and defence industries. This company operates in a number of niche defence market segments and it is benefiting from the increasing spend in these areas in both the UK and USA.

Pilkington, BOC and AB Ports all left the portfolio during the period following acquisitions. We made a number of disposals over the year, each on valuation grounds. In summary we sold Rio Tinto, Brambles, National Grid, Royal & Sun Alliance, Legal & General, Northern Foods, AGA Foodservice, Invensys, Corus and Pennon.

Market outlook

Strong demand for equities, supported by take-over interest from overseas and private equity buyers, drove the UK market up during the past 12 months. We expect buying interest to persist, supported by reasonable valuations and good earnings growth. Also, the UK's economy remains in good shape, although higher interest rates have slowed the pace of activity somewhat. The recent correction in global equity markets serves as a reminder of risk in the equity asset class.

Our analysis shows that a number of UK market sectors offer attractive valuations. Examples of these include the oil and banking sectors. The former has started to return significant amounts of cash to shareholders and we believe that this is set to continue. With regard to banks, although the mortgage market may provide some issues for banks in the shorter term, with our longer term research horizon, we find that they are good value. Conversely, the utility and materials sectors have started to look expensive, and we have reduced exposure to these areas of the market.

Mondrian Investment Partners Limited
27 April 2007

This research and analysis has been procured by Mondrian Investment Partners Limited in the normal course of its activities as a Fund Manager. The opinions stated in this report are those of Mondrian Investment Partners Limited (which is authorised and regulated by the Financial Services Authority) and should not be treated as advice or recommendations to effect transactions in securities as regulated under the Financial Services and Markets Act 2000. This material does not constitute a recommendation to purchase, hold or dispose of any investment whatsoever, and should not be relied upon as such.

Corporate governance (UK listed companies)

Our investment managers exercise the right to vote on all issues in relation to corporate governance. They maintain regular contact with the management of companies in order to monitor economic performance and the creation of shareholder value. The policy statement relating to corporate governance is available upon written request to the Manager.

Price history

Year	Highest price	Lowest price
2002	71.60p	51.64p
2003	61.80p	45.93p
2004	67.81p	59.28p
2005	77.23p	66.92p
2006	87.50p	76.25p
2007*	90.89p	85.38p

Income history

Net income per unit and net income on £1,000 invested in the trust on 2 January 2002, resulting in 1,423.28 units:

Year	Pence per unit	Per £1,000 invested £
2002	1.9422	27.64
2003	1.7197	24.48
2004	2.4344	34.65
2005	3.0178	42.95
2006	3.3047	47.04
2007*	1.4639	20.84

* 1 January 2007 to 10 March 2007.

Net asset value at the end of the accounting period

	Total net asset value	Units in issue	Net asset value per unit in pence
10 March 2005	£48,029,047	69,276,372	69.33
10 March 2006	£51,574,557	63,995,571	80.59
10 March 2007	£51,264,089	58,632,191	87.43

Please note: At the end of this accounting period, the assets were valued on bid prices, and that previous net asset values were based on mid prices. This change in valuation basis causes a reduction to the current NAV when comparing to previous years. This will have an impact upon any unrealised gains or losses on investments as at the period end.

Total expense ratio (TER)

The TER represents the total annual operating expenses of the Scheme as a percentage of its average net asset value. Transaction charges are excluded from this calculation.

The TER as at 10 March 2007 was 1.483% (10 March 2006 - 1.508%).

Statement of total return
For the period 11 March 2006 to 10 March 2007

	Note	10.03.07		10.03.06	
		£	£	£	£
Net gains/(losses) on investments during the period	2		4,728,194		8,032,643
Other gains/(losses)	3		11,539		(12,760)
Gross income	4	2,045,399		2,565,384	
Expenses	5	<u>(761,947)</u>		<u>(741,576)</u>	
Net income before taxation		1,283,452		1,823,808	
Taxation	7	<u>(3,884)</u>		<u>(7,244)</u>	
Net income after taxation			<u>1,279,568</u>		<u>1,816,564</u>
Total return before distributions			6,019,301		9,836,447
Income brought forward			99		120
Finance costs: Distributions	6		<u>(1,925,834)</u>		<u>(2,431,984)</u>
Change in net assets attributable to unitholders			<u>4,093,566</u>		<u>7,404,583</u>

Statement of change in unitholders' net assets
For the period 11 March 2006 to 10 March 2007

	10.03.07		10.03.06	
	£	£	£	£
Net assets as at the start of the period		51,574,557		48,029,047
Movement due to sales and repurchases of units				
Amounts received on creations	1,827,924		1,772,727	
Amounts paid on cancellations	<u>(6,230,015)</u>		<u>(5,630,945)</u>	
		(4,402,091)		(3,858,218)
Unclaimed distributions		4,902		4,729
Stamp duty reserve tax		(6,845)		(5,584)
Change in net assets attributed to unitholders		<u>4,093,566</u>		<u>7,404,583</u>
Net assets as at the end of the period		<u>51,264,089</u>		<u>51,574,557</u>

Portfolio statement

	Holding 10.03.07	Value £	% total net assets
UNITED KINGDOM (10.03.07 89.12%; 10.03.06 99.91%)			
Basic industries (10.03.06 5.12%)			
Croda International	143,809	889,459	1.73
Persimmon	19,892	281,472	0.55
Victrex	108,530	843,821	1.65
		2,014,752	3.93
Cyclical consumer goods (10.03.06 3.23%)			
GKN	526,926	1,968,069	3.84
Punch Graphix	215,273	275,549	0.54
		2,243,618	4.38
Cyclical services (10.03.06 14.39%)			
Compass Group	541,083	1,673,299	3.26
De La Rue	93,143	665,507	1.30
KESA Electricals	25,018	88,376	0.17
Kingfisher	305,380	784,063	1.53
Reed Elsevier	305,298	1,796,679	3.51
REXAM	122,399	634,639	1.24
Serco Group	63,414	287,107	0.56
		5,929,670	11.57
Financial groups (10.03.06 27.15%)			
Aviva	201,295	1,572,114	3.07
Barclays	87,422	640,803	1.25
Cattles	115,435	513,109	1.00
HBOS	280,070	3,080,770	6.01
HSBC Holdings	79,630	724,633	1.41
Lloyds TSB Group	544,341	3,007,484	5.87
Royal Bank of Scotland Group	146,066	3,070,307	5.99
		12,609,220	24.60
General industrials (10.03.06 6.23%)			
Bodycote International	80,279	254,886	0.50
Chloride Group	200,845	329,386	0.64
Cobham	138,968	281,063	0.55
Rotork	67,692	547,628	1.07
Smiths Group	117,639	1,238,739	2.42
Spirax-Sarco	14,178	139,724	0.27
TT Electronics	222,672	517,712	1.01
Ultra Electronics	22,487	270,968	0.53
Weir Group	124,401	704,110	1.37
		4,284,216	8.36
Non-cyclical consumer goods (10.03.06 14.34%)			
Diageo	125,269	1,243,295	2.42
GlaxoSmithKline	216,421	3,107,806	6.06
SABMiller	25,681	290,452	0.57
Scottish & Newcastle	124,737	661,106	1.29
Unilever	151,849	2,089,442	4.08
		7,392,101	14.42
Non-cyclical services (10.03.06 5.70%)			
Alliance Boots	114,759	1,073,570	2.09
Tesco	313,455	1,387,822	2.71
		2,461,392	4.80

Lincoln Income Trust

Portfolio statement (continued)

	Holding 10.03.07	Value £	% total net assets
Resources (10.03.06 13.82%)			
BG Group	34,145	238,332	0.46
BP	591,122	3,100,435	6.05
Expro Intl Group	29,404	258,461	0.50
Royal Dutch Shell 'A'	37,275	628,439	1.23
Royal Dutch Shell 'B'	140,129	2,347,161	4.58
		<u>6,572,828</u>	<u>12.82</u>
Utilities (10.03.06 9.93%)			
Biffa	78,017	254,530	0.49
Centrica	115,187	425,904	0.83
Kelda Group	76,646	706,293	1.38
Scottish & Southern Energy	17,435	259,781	0.51
Severn Trent	37,014	527,449	1.03
		<u>2,173,957</u>	<u>4.24</u>
FRANCE (10.03.07 4.84%; 10.03.06 0.00%)			
General industrials (10.03.06 0.00%)			
Renault	8,235	503,987	0.98
Non-cyclical services (10.03.06 0.00%)			
Carrefour	4,607	167,288	0.32
Resources (10.03.06 0.00%)			
Total	30,361	1,038,376	2.02
Utilities (10.03.06 0.00%)			
France Telecom	57,837	777,650	1.52
GERMANY (10.03.07 2.06%; 10.03.06 0.00%)			
Utilities (10.03.06 0.00%)			
Deutsche Telekom	123,451	1,054,908	2.06
NETHERLANDS (10.03.07 1.93%; 10.03.06 0.00%)			
Financial groups (10.03.06 0.00%)			
ING Groep	45,795	988,726	1.93
SPAIN (10.03.07 1.06%; 10.03.06 0.00%)			
Utilities (10.03.06 0.00%)			
Telefonica	49,687	542,954	1.06
Investments shown in the balance sheet		<u>50,755,643</u>	<u>99.01</u>
Net current assets (10.03.06 0.09%)		<u>508,446</u>	<u>0.99</u>
Total net assets		<u><u>51,264,089</u></u>	<u><u>100.00</u></u>

All assets are approved securities and admitted to official stock exchange listings unless stated otherwise.

The market values shown in this portfolio statement are based on 'bid' prices. Previous percentage comparisons were calculated against market values derived from prices on a 'mid of bid/offer' basis.

Balance sheet as at 10 March 2007

	Note	10.03.07		10.03.06	
		£	£	£	£
Assets					
Portfolio of investments			50,755,643		51,528,635
Debtors	8	399,853		411,709	
Cash and bank balances	9	<u>1,094,877</u>		<u>772,234</u>	
Total current assets			<u>1,494,730</u>		<u>1,183,943</u>
Total assets			52,250,373		52,712,578
Liabilities					
Creditors	10	(127,920)		(92,060)	
Finance costs: Distributions	6	<u>(858,364)</u>		<u>(1,045,961)</u>	
Total current liabilities			<u>(986,284)</u>		<u>(1,138,021)</u>
Net assets attributable to unitholders			<u>51,264,089</u>		<u>51,574,557</u>

Portfolio changes

Listed below are the transactions which represent the twenty purchases and the twenty sales of highest value during the period.

Major purchases	Cost £000s	Major sales	Proceeds £000s
Deutsche Telekom	1,135	National Grid	1,907
Total	1,101	Vodafone Group	1,762
ING Groep	1,061	Brambles Industries	1,592
Smiths Group	1,034	BOC Group	1,088
France Telecom	765	Scottish & Southern Energy	1,078
Royal Bank of Scotland Group	746	HSBC Holdings	853
Unilever	678	Associated British Ports	847
Victrex	549	Serco Group	739
Telefonica	534	Legal & General Group	662
De La Rue	528	GlaxoSmithKline	594
Renault	513	Expro Intl Group	553
Compass Group	460	Chloride Group	542
BP	406	HBOS	489
Royal Dutch Shell 'A'	270	Royal Bank of Scotland Group	455
Ultra Electronics	268	Royal & Sun Alliance Insurance	420
Punch Graphix	266	TT Electronics	352
SABMiller	262	Pilkington	348
Bodycote International	252	Pennon Group	320
National Grid	249	AGA Foodservice Group	308
Spirax-Sarco	242	Cobham	287
Other purchases	1,281	Other sales	2,905
Total for the period	12,600	Total for the period	18,101

Please note that the above includes acquisitions and disposals resulting from corporate actions, e.g. rights issues, redemptions, take-overs, etc.

For details of the portfolio transaction costs, please refer to note 13 within the 'Notes to the financial statements'.

Top ten holdings as at 10 March 2007 (% of the total net assets)

	Market value	
	£	%
GlaxoSmithKline	3,107,806	6.06
BP	3,100,435	6.05
HBOS	3,080,770	6.01
Royal Bank of Scotland Group	3,070,307	5.99
Lloyds TSB Group	3,007,484	5.87
Royal Dutch Shell 'B'	2,347,161	4.58
Unilever	2,089,442	4.08
GKN	1,968,069	3.84
Reed Elsevier	1,796,679	3.51
Compass Group	1,673,299	3.26

Notes to the financial statements

These accounts have been prepared in accordance with the Manager's Statement of Responsibilities.

1. Accounting policies

- a) The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds as issued by the IMA in December 2005.
- b) Dividends on equities are recognised when the security is quoted ex-dividend. Interest, including that on fixed interest stocks, underwriting commission and other income is accounted for on the accruals basis.
- c) Listed investments have been valued at bid value at 4pm on 9 March 2007, being the valuation point closest to the end of the accounting period. This is net of any accrued interest, which is included in the balance sheet as an income related item. Any unlisted securities and unapproved securities have been valued at the Manager's valuation.
- d) Assets and liabilities denominated in foreign currencies have been translated into sterling at the mid-spot exchange rates prevailing at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction.
- e) UK dividend income is included net of the associated tax credit.
- f) Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax. Deferred tax assets are recognised only to the extent that the Manager considers that it is more likely than not that there will be taxable profits from which the underlying timing differences can be deducted.
- g) The Manager and Trustee have decided on a policy for recovering stamp duty reserve tax from the trusts. This policy is available upon written request to the Manager.
- h) The value of stock/scrip dividends are recognised as income (net of withholding tax) on the basis of the market value of the shares on the date they are quoted ex-dividend.
- i) When income is available for distribution, a dividend distribution will be made at half-yearly intervals on 10 May and 10 November.
- j) All management expenses (other than those relating directly to the purchase or sale of investments) are charged against income. The only exception is the management service charge which is charged against the capital account. Whilst reducing capital, this increases the amount available for distribution to unitholders.
- k) To protect the interests of ongoing unitholders, the Manager has the discretion to apply a dilution levy to exiting unitholders, e.g. when repurchases in excess of £100,000 take place. When a dilution levy has been applied during an accounting period, the value will be reflected in the 'Statement of movements in unitholders' funds' as a reimbursement to the trust via the capital account.

Notes to the financial statements (continued)

	10.03.07 £	10.03.06 £
2. Net gains/(losses) on investments		
The net gains on investments during the period comprise:		
Non-derivative securities	<u>4,728,194</u>	<u>8,032,643</u>
3. Other gains/(losses)		
Other gains/(losses) comprise:		
Currency gains/(losses)	<u>11,539</u>	<u>(12,760)</u>
4. Gross income		
UK dividends	1,984,134	2,479,846
Overseas dividends	28,141	51,184
Interest on sterling deposits	33,124	34,354
	<u>2,045,399</u>	<u>2,565,384</u>
5. Expenses		
Payable to the Manager, associates of the Manager and agents of either:		
Management service charge	642,881	612,966
Registration fees	89,766	103,156
	<u>732,647</u>	<u>716,122</u>
Payable to the Trustee, associates of the Trustee and agents of either:		
Trustee's fee	12,020	11,524
Transaction fees	3,286	2,334
Safe custody fees	8,195	7,653
	<u>23,501</u>	<u>21,511</u>
Other expenses		
FSA fee	116	183
Audit fee	3,995	3,760
COLL conversion costs	1,688	0
	<u>5,799</u>	<u>3,943</u>
	<u>761,947</u>	<u>741,576</u>
6. Finance costs: Distributions		
The distribution takes account of income received on the creation of units, and deducted on the cancellation of units, and comprise:		
Interim distribution	1,021,079	1,336,951
Final distribution	858,364	1,045,961
	<u>1,879,443</u>	<u>2,382,912</u>
Add: Income paid on cancellations	52,646	56,674
Deduct: Income received on creations	(6,255)	(7,602)
Net distribution for the period	<u>1,925,834</u>	<u>2,431,984</u>

The difference between the income after taxation of £1,279,568 and the distribution payable is £646,167 (adjusting for any income brought forward). This amounts represents the management service charge of £642,881 and transaction fees of £3,286 - both of which are borne by the capital account.

The rates per unit are shown in the Distribution Statement which follows these notes.

Notes to the financial statements (continued)

	10.03.07 £	10.03.06 £
7. Taxation		
a) Analysis of charge in period:		
Overseas tax	3,884	7,244
Total tax for the period (note 7b)	3,884	7,244
b) Factors affecting current tax charge for the period:		
The tax assessed for the period differs from the standard rate of corporation tax in the UK for an authorised unit trust (20%) (2006:20%). The differences are explained below:		
Net income before taxation	1,283,452	1,823,808
Corporation tax at 20%	256,690	364,762
Effects of:		
UK dividends	(396,827)	(495,969)
Expenses not deductible for tax purposes	657	467
Movement in excess expenses	140,046	129,838
Movement in income accruals taxable on a receipts basis	(566)	902
Overseas tax	3,884	7,244
Current tax charge for the period (note 7a)	3,884	7,244
c) Authorised Unit Trusts are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.		
d) At 10 March 2007, there is a potential deferred tax asset of £1,498,548 (March 2006 - £1,358,310) in relation to surplus management expenses. It is unlikely the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the year or the prior year.		
e) The Trustee's net liability to corporation tax in respect of gross income is nil. Please see the reverse of your tax voucher for further details.		
f) Corporate unitholders should note that, of the total distribution:		
Franked investment income represents	95.78%	
Unfranked investment income represents	4.22%	
8. Debtors		
Accrued income	399,846	388,309
Take-over proceeds awaiting settlement	0	23,393
Prepaid expenses	7	7
	399,853	411,709
9. Net bank balances		
Income account	628,070	373,761
Capital accounts	466,807	398,473
	1,094,877	772,234
10. Creditors		
Liquidations awaiting settlement	99,771	36,618
Purchases awaiting settlement	0	30,389
Accrued expenses	28,149	25,053
	127,920	92,060

Notes to the financial statements (continued)**11. Related party transactions**

Management fees and registration fees paid to Lincoln Unit Trust Managers Limited are shown in note 5, and details of units created and cancelled by Lincoln Unit Trust Managers Limited are shown in the Statement of movements in unitholders' funds. The balance due to Lincoln Unit Trust Managers Limited at the period end in respect of these transactions was £2,310 (March 2006 - £20,581).

Safe custody fees, transaction fees and Trustee fees paid to HSBC Bank plc are shown in note 5. The balance due to HSBC Bank plc as at the period end in respect of these fees was £782 (March 2006 - £712).

As at 10 March 2007, associated companies of the Lincoln group held 14.80% of the units in the fund (March 2006 - 12.86%) and received £270,665 of income from the fund for the period (March 2006 - £300,389).

Distributable income due to associated companies of the Lincoln group as at the period end was £127,038 (March 2006 - £134,468).

12. Analysis of financial instruments

The investment objective of the trust remains to provide income and capital growth to unitholders. The Investment Manager continues to believe that investments should be made in UK equity shares to meet the trust's objectives.

The trust's financial instruments comprise securities and other investments, and bank deposits which are held to achieve its investment objectives, as well as debtors and creditors that arise from its operations, e.g. in respect of sales and purchases of securities awaiting settlements, and debtors for accrued income.

The Investment Manager monitors the financial risks affecting the trust and the Manager receives financial information, which is used to identify and monitor risk, on a monthly basis.

It is not the Manager's policy to enter into derivative contracts to manage risk.

The Manager does not consider that the trust has significant exposure to:

- credit risk
- liquidity risk
- interest rate risk - there are no material amounts of interest-bearing financial assets or liabilities.

The principal risks the trust faces through the holding of financial instruments are market price risk and foreign currency risk. As required by Financial Reporting Standard No.13: Derivatives and other Financial Instruments, an analysis of financial assets and liabilities which highlights the risk to the trust of holding such items is as follows.

Market price risk

By the very nature of its activities, the trust's investments are exposed to market price fluctuations, i.e. movements in the value of investments held within the portfolio caused by factors other than interest rate or foreign currency movement. The Manager applies monthly checks to ensure compliance with the Investment and Borrowing Powers to mitigate the risk of excessive exposure to any specific type of security or issuer.

Notes to the financial statements (continued)

12. Analysis of financial instruments (continued)

Foreign currency risk

The value of overseas investments will fluctuate as a result of changes in foreign currency exchange rates. As at 10 March 2007, 11.12% (March 2006 - 0.76%) of the stocks and capital cash balances of the trust were denominated in currencies other than sterling, with the effect that the balance sheet and total return can be affected by currency movements.

Currency	March 2007 £000s	March 2006 £000s
Euro Dollar	5,702	392

Financial assets

As at 10 March 2007, the trust held investments (excluding net current assets) amounting to £50,755,643 (March 2006 - £51,528,635). The portfolio consists principally of equity securities which represent 99.01% (March 2006 - 99.91%).

Short term creditors and debtors have been excluded from the disclosures of financial instruments, except for interest and dividends denominated in foreign currency which is detailed below:

Currency	March 2007 £	March 2006 £
Euro Dollar	5,376	2,621

13. Portfolio transaction costs

For the period 11 March 2006 to 10 March 2007

Please refer to the portfolio changes for details of the major purchases and sales which have occurred throughout the period under review.

	£000s	£000s
Analysis of total purchase costs:		
Purchases before transaction costs		12,396
Commission	11	
Taxes	33	
		44
Total costs of purchases		12,440
Analysis of total sales costs:		
Gross sales before transaction costs		17,289
Commission		(16)
Net proceeds from sales		17,273

The total costs of purchases and the net proceeds from sales relate solely to trading activity, and do not include acquisitions and disposals resulting from corporate actions.

14. New Collective Investment Schemes (COLL) Sourcebook

Effective from 31 May 2006, Lincoln Unit Trust Managers Limited has managed the funds in accordance with the Financial Services Authority's New Collective Investment Schemes (COLL) Sourcebook. This replaced the Collective Investment Schemes (CIS) Sourcebook, which became obsolete on 11 February 2007.

Distribution Statement**For the period 11 September 2006 to 10 March 2007****Distribution in pence per unit****Group 1** Units purchased before 11 September 2006**Group 2** Units purchased from 11 September 2006 to 10 March 2007

	Gross income period ended 10.03.07	Tax credit at 10% period ended 10.03.07	Net income period ended 10.03.07	Equalis- ation period ended 10.03.07	Distribution payable period ended 10.03.07	Distribution paid period ended 10.03.06
1.	1.6266	0.1627	1.4639	-	1.4639	1.6344
2.	1.2957	0.1296	1.1661	0.2978	1.4639	1.6344

Equalisation only applies to units purchased during the accounting period, i.e. Group 2 units. It is the average amount of income included in the purchase price of all Group 2 units, and is refunded to unitholders as return of capital. As a capital item, equalisation is not liable to income tax. Consequently, there is nothing to be reclaimed from HM Revenue & Customs. However, it must be deducted from the cost of units for Capital Gains Tax purposes.

Statements of Responsibilities in respect of the Report and Accounts of the Scheme**The Trustee**

The Trustee is responsible for the safekeeping of all the property of the Scheme (other than tangible moveable property) which is entrusted to it, and for the collection of income that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Scheme is managed in accordance with the Financial Services Authority's New Collective Investment Schemes Sourcebook ("The Sourcebook"), the Scheme's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the Scheme; the application of income of the Scheme; and the investment and borrowing powers of the Scheme.

The Manager

The Manager is responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

The New Collective Investment Schemes (COLL) Sourcebook, (the "Regulations") require the Manager to prepare financial statements for each financial period reporting the financial position of the Scheme as at the end of the accounting period, and of its income/excess of expenditure over income for the period. In preparing those financial statements, the Manager is required to:

- comply with the Statement of Recommended Practice relating to Authorised Funds issued by the IMA in December 2005, the Trust Deed, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Scheme will continue in operation.

The Manager is required to keep proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the fund, and to manage the Scheme in accordance with the Regulations, the Trust Deed and the full Prospectus.

Report of the Trustee to the Unitholders of the Lincoln Income Trust for the period ended 10 March 2007

Having carried out such procedures as we consider necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects, the Manager;

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme's units and the application of the Scheme's income in accordance with the Sourcebook, the Trust Deed and Prospectus, and;
- has observed the investment and borrowing powers and restrictions applicable to the Scheme.

**HSBC Bank plc,
London
27 April 2007**

Directors' Statement

The Manager's Report and Accounts for the year ended 10 March 2007 were signed on 27 April 2007 on behalf of the Manager by:



**ND Kent, Director,
Lincoln Unit Trust Managers Limited**



**M Tallett-Williams, Director,
Lincoln Unit Trust Managers Limited**

Independent Auditor's Report to the Unitholders of the Lincoln Income Trust

We have audited the Fund's financial statements for the year ended 10 March 2007 which comprise the Statement of Total Return, Statement of Change in Unitholders' Net Assets, Portfolio Statement, Balance Sheet, Distribution Table, and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the unitholders of the Fund, as a body, pursuant to Paragraph 4.5.12 of the rules of the New Collective Investment Schemes Sourcebook of the Financial Services Authority. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in an auditors' 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 Fund and the unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Manager, Trustee and Auditors

The Manager is responsible for preparing the Annual Report and the financial statements in accordance with the rules of the New Collective Investment Schemes Sourcebook of the Financial Services Authority, the Trust Deed, and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Manager's Responsibilities in relation to the financial statements. The Trustee is required to take reasonable care to ensure compliance by the Manager with all relevant requirements. Our responsibility is to audit the financial statements in accordance with UK legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the New Collective Investment Schemes Sourcebook of the Financial Services Authority, and the Trust Deed. We also report to you whether, in our opinion, the Report of the Manager is consistent with the financial statements, whether the Manager has not kept proper accounting records for the Fund or whether the financial statements are not in agreement with those records, and whether we have received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Manager, the Comparative Table for the Fund and the Report of the Trustee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion;

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Fund as at 10 March 2007 and of the net income and the net gains on the scheme property of the Fund for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the New Collective Investment Schemes Sourcebook of the Financial Services Authority and the Trust Deed;
- the Report of the Manager is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.

Ernst & Young LLP, Registered Auditor, Bristol
27 April 2007

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