Annual report 2013

Year ended 31 March 2013

www.caledonia.com

Who we are

Caledonia Investments is a self-managed investment trust company with net assets of £1.3bn. We can trace our history to the shipping empire established by Sir Charles Cayzer in 1878. We continue to enjoy the backing of the Cayzer family, who own some 48% and remain actively involved in the management of the company. The support of the Cayzer family enables Caledonia to maintain a long term investment horizon.

What we do

Our business is to deliver long term growth in shareholder capital and income by investing in a range of asset classes in various sectors and regions.

How we invest

Our business model has been successfully developed, evolved and deployed over many years to deliver long term growth in capital and a growing annual dividend to shareholders. We identify and invest in value opportunities in well managed, long term businesses and funds, both listed and private. Our investment portfolio is divided into 'pools' of capital – Quoted, Unquoted, Funds and Income & Growth – with specialist investment executives responsible for each. Our priority is the origination and execution of investments in high quality companies that make annual payments to shareholders, run by strong management teams.

Overview

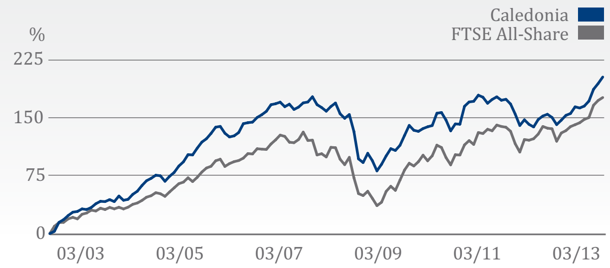
Company highlights

- Net asset value per share total return of 18.9%
- Annual dividend per share up 10.0% to 47.2p

Results summary

	31 March 2013	31 March 2012	Change %
Net asset value	£1,299m	£1,134m	14.5
NAV per share	2299p	1977p	16.3
Annual dividend per share	47.2p	42.9p	10.0
Discount	20.0%	24.8%	4.8

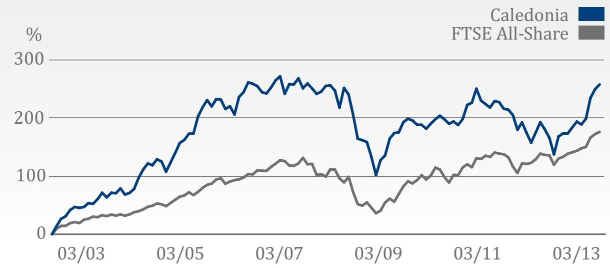
NAV total return growth over ten years



Performance

	1 year %	5 years %	10 years %
NAV total return	18.9	17.1	201.7
Total shareholder return	27.6	0.7	256.5
Dividend growth	10.0	45.2	81.5

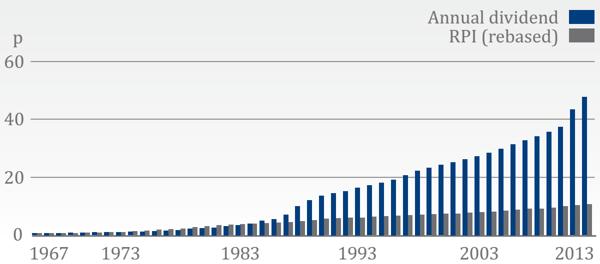
TSR growth over ten years



Pools

	Value £m	Total return %
Quoted	517.2	24.6
Unquoted	348.1	17.7
Funds	166.8	7.7
Income & Growth	162.0	23.7
Portfolio	1,194.1	19.9

Annual dividends over 46 years



References to net asset value ('NAV') refer to the company statement of financial position, rather than that of the group, as the directors consider this to be the most appropriate measure of performance. NAV per share was calculated on a diluted, cum income basis.

Portfolio summary

Holdings over 1% of net assets at 31 March 2013 were as follows:

Name	Pool	Geography[1]	Business	Value £m	Net assets %
Bristow Group	Quoted	US	Helicopter services	105.7	8.1
Cobehold	Unquoted	Belgium	Investment company	91.6	7.1
Close Brothers	Quoted	UK	Financial services	86.7	6.7
AG Barr	Quoted	UK	Soft drinks	51.5	4.0
Avanti Communications	Quoted	UK	Satellite communications	47.2	3.6
Oval	Unquoted	UK	Insurance broking	37.8	2.9
Quintain Estates	Quoted	UK	Property services	36.7	2.8
LondonMetric Property	Quoted	UK	Property investment	35.5	2.7
Sterling Industries	Unquoted	UK	Engineering	30.7	2.4
Capital Today China	Funds	China	Private equity fund	29.2	2.3
The Sloane Club	Unquoted	UK	Residential club	28.8	2.2
Satellite Information Services	Unquoted	UK	Broadcasting services	28.5	2.2
Dewan Housing Finance	Quoted	India	Housing finance	27.8	2.1
Latshaw Group	Unquoted	US	Manufacturing	27.5	2.1
Polar Capital	Quoted	UK	Fund manager	24.1	1.9
Bowers & Wilkins	Unquoted	UK	Audio equipment	24.0	1.8
Perlus Microcap	Funds	US	Public equity fund	22.2	1.7
TGE Marine	Unquoted	Germany	LNG engineering	17.5	1.3
Spirax Sarco	Quoted	UK	Steam engineering	17.3	1.3
Amber Chemicals	Unquoted	UK	Specialty chemicals	15.2	1.2
Buckingham Gate	Unquoted	UK	Property investment	14.6	1.1
Pragma Capital funds	Funds	France	Private equity funds	14.3	1.1
Petroceltic International	Quoted	Ireland	Oil and gas producer	13.7	1.1
Nova Springboard	Funds	UK	Private equity fund	12.9	1.0
Other investments				353.1	27.2
Investment portfolio[2]				1,194.1	91.9
Cash and other items				104.7	8.1
Net assets				1,298.8	100.0

1. Geography is based on the country of listing, country of domicile for unlisted investments and underlying regional analysis for funds.
2. Excludes £11.5m of unallocated investments.

Chairman and Chief Executive's report

Results

We are pleased to report a successful year for the company, which has delivered strong performance built on the strategic initiatives implemented over the past three years. Net asset value ('NAV') per share total return increased by 19%, driven by gains across our investment portfolio and a growing income stream. The board is recommending an overall dividend for the year of 47.2p per share, an increase of 10% over last year reflecting greater income generation following the portfolio rebalancing. This has enabled us to increase the dividend by 34% over the last three years and the current year's dividend will represent the forty-sixth consecutive annual increase for shareholders.

The year has seen considerable changes, with a reduction in exposure to a single company or sector, an improvement in portfolio liquidity and the inclusion of a greater proportion of mature income generating assets. We have a £96m cash reserve to take advantage of new investment opportunities and to provide downside protection. The sale of subscale investments and the increased emphasis on income, combined with an increasing move away from reliance on the UK market and economy, has reshaped our portfolio. This has been achieved without relinquishing Caledonia's core values, namely to take the longer view and to select and support good management teams.

Caledonia offers a distinctive proposition for its shareholders, compared with other investment trusts. We have the Cayzer family as a large shareholder, holding some 48% of the shares, and members of the family fulfil key management roles. We therefore seek to manage wealth on a generational time scale. We also seek to pay a consistently rising dividend.

This long term view influences the shape of the investment portfolio. Some 38% of our assets are invested in unquoted situations, which require a longer investment horizon, but which we believe will, when well selected, produce a higher overall return than most quoted investments. In addition, we are able to take a longer term view of some of the rapidly growing markets in the world, such as Asia, which, despite their greater short term volatility, will grow faster over time.

Performance

In view of the above, the board has decided to cease using a one-year benchmark to measure progress. Except by coincidence, Caledonia's portfolio will not perform in the short term close to or in line with the FTSE All-Share index or any other index. What is relevant is that over the last ten years (a period which also coincides with our status as an investment trust), our NAV total return (i.e. capital plus dividends reinvested) has increased by 202%, outperforming the FTSE All-Share Total Return index, which increased by 175%. We consider this to be an appropriate index against which to compare Caledonia over the longer term, although we will keep this under review as our portfolio becomes increasingly international.

Our relative performance over the last five years has not been so good, although this timeframe includes the tumultuous events of the Global Financial Crisis ('GFC'), in the aftermath of which we have undergone a rebalancing of the investment portfolio and its risk profile.

Income

Income is a core feature of our long term investment proposition. During the year, £38m was derived from the portfolio, a 13% increase, representing a portfolio yield of 3.3%. It is our intention to maintain this structural level of income in the future.

Cash

By taking advantage of rising markets, we have built up a cash reserve of £96m, which represented 7% of net assets at the year end, from a position of net debt of £37m at the beginning of the year. In the volatile climate we are currently experiencing, we believe that cash is an important part of asset allocation, as this provides us with both downside protection and the flexibility to react quickly. In addition, we have recently renewed our committed five year bank facilities, although we have reduced the overall facility amount from £100m to £75m in view of our current cash position. These facilities remain undrawn and, together with our surplus cash, provide substantial resources to deploy opportunistically when targeted investments come within our identified value range. We feel that this is the correct way to be positioned, despite the allure of cheap long term debt currently on offer. Some of our portfolio companies have their own debt, which we monitor regularly. Such debt is generally kept at prudent levels and is substantially lower than three years ago.

Portfolio

The top ten investments in total account for 43% of net assets. This year has demonstrated the value of holding long term positions in high quality, established companies, with the top ten holdings contributing significantly to performance. However, the portfolio is now more liquid and less concentrated than in recent times, as we have sold down some of our larger holdings. Cobehold, our second largest investment, is itself an investment company and has a diversified portfolio of 15 predominantly European holdings.

Our investment portfolio provides shareholders with a well-balanced spread of exposures to differing geographies. Of note is the increase in our US exposure, now at 16% compared with 7% three years ago, a trend we intend to continue. There will always be a substantial part of the portfolio invested in the UK, as our home marketplace dictates that the UK is our main source of deal flow, particularly in unlisted companies. When we analyse the portfolio by geography of revenue generation, we estimate that our exposure to sterling is about 45%, 18% to the euro and 15% to the US dollar, with the Asian currencies making up the bulk of the remainder.

Chairman and Chief Executive's report continued

Investment and divestment activity

We invested £142m during the course of the year, including £29m of new capital in the Income & Growth pool, as we continued to build its position within the overall portfolio in order to gain further exposure to global businesses with strong and growing dividends. It is notable that the Income & Growth pool has itself outperformed the FTSE All-Share index over the two years since its formation. We made one significant acquisition in the Unquoted pool during the year, a portfolio of five US industrial businesses, an investment totalling $42m (£27m). We made several new commitments to private equity funds, in particular to give us diversified exposure to geographies where we are less willing to invest directly.

We took advantage of the run up in stock markets in the second half of the financial year to sell over half of our holding in Close Brothers, the UK based merchant bank. This has reduced our holding from 13% of net assets last year to a more balanced 7%, in line with our strategic target for individual investment exposure. We completed the sale of our stake in Celerant Consulting from the Unquoted pool, realising £46m (including £11m of accrued loan interest), an excellent 2.5x return on cost. In addition, we sold the remainder of our holding in British Empire Securities for £49m, which has been a good investment for shareholders, returning over nine times the capital invested over a 21 year period. Overall, £310m was realised from investment sales during the year.

Overview of pool performance

We moved during the year to managing the portfolio in four pools, integrating the Asia and Property pools with the remaining four. This has removed the sector and geographic overlap and completes the strategic realignment of our investments into pools of capital clearly defined by investment type.

Overall, the increase in net assets was driven by a particularly strong performance from our listed investments in Caledonia's traditional Quoted pool and our more recently established Income & Growth pool, which both had a total return in excess of 20% over the year.

Pool	Value 2012 £m	Investments £m	Disposals £m	Change in value £m	Value 2013 £m	Income £m	Total return %
Quoted	552.1	11.4	(151.2)	104.9	517.2	16.0	24.6
Unquoted	311.7	46.2	(49.2)	39.4	348.1	14.8	17.7
Funds	209.6	14.3	(68.4)	11.3	166.8	1.9	7.7
Income & Growth	110.6	69.7	(40.8)	22.5	162.0	5.0	23.7
Portfolio	1,184.0	141.6	(309.6)	178.1	1,194.1	37.7	19.9

Quoted (£517m, 40% of net assets)

We look to invest in companies over the long term with established business models, strong balance sheets and good returns on capital and invested equity.

There were notably strong performances by Bristow Group, AG Barr and Close Brothers, as well as from some of the newer investments such as Weir Group, Spirax Sarco and Jardine Matheson. Bristow has grown significantly in value over the year and is now the largest holding in the portfolio. It is continuing to expand its business geographically and recently won the search and rescue contract from the UK Government covering the coastline of the UK that, after an initial transition period, will involve a $2.5bn, ten year contract utilising 22 helicopters and hundreds of personnel. Markets finally gave Close Brothers the rating it undoubtedly deserves, being one of the very few banks to have come through the GFC with a clean bill of health. It has continued to grow its lending book profitably without taking undue risks, and we took advantage of this rise in valuation to sell over £100m of shares during the period and to reduce the size of this investment in relation to the portfolio. AG Barr, the maker of carbonated drinks such as Irn-Bru, enjoyed another year of strong underlying growth whilst attempting to consummate a merger with Britvic, which has been referred to the Competition Commission. London & Stamford and Metric Properties, both property companies, finalised their merger which leaves the combined company, LondonMetric, well capitalised and with greater depth of management. Quintain Estates enjoyed a welcome narrowing of its discount to NAV after attracting an Asian joint venture partner to finance the building of its Greenwich Peninsula site.

Unquoted (£348m, 27% of net assets)

We look to invest in unlisted businesses requiring capital and an investor with a balance sheet to support a long term perspective. We invest in both minority and majority positions.

The Unquoted pool achieved a total return of 18%, helped by the realisation of our investment in Celerant Consulting. This exit was matched by an investment in a group of US industrial companies, the Latshaw Group, that is performing ahead of our expectations. We have been actively reviewing other potential acquisitions and continue to see a strong flow of potential investments, several of which are proprietorial in nature. We hope to secure at least one of these for the portfolio in the current financial year.

The remainder of the portfolio has solid growth prospects. The pool's management team has worked hard during the year with the portfolio to increase profitability, which has occasionally required more finely balanced decisions such as leadership change or a move to a realisation strategy. We anticipate further M&A activity during the current year, which may result in the sale of one or two holdings.

Funds (£167m, 13% of net assets)
We invest in both private and public equity funds, with an emphasis on providing exposure to areas of the world where we are less willing to invest directly.

The Funds pool completed the sale of British Empire Securities during the year. Several new commitments were made to private equity funds in the US and Asia although, overall, distributions exceeded drawdowns. We also hold interests in funds that invest in quoted securities, utilising specialist knowledge to gain exposure to areas of the world where it is more difficult for Caledonia to invest directly. The largest of these is Perlus, a US micro-cap value investor, which had another strong year.

Income & Growth (£162m, 12% of net assets)
The portfolio is comprised of shares in 42 international businesses, which provide a reliable and growing dividend. Cash flow returns to shareholders are prioritised in the invested businesses.

The Income & Growth pool's performance in the year was excellent, achieving a total return of 24%. This is a creditable result considering the pool's 5% yield target though, of course, markets are being given impetus from investors hungry for income. The pool provides Caledonia with both a diversity of income and, more importantly, exposure to successful businesses that operate on a global scale. We added a net £29m of capital to the portfolio during the year and anticipate adding to the pool again during the current year as it approaches its target size of 15% to 20% of NAV.

Share buy-backs
We continued our share buy-back policy during the year, buying and cancelling 1.1m shares, about 2% of the issued share capital, at a cost of £18m. With the discount still around 20%, this represented good value for all shareholders and we will once again seek the necessary shareholder approvals at the forthcoming AGM to continue with these buy-backs for a further year.

Dividend
The board is recommending shareholder approval of a final dividend of 34.3p, an increase of 10%, which would result in an equivalent increase in the total dividend for the year from 42.9p to 47.2p per share. This would be the forty-sixth consecutive year of increases in our annual dividend and a rise of 34% over the last three years. The final dividend will be paid on 8 August 2013.

Board
The non-executive side of the board has seen several changes over the year.

Rod Kent took over from James Loudon as Chairman after the AGM in July 2012. James became Chairman in 2008 amidst difficult circumstances and steered the company and its subsequently appointed Chief Executive with great wisdom throughout the period of his Chairmanship. Mark Davies, who had served as a non-executive director on the board for ten years, stood down in December 2012, at which time Charles Cayzer also moved to a non-executive role. Stuart Bridges, who is the Chief Financial Officer of Hiscox, was appointed as a non-executive director in January 2013. He will take over as Chairman of the Audit Committee from David Thompson, who will retire from the board at the AGM in July, having served as a non-executive director for ten years. We thank him and Mark Davies for their contributions on a wide range of issues over the years.

On the executive side, the directors are supported by an impressive team of associate directors, who have executed the new strategy well and performed cohesively as a management team. We thank them, and all our staff, for their efforts and success during the year.

Outlook
Economic growth in developed markets is proving to be slower than governments would like, but in response central banks globally are cutting rates to historically low levels to stimulate growth, though with modest success. Thus a degree of stability has been created to allow time to deal with structural problems. Unprecedented printing of money via quantitative easing ('QE') allied with competitive currency devaluations is causing equity markets to rise and bond yields to fall, creating a wealth effect. Bond market valuations look stretched and equities have now recovered to be fair value, or modestly above in some cases. This leaves little room for disappointment by companies if economic growth does not pick up as we enter 2014. Central bank initiatives via QE are driving holders of cash to reinvest in risk assets due to negligible bank interest rates, which leave markets vulnerable to the eventual withdrawal of QE stimulus. Inflation remains the key risk that could derail current stimulus efforts, though is probably some way off. Markets are responding positively to policy initiatives at the current time, but clearly remain vulnerable to the efforts of previously untested economic tools unless economic growth gains traction in the coming year.

The actions we have taken over the last three years have ensured that we have a balanced portfolio tailored to our shareholders' requirements to deliver long term outperformance in the current macroeconomic environment.

Rod Kent
Chairman

Will Wyatt
Chief Executive

Investment review

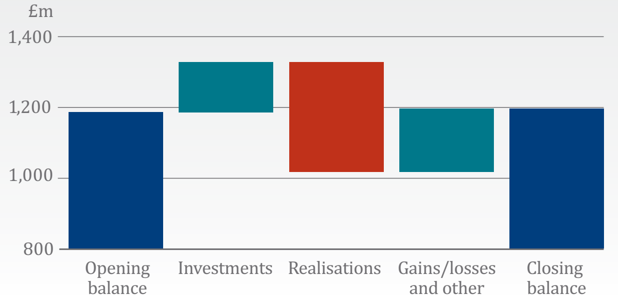
Over the year, our investment portfolio delivered a total return of 20%.

Over the last three years, we have rebalanced our portfolio substantially, increasing diversification, increasing yield, increasing liquidity, reducing concentration and reducing the number of subscale investments.

The year ended 31 March 2013 saw world economies recovering at different speeds, with the Eurozone in the slow lane, the US in the middle and the emerging markets in the fast lane. The UK and US equity markets are now back to their pre-global financial crisis levels, fuelled by quantitative easing. The Cyprus crisis showed that more needs to be done to resolve the Eurozone's debt problems.

Portfolio movement
At the beginning of the year, the value of our investment portfolio (including derivatives) was £1,184.0m. After £178.1m of portfolio gains, offset by £168.0m of net realisations, this increased to £1,194.1m at the year end. The following chart illustrates the components of this movement:

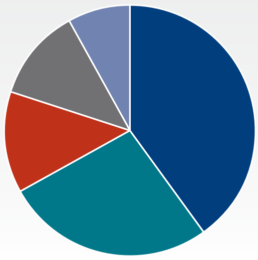
Movement in the investment portfolio



During the year, we made further progress in rebalancing our portfolio. In particular, we realised part of our holding in Close Brothers for £101.3m, to reduce our exposure, and all of our holding in British Empire Securities for £48.5m. In the Unquoted pool, we realised our stake in Celerant Consulting for £46.0m and invested £27.2m in the Latshaw Group portfolio of US manufacturing businesses.

Pools
The following chart shows the distribution of net assets between the managed pools of capital.

Pool distribution



	2013	2012
Quoted	40%	49%
Unquoted	27%	27%
Funds	13%	18%
Income & Growth	12%	10%
Cash and other	8%	-4%

The significant reduction in the Quoted and Funds pools and increase the Income & Growth pool and cash over the year reflected the efforts in reducing our investment concentration risk and repaying debt, increasing the liquidity to invest in new opportunities.

Investments

Total portfolio investments during the year were £141.6m (2012 – £247.8m), summarised as follows:

Name	Pool	Cost £m
New investments		
Latshaw Group	Unquoted	27.2
Asia Alternatives fund	Funds	2.3
Axiom Asia fund	Funds	0.1
		29.6
Follow-on investments		
Easybox	Unquoted	15.0
Spirax Sarco	Quoted	5.5
Income & Growth pool	Income & Growth	69.6
Other follow-on investments		21.9
		112.0
Total portfolio investments		141.6

The Latshaw Group investment of £27.2m represented a portfolio of five manufacturing business in the US. The Asia Alternatives and Axiom Asia fund investments were the initial drawdowns against commitments of $20m and $5m respectively. The £15.0m follow-on investment in Easybox replaced third party debt with equity.

The £69.6m invested through the Income & Growth pool represented both an increased allocation of cash to the pool of £28.9m and changing holdings within the pool. This portfolio contained 42 companies at 31 March 2013 (down from 47 at the previous year end), in a range of sectors across the globe, with not more than £5.0m invested in any one company.

Realisations

As part of our strategic realignment, we have focused on both rebalancing our investment pools of capital and at the same time reducing the number of subscale investments. We wholly or partially sold a total of 17 investments during the year, with proceeds totalling £249.2m, excluding fund distributions and Income & Growth pool sales.

Total proceeds from portfolio realisations (including derivatives) during the year totalled £309.6m (2012 – £129.7m), summarised as follows:

Name	Pool	Proceeds £m
Close Brothers	Quoted	101.3
British Empire Securities	Funds	48.5
Celerant Consulting	Unquoted	46.0
Alok Industries	Quoted	10.3
Tribal Group	Quoted	8.3
Serica Energy	Quoted	7.0
Bioquell	Quoted	6.9
Capital Today China Fund II	Funds	5.9
Income & Growth pool	Income & Growth	40.8
Other realisations		34.6
Total portfolio realisations		309.6

Portfolio returns

The total return on our investment portfolio over the year was 19.9%. The following table highlights the principal contributors to this performance:

Name	Gain or (loss) £m	Income £m	Total return £m	Total return %
Close Brothers	33.9	5.7	39.6	32.7
Bristow Group	32.8	1.0	33.8	46.7
Celerant Consulting	27.1	–	27.1	255.9
AG Barr	14.9	1.7	16.6	43.9
Quintain Estates	15.4	–	15.4	72.1
Polar Capital	7.5	1.0	8.5	46.5
Cobehold	5.9	1.7	7.6	9.3
Avanti Communications	7.4	–	7.4	18.5
Amber Chemicals	5.9	–	5.9	59.0
Easybox	(7.4)	–	(7.4)	-100.0
Dewan Housing Finance	(14.4)	0.6	(13.8)	-46.7
Income & Growth pool	22.5	5.0	27.5	23.7
Other investments	24.9	21.0	45.9	35.7
Total portfolio returns	176.4	37.7	214.1	19.9

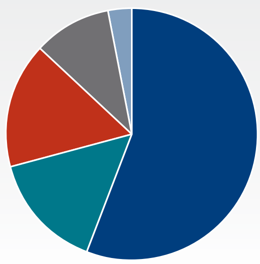
The overall performance primarily arose from strong market performances of our top listed investments, including Close Brothers, Bristow Group, AG Barr, Quintain Estates and Polar Capital. Celerant Consulting delivered a gain of £27.1m as a result of the sale to Hitachi Consulting. India-based Dewan Housing Finance fell substantially over the year, despite good results and a successfully completed merger with First Blue Home Finance.

Portfolio analysis

Geography

The following chart shows the distribution of net assets between regions. The basis of this analysis is the country of listing, country of residence for unlisted investments and underlying regional analysis for funds.

Geographic distribution



	2013	2012
United Kingdom	56%	57%
Continental Europe	15%	16%
North America	16%	11%
Asia	10%	14%
Other countries	3%	2%

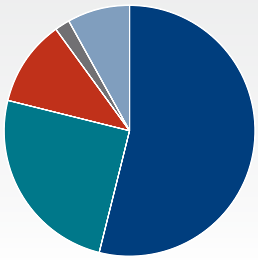
The investment in Latshaw Group and the significant rise in the value of our Bristow Group holding increased the proportion of net assets in North America. Similarly, the realisation of our holding in Alok Industries and the decline in the value of Dewan/First Blue has reduced the proportion in Asia.

Investment review continued

Asset class

The following chart shows the distribution of net assets by asset class. Listed securities represented 54% of net assets at the year end and unlisted investments (companies and funds) in total accounted for 38%.

Asset class distribution



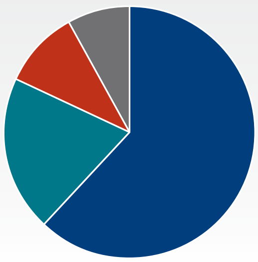
	2013	2012
Listed equities	54%	62%
Private companies	25%	27%
Private equity funds	11%	9%
Public equity funds	2%	2%
Cash and other	8%	–

The increase in cash and reduction in listed equities principally reflected the realisation of Close Brothers, British Empire Securities and other investments during the year.

Currency

The following chart analyses net assets by currency exposure, based on the currency in which securities are denominated or traded, net of any currency hedges.

Currency exposure



	2013	2012
Pound sterling	62%	71%
US dollar	20%	15%
Euro	10%	3%
Other currencies	8%	11%

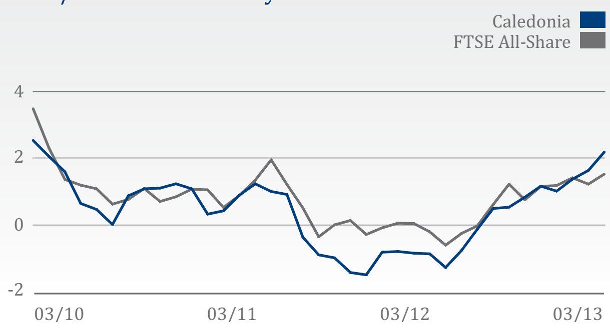
Over the year, the principal change was the decrease in our exposure to pound sterling and increase in our euro exposure. This resulted from the realisation of predominantly UK listed equities, and the closing-out of a forward currency contract to hedge a euro denominated investment. We also increased our exposure to the US dollar, as a result of further investment in the US and rising equity values in that market.

Risk/return

Over the last three years, we have restructured the portfolio to improve the risk/return profile.

The following chart illustrates the risk/return of the company against the FTSE All-Share, calculated using the Sharpe ratio methodology. Our risk/return ratio has shown a marked improvement over the last two years as the portfolio has been rebalanced in line with our strategic aims.

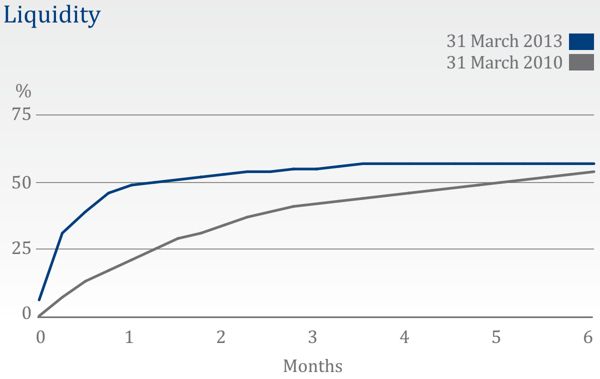
Risk/return over three years



Liquidity

Also over the last three years, we have sought to improve our liquidity, providing both risk mitigation and an increased flexibility to invest in opportunistic markets. The following chart illustrates the amount of cash we can raise readily as a percentage of net assets, within six months, based on our cash holding and the trading days for listed securities:

Liquidity

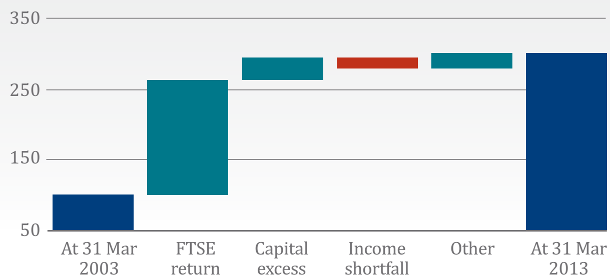


Long term performance

Caledonia aims to outperform the FTSE All-Share Total Return index over the longer term. Over ten years, our NAV per share total return has outperformed this index by 26.4%.

The chart below illustrates the components of return contributing to this ten year outperformance.

NAV total return performance over ten years



The main component of this outperformance was our net gains on investments outperforming the benchmark gains over the period.

On the other hand, the yield on our investments was below that on the FTSE All-Share constituents. We have been addressing this by investing in higher yielding securities through our Income & Growth pool and focusing more on income when making investments through other pools.

Investment review continued
Quoted pool

The Quoted pool is comprised of significant investments in listed equities.

We look to back good management teams who run their companies along prudent financial lines but with ambition for good returns.

+24.6%

total return over the year
40% of NAV at 31 March 2013

The Quoted pool contains significant and long term holdings in well managed companies. These investments typically offer substance, brand, intellectual property and strong market position. We target opportunities that have a good record of return on capital employed. In common with the wider Caledonia philosophy, we look to back good management teams who run their companies along prudent financial lines but with ambition for good returns.

The pool started the year with investments valued at £552.1m and ended the year with a value of £517.2m, after £139.8m of net realisations, principally £101.3m from the sale of part of our holding in Close Brothers – taking advantage of its recently strengthening share price. Including £16.0m of income, the Quoted pool achieved a total return of 24.6%.

A number of strong performances contributed to the Quoted pool gains totalling £104.9m, notably from Close Brothers, Bristow Group, Quintain Estates and Polar Capital. Overall, the pool investments significantly outperformed the FTSE All-Share index over the year.

After reducing the holding in Close Brothers, Bristow Group is now the largest investment in the pool. Bristow continues to expand its business and recently won the UK coastline search and rescue contract, worth $2.5bn over ten years.

Top investments

Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Capital £m
Bristow Group	Helicopter services	US	1991	6.6	36.8	105.7	20.4	1.0	32.8
Close Brothers	Financial services	UK	1987	5.6	18.1	86.7	16.8	5.7	33.9
AG Barr	Soft drinks	UK	1977	8.1	1.1	51.5	10.0	1.7	14.9
Avanti Communications	Satellite communications	UK	2005	13.7	42.9	47.2	9.1	–	7.4
Quintain Estates	Property services	UK	1994	10.6	62.4	36.7	7.1	–	15.4
LondonMetric Property	Property investment	UK	2007	5.3	34.1	35.5	6.9	2.3	(1.5)
Dewan Housing Finance	Housing finance	India	2005	11.0	31.8	27.8	5.4	0.6	(14.4)
Polar Capital	Fund manager	UK	2001	9.7	0.6	24.1	4.7	1.0	7.5
Spirax Sarco	Steam engineering	UK	2011	0.8	11.9	17.3	3.4	0.2	3.9
Petroceltic International	Oil and gas producer	Ireland	2003	4.7	28.1	13.7	2.6	1.0	(0.8)

The table above shows pool holdings of over 1% of the company's net assets at 31 March 2013.

Bristow Group

Bristow is now the world's largest provider of helicopter transportation services and is quoted on the NYSE. Caledonia initially invested in Bristow in the UK in 1991. Bristow merged with the US-based Offshore Logistics in 1996, which globalised its services. Caledonia retains a long term interest in the combined operations. Bristow recently won the UK search and rescue contract, worth $2.5bn over ten years.

Year end 31 March	2012	2011
Revenue	$1,341.8m	$1,232.8m
Profit before tax	$140.4m	$142.5m
Net assets	$1,521.8m	$1,518.8m

AG Barr

Founded in 1875, AG Barr is the largest manufacturer of soft drinks in the UK. Based in Scotland, the company is particularly notable for the manufacture of Irn-Bru. The company continues to report growth and to build its brands. AG Barr is listed in the UK.

Year end 26/28 January	2013	2012
Revenue	£237.6m	£222.9m
Profit before tax	£31.8m	£35.4m
Net assets	£130.6m	£127.0m

Close Brothers

Close Brothers is a UK listed specialist financial services group, making loans, trading securities and providing advice and investment management services. The underlying business performed well in 2012, after taking account of the exceptional restructuring charges in 2011, as it exited from non-core activities.

Year end 31 July	2012	2011
Revenue	£531.7m	£548.5m
Profit before tax	£134.9m	£78.5m
Net assets	£769.8m	£728.3m

Investment review continued
Quoted pool

Avanti Communications

Avanti Communications is an AIM listed company supplying satellite broadband services to telecoms companies across Europe, Africa and the Middle East. Avanti launched its second satellite in August 2012, with a third currently being built. The company is now starting to build its revenue.

Year end 30 June	2012	2011
Revenue	£12.5m	£5.5m
Profit before tax	-£16.0m	-£12.7m
Net assets	£269.6m	£207.4m

LondonMetric Property

London & Stamford Property merged with Metric Property in January 2013 to form LondonMetric Property, a UK REIT investing in commercial and residential property, principally in the UK.

Year end 31 March	2012	2011
Revenue	£42.2m	£41.8m
Profit before tax	£7.7m	£56.8m
Net assets	£639.3m	£673.7m

Quintain Estates

Quintain Estates is a UK listed property company comprising fund management, investment and urban regeneration businesses, with notable development projects at Wembley City and Greenwich Peninsula. The company has increased property under management to £2.2bn, renegotiated its debt and formed a joint venture to develop the Greenwich Peninsula.

Year end 31 March	2012	2011
Revenue	£45.4m	£46.9m
Profit before tax	-£43.5m	-£48.1m
Net assets	£572.0m	£598.6m

Dewan Housing Finance

Dewan Housing Finance is an Indian listed company providing house financing to lower and middle income purchasers. Dewan recently completed its merger with First Blue Home Finance, purchased in 2011, after obtaining Indian court approval. The business continues to make progress with revenue up by some 70%.

Year end 31 March	2012	2011
Revenue	Rs24.7bn	Rs14.5bn
Profit before tax	Rs4.0bn	Rs3.4bn
Net assets	Rs20.3bn	Rs15.5bn

Polar Capital

Polar Capital is an AIM listed investment manager, offering a range of geographical and sector funds. Caledonia provided initial capital for this business in 2001, which has now grown to 85 employees and $7.2bn under management.

Year end 31 March	2012	2011
Revenue	£39.9m	£39.1m
Profit before tax	£9.6m	£9.2m
Net assets	£46.6m	£43.4m

Spirax Sarco

Spirax Sarco supplies engineered solutions for the design, maintenance and operation of industrial and commercial steam systems and also manufactures peristaltic pumps.

Year end 31 December	2012	2011
Revenue	£661.7m	£650.0m
Profit before tax	£127.7m	£132.3m
Net assets	£436.5m	£400.1m

Investment review continued
Unquoted pool

The Unquoted pool contains significant minority and majority holdings in private companies. The pool makes £20m to £50m investments in businesses operating within attractive markets, supporting double-digit operating margins and led by sound management teams.

+17.7%

total return over the year
27% of NAV at 31 March 2013

	£m
Opening value	311.7
Investments	46.2
Realisations	(49.2)
Revaluation of holdings	39.4
Closing value	348.1
Investment income	14.8

Changes made in the recent past positively impacted returns generally across the portfolio. At Oval, the regional insurance broker where we hold a significant minority stake, the new management team has bedded down well, with Oval enjoying its best year ever in 2012. We have lifted our holding value for Oval at the year end, as well as acquiring a small number of additional ordinary shares during the year.

The liquefied gas markets in which TGE Marine operates continue to evolve attractively for the business with TGE Marine ending the year with a strong forward order book.

Amber Chemicals, our wholly owned specialty silicone group of companies, enjoyed an exceptional year as it grew trading EBITDA by 43% and, as a result, we have lifted our holding value for Amber at the year end.

Brookshire Capital, the property investor, continues to expand, increasing gross assets to £20.6m over the course of the year. The team focuses on acquiring and enhancing light industrial and warehousing property in the UK.

Cobehold, our largest investment in the Unquoted pool, made solid progress, generating a paid yield of £1.7m, as well as an uplift in net asset value of 9%.

In December 2012, we exited our investment in Celerant Consulting, when the business was sold to Hitachi Consulting. We were delighted that the sale resulted in Caledonia realising a significant gain of 2.5x on our investment cost.

As well as the follow-on portfolio investments outlined above, we made a significant new investment of £27.2m in five US manufacturing companies previously owned by Latshaw Enterprises. The businesses are based in Kansas and California in the US, as well as Juarez, Mexico. Each is a niche manufacturer enjoying strong margins and generating significant cash flow, supporting a paid yield from year one to Caledonia. The businesses have traded well since the acquisition was completed in September 2012.

Our investment criteria and Caledonia's longer term unquoted investment proposition is becoming increasingly well know within the UK market. This has resulted in us reviewing over 230 unquoted investment opportunities in the year. Many of these remain live and we would hope to make new investments over the course of the current year.

Top investments

								Income/(expense) recognised in the year	
Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Revenue £m	Capital £m
Cobehold	Investment company	Belgium	2004	10.2	35.3	91.6	26.3	1.7	5.9
Oval	Insurance broking	UK	2003	25.4	42.5	37.8	10.8	1.4	3.0
Sterling Industries	Engineering	UK	1989	100.0	5.3	30.7	8.8	3.0	1.7
The Sloane Club	Residential club	UK	1991	100.0	24.1	28.8	8.2	3.0	(0.1)
Satellite Information Services	Broadcasting services	UK	2005	22.5	16.7	28.5	8.2	3.4	(1.3)
Latshaw Group	Manufacturing	US	2012		27.2	27.5	7.9	–	0.3
Bowers & Wilkins	Audio equipment	UK	2011	20.0	24.1	24.0	6.9	0.6	–
TGE Marine	LNG engineering	Germany	2006	49.9	9.9	17.5	5.0	1.4	1.3
Amber Chemicals	Specialty chemicals	UK	1947	100.0	14.5	15.2	4.4	–	5.9
Buckingham Gate	Property investment	UK	2000	100.0	13.0	14.6	4.2	–	2.0

The table above shows pool holdings of over 1% of the company's net assets at 31 March 2013.

Cobehold

Cobehold is a Belgian investment company, with a history dating back to 1957. It seeks to invest in companies with long term growth prospects throughout Europe and its shareholder base of family-backed investors gives it the flexibility to take a longer term approach.

Year end 31 December	2012	2011
Net assets	€1,270.2m	€1,148.2m

Oval

Oval is a leading provider of insurance broking and financial services in the UK. It has created a national group by acquiring some of the UK's best regional companies, with excellent reputations in their areas, strong relationships with providers and sector-leading specialists on their teams.

Year end 31 May	2012	2011
Revenue	£101.8m	£96.3m
EBITDA	£13.1m	£12.5m
Profit before tax	-£1.4m	-£1.5m
Net assets	£31.9m	£38.8m

Sterling Industries

Sterling Industries is an international engineering business, specialising in the global supply of combustion and heat transfer technology and services. It designs and manufactures custom engineered burners and ancillary equipment, bespoke specialised combustion systems and heat exchangers and flare services to process industries worldwide.

Year end 31 March	2013	2012
Revenue	£65.9m	£65.1m
EBITDA	£8.3m	£8.7m
Profit before tax	£7.0m	£7.4m
Net assets	£23.9m	£22.3m

Investment review continued
Unquoted pool

The Sloane Club

The Sloane Club is a premium residential club situated in central London. Along with 138 bedrooms and 32 serviced apartments, it offers a restaurant and private event facilities.

Year end 31 March	2013	2012
Revenue	£8.3m	£8.1m
EBITDA	£3.4m	£3.4m
Profit before tax	£2.3m	£2.3m
Net assets	£2.8m	£2.3m

Latshaw Group

Latshaw Group comprises five US engineering businesses financed by Caledonia and managed by Nova Capital. The companies employ more than 450 people in five locations and operate in a number of sectors, including plastic injection moulding, custom wire and cable products and gauging tools.

Year end 31 December	2012
Net assets	$42.1m

Satellite Information Services

Satellite Information Services is a long-established media business focusing on television production, broadcasting and the provision of live pictures and data via satellite. It is the foremost supplier of television programming and data services to the UK and Irish betting industries.

Year end 31 March	2012	2011
Revenue	£239.6m	£255.6m
EBITDA	£50.0m	£32.7m
Profit before tax	£25.3m	£13.5m
Net assets	£55.5m	£49.1m

TGE Marine

TGE Marine is a Germany-based provider of engineering services for the design and supply of liquid gas carriers and offshore units, providing marine gas handling and storage systems as well as vessel designs to shipyards across Europe, Asia and South America.

Year end 30 June	2012	2011
Revenue	€55.7m	€35.1m
EBITDA	€7.7m	€6.4m
Profit before tax	€7.8m	€6.0m
Net assets	€18.0m	€14.7m

Amber Chemicals

Amber Chemicals is a specialty silicones chemical group, developing diverse products for niche markets. The company is currently focused on the electronics, photovoltaic, solar, automotive, moulding, personal care and chemical processing industries.

Year end 31 March	2013	2012
Revenue	£28.6m	£25.2m
EBITDA (adjusted)	£3.3m	£2.3m
Profit before tax	-£2.2m	–
Net assets	£7.4m	£5.3m

Bowers & Wilkins

Bowers & Wilkins is a global, premium audio manufacturer headquartered in Worthing, West Sussex. The business produces a range of loud speakers for the premium audiophile market as well as a series of market leading products based around the Apple ecosystem, the most well-known of which is the iconic Zeppelin docking station.

Year end 30 September	2011	2010
Revenue	£133.3m	£114.5m
EBITDA	£18.7m	£13.0m
Profit before tax	£11.1m	£6.5m
Net assets	£27.7m	£21.0m

Business review

Investment review continued
Funds pool

The Funds pool comprises investments in mainly private and public equity collective investment vehicles, structured through companies, limited partnerships and open-ended funds.

Our aim in using funds is to provide broad exposure to areas of the world where we are less willing to invest directly.

+7.7%

total return over the year
13% of NAV at 31 March 2013

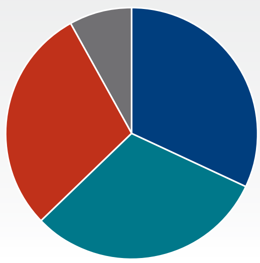
The Funds pool contains investments in private and public equity funds in the UK, Europe, US and Asia. Investment through funds enables us to broaden our geographic and sector spread, by taking advantage of managers' specialist knowledge.

The Funds pool started the year at £209.6m and ended at £166.8m, after net realisations of £54.1m. Overall, the total return was 7.7%.

Realisations of £68.4m included £48.5m from the sale of our entire holding in British Empire Securities and the sale of our capital in and commitment to one of the Capital Today China funds. We made commitments to two new Asia private equity funds – Asia Alternatives and Axiom Asia – and made initial contributions under these commitments.

At the year end, our fund commitments amounted to some £60.2m. The following chart shows the geographical spread of our fund investments and outstanding commitments.

Fund investments and commitments



	2013
North America	32%
Asia	31%
United Kingdom	29%
Continental Europe	8%

Top investments

Name	Business	Geography	First invested	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Capital £m
Capital Today China	Private equity fund	China	2006	1.7	29.2	17.5	–	4.9
Perlus Microcap	Public equity fund	US	2010	16.5	22.2	13.3	–	2.7
Pragma Capital funds	Private equity funds	France	2003	14.1	14.3	8.6	–	0.1
Nova Springboard	Private equity fund	UK	2006	3.2	12.9	7.8	–	0.5

The table above shows pool holdings of over 1% of the company's net assets at 31 March 2013.

Capital Today China

The China Growth fund is managed by Capital Today and provides growth capital to medium-sized Chinese companies. Capital Today focuses on the consumer retail and internet sectors. The particular success of JingDong 360 has led to a further significant increase in the valuation of the fund.

Year end 31 December	2012	2011
Net assets	$770.8m	$697.1m

Perlus Microcap

Perlus Microcap is a fund investing in US microcap equities, managed by UK-based Perlus Investment Management.

Year end 31 December	2012	2011
Net assets	$68.8m	$62.1m

Pragma Capital funds

This investment comprises two private equity funds managed by Pragma Capital, investing principally in majority or significant minority operations, alongside management teams with a strong entrepreneurial mind-set.

Year end 31 December	2012	2011
Net assets	€272.6m	€290.5m

Investment review continued
Income & Growth pool

The Income & Growth pool comprises a geographical and sector balanced portfolio of investments in 42 international blue chip businesses, which provide an above average dividend record and organic growth potential.

+23.7%

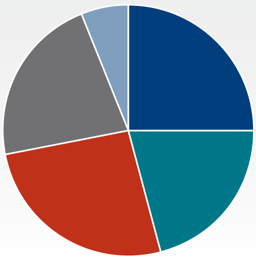
total return over the year
12% of NAV at 31 March 2013

The Income & Growth pool comprises a geographical and sector balanced portfolio of 42 investments in global blue chip companies with strong balance sheets, above average returns and demonstrable histories of creating shareholder value. All investments are carefully researched and organic growth potential in tandem with an above average dividend record are the key considerations.

The Income & Growth pool commenced in March 2011 and grew to £110.6m at the end of last year and £162.0m at this year end. The increase in value resulted from both £28.9m of net investment over the year and gains of £22.5m. Having made our investment selection, we generally hold these for the long term, but keep global markets and individual investments under review and rebalance when necessary.

The pool invests in global equities. Over the year, the portfolio has seen a rebalancing towards Europe and North America.

Geographic distribution



	2013	2012
United Kingdom	25%	26%
Continental Europe	21%	16%
North America	26%	22%
Asia Pacific	22%	31%
Latin America	6%	5%

The top ten investments in the pool at 31 March 2013 were as follows:

Name	Country	Value £m	Weight %
Pfizer	US	5.3	3.3
Standard Life	UK	5.3	3.3
Nestlé	Switzerland	5.2	3.2
Zurich Insurance	Switzerland	5.1	3.2
SSE	UK	5.1	3.1
Philip Morris	US	5.1	3.1
Amcor	Australia	5.1	3.1
GlaxoSmithKline	UK	4.9	3.0
Spectra Energy	US	4.9	3.0
Starwood Property	US	4.9	3.0

The Income & Growth pool comprises a geographical and sector balanced portfolio of investments in 42 international blue chip businesses.

Business model

Our primary focus is to manage wealth over the long term through a portfolio structured prudently to balance risk and return.

We aim to deliver long term growth in capital and a growing annual dividend to shareholders. As well as listed investments, our portfolio contains a significant proportion of unquoted investments at various stages of maturity and vintage (both through direct minority and majority holdings and through private equity funds) and we therefore measure our performance against the FTSE All-Share on a total return basis over ten years.

Investment principles

The principles we apply in building and financing our portfolio include:

- We allocate our capital predominantly amongst quoted equities, private companies (equities and debt) and funds. We identify a strategic allocation to each of these classes commensurate with our overall risk and return objectives.
- At least 50% of the value of the investment portfolio will normally be held in quoted equities. In addition, we may use derivatives to hedge risk exposures to movements in markets and currencies.
- We look to achieve a diverse investment portfolio by asset class, industry sector, geography and currency. Overall exposures in each case are actively monitored and managed by our executive management, under the supervision of the board. The portfolio is further diversified through our fund investment portfolio and the selection of external fund managers with clear mandates.
- We look to mitigate concentration risk by limiting the value of an investment in any one company to less than 10% of our net asset value and will look for appropriate market opportunities to realise and recycle value throughout the portfolio to achieve this in an appropriate timeframe.
- We maintain borrowing facilities primarily to provide additional temporary liquidity between buying and selling investments. We would not expect gearing at any time to exceed 10% of net assets.

Pool structure

We manage our investment portfolio in four distinct ‘pools’ of capital, which facilitates delegated accountability and responsibility to specialist investment executives.

The Quoted pool focuses on midcap companies, identifying opportunities to build meaningful minority positions in long term value businesses.

The Unquoted pool takes direct minority and majority stakes in private companies, where an opportunity exists to partner a strong management team with growth capital, without the traditional restrictions of short term private equity financing. We take a board seat in all significant private company investments.

The Funds pool contains investments in UK, European, North American and Asian private and public equity funds and, in particular, provides diversified overseas reach in areas where our investment model would make direct investing more difficult to manage.

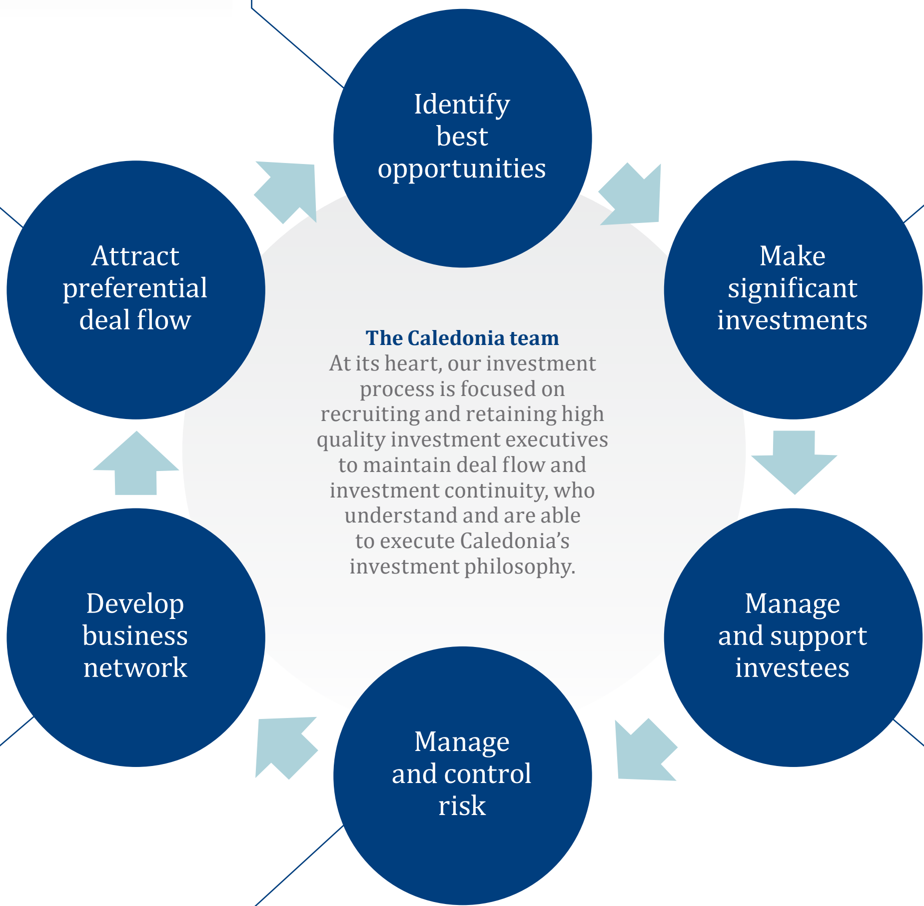
The Income & Growth pool provides low market risk exposure to global ‘mega cap’ companies offering capital growth potential and high dividend expectations. This pool provides both a reliable platform for our overall income requirements and a source of liquidity.

Investment process
Our investment process is built on a disciplined series of steps, building on Caledonia's reputation and the experience of our investment team. The process looks to identify long term value through each stage, including sourcing opportunities and initial reviews, through due diligence, approval and deal execution. The performance of each investment is subject to a formal review process involving monthly and quarterly reporting. Both individual investments and the investment portfolio as a whole are periodically measured against a number of risk control metrics, including concentration, liquidity, volatility and sector and geographical diversity. In addition, we are often represented on the boards of our substantial listed and private company investments, where we have a significant holding.

Attract preferential deal flow
Our reputation, network of deal originators and family tradition enables us to access premium investment opportunities not always available to others. This derives from both tracking quality management teams in proven businesses and through the contacts we make through our extensive board representation network.

Identify best opportunities
We adopt a disciplined process of research and due diligence to identify value opportunities in well-managed, long term businesses with established business models and strong cash flows. Such opportunities are typically not reliant on leverage for returns and offer long term growth potential.

Make significant investments
We invest directly in both listed and unlisted opportunities around the world. Our minimum investment size is £10m and we are willing to invest between £20m and £50m for significant equity interests in companies.



Develop business network
Maintaining our reputation as a supportive and constructively involved long term investor enables us to develop our network of contacts, who will give us priority consideration when new deal opportunities arise.

Monitor and risk control
Individual investments and the investment portfolio as a whole are monitored for risk against our strategic objectives. Consideration is given to concentration exposure, volatility levels, liquidity and geographical and industry sector diversity.

Manage and support investees
We manage our investments as pools of capital, focusing ownership and responsibility on our executive team. Where we take a board seat, we can both actively monitor the development of our investment and contribute long term support and governance.

Strategic priorities

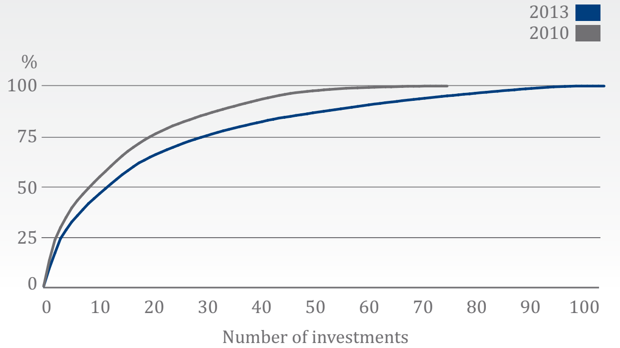
Following a strategic review conducted in 2010 and set out in our 2011 annual report, we identified a number of priorities for our business model. We believe the performance we have seen in the current year has been built on the strategic priorities implemented over the past three years, which position the portfolio to achieve longer term performance.

Increase overall portfolio yield
We have rebalanced the portfolio towards our strategic total return objective through a combination of growing annual income and longer term capital gain. An Income & Growth pool of capital has been developed over the last two years and now totals £162m. This targets global mega-cap companies providing consistent and sustainable above average dividend growth. The target for this pool of capital is to yield at least 5% gross. In addition, we have refined our overall portfolio to ensure a greater proportion of our investments generate income and have increased the overall portfolio yield to 3.3% in 2013, from 2.8% in 2010.

Reduce the number of subscale investments
We have progressively reduced the number of subscale investments, where we consider the management time, monitoring effort and risk is not likely to be matched by the returns. Overall, our portfolio holdings have reduced from 75 in 2010 to 60 in 2013 (the Income & Growth pool being considered as one holding).

Reduce concentration risk
We have rebalanced the portfolio and reduced single investment and portfolio concentration risk. The chart below shows that, at 31 March 2013, a greater number of investments comprise each percentage level of portfolio value, compared with 2010.

Portfolio concentration



Most significantly, during the current year we reduced our holding in what was our largest investment, Close Brothers, from 13.1% of NAV (£154m) in 2012 to 6.7% of NAV (£87m) in 2013. This has been done gradually and opportunistically to maximise value.

Increase liquidity

Throughout the process of rebalancing the portfolio, we have increased liquidity. This has been reflected in both an increased net cash balance of £96m at 31 March 2013, from a position of net debt at 31 March 2012, and a significant improvement in the market liquidity of the managed portfolio, based on daily traded volumes. The high liquidity of the newly established Income & Growth pool (£162m of net asset value at 31 March 2013) has been a contributor to this, as has the reduction in subscale investments. We believe that the current level of portfolio liquidity provides both risk reduction in today's more volatile markets and the flexibility to take advantage of market pricing opportunities to build stakes in targeted investments.

In addition, we have recently completed the refinancing of our banking facilities with a total of £75m available under five year revolving credit facilities from a combination of RBS and ING.

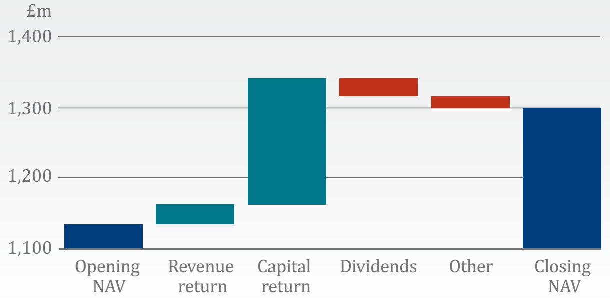
Refine portfolio management

The investment portfolio has been refined during the current year to four pools of capital, each headed by a dedicated and experienced investment executive.

Financial review

Net asset value increased over the year to £1,298.8m, from £1,134.0m. The following chart analyses this increase:

Movement in net asset value



Company total return

The company seeks to generate total return from both revenue earnings, net of expenses, and capital growth. For the year ended 31 March 2013, the total return was £206.8m (2012 – £93.2m loss), of which £28.1m (2012 – £23.0m) derived from revenue and £178.7m (2012 – £116.2m loss) from capital.

Company revenue performance

Investment income in the year of £39.4m was 18.3% higher than last year's income of £33.3m. The Income & Growth pool contributed £2.2m more income than in 2012 and all other pools made significant contributions.

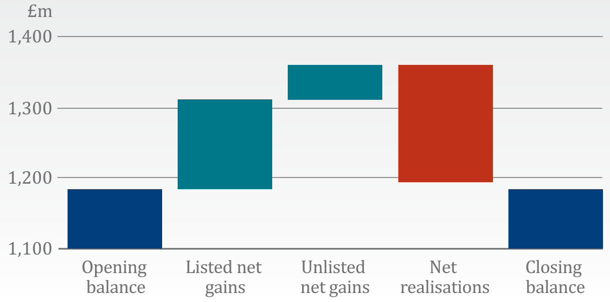
The underlying investment income represented a net yield on the portfolio of 3.3%, compared with 2.8% last year.

Company capital performance

Net gains on investments and derivatives totalled £174.9m (2012 – £119.0m loss). The principal gains were £33.9m from Close Brothers, £32.8m from Bristow Group and £27.1m from Celerant Consulting. These gains more than offset investment losses, including £14.4m from Dewan Housing Finance (including the merged First Blue Home Finance).

Listed investments contributed £127.0m to the valuation gains, and unlisted investments (including unallocated investments) contributed £47.9m. Listed investments increased in value at a greater rate than unlisted in the year, due to the rapid rise in equity markets towards the end of the year, which often sees a lag effect on our unquoted portfolio, reflecting prudent valuation principles.

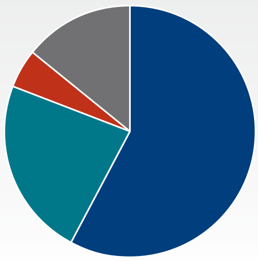
Movement in investment portfolio value



The company maintains a prudent valuation approach to investments. Internal valuations of investments are conducted in accordance with the IPEV Guidelines. Adjustments are normally made to earnings benchmark multiples – generally of around 30% – to account for points of difference between the comparator and the company being valued, including relative liquidity. Unlisted property and fund investments are based on external valuations.

The following chart shows the source of valuations across the portfolio:

Portfolio by valuation source



Quoted price	58%
External fund manager	23%
External property valuer	5%
Directors' valuation	14%

Company expenses

Caledonia allocates all expenses, other than transaction costs, to revenue. Our on-going charges ratio for the year was 1.14% (2012 – 1.02%), compared with the Investment Trust Global Growth sector average of 1.02% (2012 – 1.04%). We calculate our on-going charges ratio on an industry standard basis, comprising published management expenses over the monthly average NAV, to aid comparability.

Overall, the company's revenue column expenses were higher than last year at £13.2m (2012 – £11.8m). This primarily reflected an increase in the National Insurance on share-based payments and pension expenses.

Dividend

We recognise that a reliable source of growing dividends is an important part of shareholder total return and have extended to 46 years our record of growing annual dividends, as well as increasing significantly the final dividend to reflect our confidence in achieving an increased underlying yield element to our portfolio return.

We paid an interim dividend of 12.9p per share on 10 January 2013 and have proposed a final dividend of 34.3p per share. The total dividend for the year of 47.2p is an increase of 10.0% on last year.

The dividend for the year totalling £26.4m was covered by the year's revenue earnings of £28.1m.

If approved, the final dividend will be payable on 8 August 2013 to holders of shares on the register on 12 July 2013. The ex-dividend date will be 10 July 2013.

Consolidated results

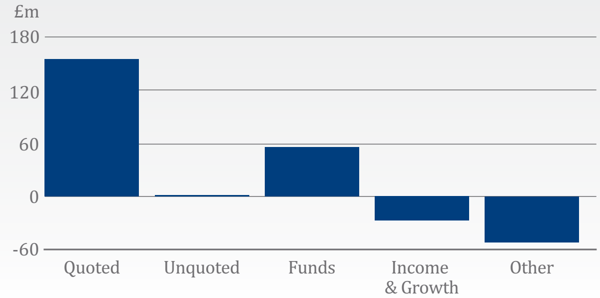
The consolidated results differ from the company results in incorporating the group's share of the earnings and net assets of subsidiaries and joint ventures, as opposed to their investment returns and fair values. The consolidated diluted earnings per share was 352.3p (2012 – 171.2p loss).

Cash flows, liquidity and facilities

During the year, we moved from opening net settlement of £36.6m to net cash of £96.5m, principally through settlement of net realisations from our investment portfolio of £148.4m.

The total cash movement over the year of £133.1m was analysed by investment pool as follows:

Net cash movement by pool



The company has recently renewed its bank facilities. It now has committed facilities of £75m in place at the year end, expiring in April 2018, and has strong covenant cover. Caledonia uses these facilities as short term bridging to facilitate the efficient transition from one investment to another.

Subsidiaries had borrowings totalling £51.8m at 31 March 2013 (2012 – £60.5m) to finance operations. Caledonia provided guarantees and letters of comfort in respect of £41.0m (2012 – £56.7m) of these borrowings.

Treasury management

The Treasury department provides a central service to group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures and do not seek to take active risk positions. It is Treasury's role to ensure that the group has sufficient available funds to meet its needs in the foreseeable future.

Business review

Company record

	Profit/ (loss) for the year £m	Diluted earnings per share p	Annual dividend p	Net assets £m	Diluted NAV per share p	Share price p	Rolling ten years Total shareholder return	Rolling ten years FTSE All-Share Total Return
2004	282.8	390.7	27.0	915	1265	1017	138.5	94.4
2005	171.4	260.3	28.2	978	1531	1367	229.7	118.4
2006	349.4	549.2	29.6	1,307	2044	1980	302.0	123.4
2007	136.1	226.9	31.1	1,323	2258	2066	302.9	109.2
2008	(43.9)	(76.0)	32.5	1,252	2155	2050	228.5	41.4
2009	(325.5)	(564.1)	33.8	906	1559	1289	146.4	(6.4)
2010	312.4	539.6	35.3	1,182	2034	1625	196.7	29.7
2011	84.1	145.1	37.1	1,259	2165	1725	171.5	58.0
2012	(93.2)	(161.8)	42.9	1,134	1977	1486	118.9	65.5
2013	206.8	361.9	47.2	1,299	2299	1840	256.5	175.3

Prior to 2005, profits, earnings and net assets were prepared in accordance with UK GAAP. To aid comparability, pre-2005 results have been adjusted to exclude accrued dividends. Also, NAVs per share prior to 2006 were prepared on an undiluted basis and have been restated on a diluted basis.

Risk management

Effective risk management is a key component of the company's business model and assists in ensuring that the different parts of the group operate within acceptable risk parameters. The board has overall responsibility for setting and monitoring the level of risk the company is prepared to accept.

Principal risks

Strategic

Risks in relation to the appropriateness of the business model to deliver long term growth in capital and income and the effective communication and delivery of the business model.

Strategic risks include the appropriate allocation of capital in relation to geographic, sector and currency exposures.

Investment

Risks in respect of specific investment and realisation decisions.

Investment risks include the appropriate research and due diligence of new investments and the timely execution of investment realisations for optimal shareholder value.

Market

Risk of losses in investments arising from movements in market prices, particularly in highly volatile markets.

Caledonia invests primarily in listed equities, private companies and equity funds. Its principal market risks are therefore equity price volatility, foreign exchange rate movements and interest rate volatility. An explanation of these risks, along with sensitivities, is included in note 21 to these accounts.

Liquidity

Risk that liabilities cannot be met or new investments made due to a lack of liquidity. Such risk can arise from not being able to sell an investment due to lack of a market or from not holding cash or being able to raise debt.

Operational

Risks arising from inadequate or failed processes, people and systems or from external factors. Operational risks include recruiting, retaining and developing staff, appropriate systems and procedures, business disruption, exposure to litigation or fraud and adherence to the tax and regulatory environment.

Mitigation	Key developments
The company's business model and strategy are reviewed periodically, against market conditions and target returns. The performance of the company and its key risks are monitored regularly by management and the board. Borrowing levels and facilities require board approval and are carefully monitored and reported.	• The portfolio was restructured during the year from six to four pools of capital, resulting in simplified reporting and responsibility structures. • A new financial communications agency was appointed to assist in communication of the company's business model, strategy and performance.
Pool managers have well-developed networks through which they attract proprietary deal flow. Investment opportunities are subject to rigorous and disciplined investment appraisals and multi-stage approval processes. Target entry and exit events and prices are monitored and updated regularly, in relation to market conditions and strategic aims.	• The company has continued to strengthen its internal resources to ensure appropriate and specific skills exist to undertake due diligence processes. • The investment appraisal and approval process has been standardised to ensure consistent quality and enable comparison between opportunities.
Market risks and sensitivities are reviewed on a weekly basis and actions taken to balance appropriately risk and return. A regular review of market and investment volatility and value at risk is conducted by the board and the portfolio is realigned with strategic aims where appropriate. Reviews also consider investment concentration, currency and liquidity exposures.	• The company has introduced internal risk/return reporting to help identify changes in the portfolio risk profile. • Scenario reviews are undertaken to assess the impact of alternative asset allocation and whether it would better meet the company's aims.
Detailed cash forecasting for six months in advance is updated and reviewed weekly, including the expected drawdown of capital commitments. Listed portfolio liquidity is reviewed regularly. Loan facilities are maintained to provide appropriate liquidity headroom.	• The company has realised investments over the year to build a cash balance amounting to £96m at the year end. • The borrowing facilities were renegotiated for a further five years, although reduced to £75m from the previous level of £100m.
Systems and control procedures are developed and reviewed regularly. They are tested, as part of the annual programme of controls assurance, to ensure effective operation. Appropriate remuneration and other policies are in place to encourage the retention of key staff. Business continuity plans are maintained, using an offsite facility.	• A controls assurance programme has been developed, with the Risk Manager reviewing and testing key controls and procedures and reporting to the Audit Committee.

Corporate responsibility

Caledonia considers the impact of its business in the following areas:

Marketplace
As an investment company, we are committed to a long term investment strategy and to maintaining effective relationships with those companies in which we invest. We often hold a board seat in our significant investments and use this to maintain a close relationship with managements of those companies. Additionally, we hold frequent meetings with managements and review internal documents, such as management accounts and reports.

We also make considered use of our voting rights. As a consequence of our involved investment style, we would expect to vote in line with management recommendations, but are prepared to abstain or vote against recommendations where we consider they are not in the interests of our shareholders.

We continue to meet with our shareholders and listen to any concerns they may have.

Workplace
Caledonia has in place a set of polices intended to protect employees from unlawful discrimination, offer them a working environment where they have a right to be treated fairly, with consideration and respect, and support high standards of conduct and performance. These policies assist in ensuring that the company meets applicable health and safety standards and treats disabled employees in accordance with its statutory obligations. These policies are communicated to employees by way of a staff handbook provided at the time of joining, with periodic updates thereafter.

In addition to a grievance procedure, which allows employees to raise concerns either formally or informally, there are formal whistleblowing arrangements in place, which enable members of staff to raise any issue of concern regarding possible impropriety in the conduct of the company's business, confidentially and independently of line management.

A formal performance appraisal process, through which employees may be set objectives on an annual basis and their achievement against those objectives assessed at the end of the year, is intended to ensure that employees have a clear view of their performance and the ability to develop their potential within the company through additional training where necessary. Together with team meetings and company-wide briefings, this provides staff with the opportunity to be closely involved in the success of the business.

Community
Caledonia encourages employees to support local voluntary organisations and charitable causes and provides matched sponsorship to their fundraising activities. This and other charitable donations made at the company's own initiation in the year amounted to £57,000. Donations comprised £25,000 to support prisoner rehabilitation, £20,000 for sea cadets and seafarers and £12,000 for a number of medical and welfare charities.

The company also supports the work of the Royal Horticultural Society and contributions to the RHS's campaigns to promote gardening, through sponsorship of the RHS Chelsea Flower Show Charity Gala Preview, amounted to £100,000 in the year.

Environment
Caledonia's environmental impact is limited. However, any measures taken to reduce this impact demonstrate the company's commitment to improve the environment and can have direct benefits through reductions in costs for energy and consumables. A number of measures have been and will be taken in this area:

- encouragement of the use of electronic communications to save paper, printing consumables and energy
- usage of video-conferencing and telephone conference calls rather than travelling to meetings
- recycling of office waste, used paper and other consumables.

Valuation methodology

Investments are measured at the directors' estimate of fair value at the reporting date, in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Publicly traded securities
Investments listed in an active market are valued at their bid price on the reporting date. When a bid price is unavailable, the price of the most recent transaction will normally be used.

Unlisted companies
Unlisted company investments are valued by applying an appropriate valuation technique, which makes maximum use of market-based information, is consistent with models generally used by market participants and is applied consistently from period to period, except where a change would result in a better estimation of fair value.

The value of an unlisted company investment is generally crystallised through the sale or flotation of the entire business, rather than the sale of an individual instrument. Therefore, the estimation of fair value is based on the assumed realisation of the underlying business at the reporting date, based on the International Private Equity and Venture Capital Valuation Guidelines (December 2012). Recognition is given to the uncertainties inherent in estimating the fair value of unlisted companies and appropriate caution is applied in exercising judgments and making the necessary estimates.

Enterprise value is normally determined using one of the following valuation methodologies:

Price of recent investment
Where the investment being valued was recently acquired or a recent transaction has taken place, its cost or transaction price will generally provide a good indication of fair value. This methodology is likely to be appropriate only for a limited period after the date of the relevant transaction.

Multiples
This methodology involves the application of an earnings multiple to the maintainable earnings of the business and is likely to be appropriate for an investment in an established business with an identifiable stream of continuing earnings.

The earnings multiple used is determined by reference to market-based multiples appropriate for the business and correlating to the period and calculation of earnings of the company being valued. The aim is to identify comparator companies that are similar in terms of risk and growth prospects to the company being valued. Earnings multiples are adjusted for points of difference between the comparator and the company being valued where appropriate, including the ability of Caledonia to effect change in the company and risks associated with holding an unlisted share.

Maintainable earnings balance reliability and relevance. Generally, the latest historical accounts are used unless reliable forecast results for the current year are available. Earnings are adjusted where appropriate for exceptional or non-recurring items and an average of more than one year's earnings may be used to estimate maintainable earnings for cyclical or volatile businesses.

Net assets
The net assets methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as a property holding company or an investment business. It may also be appropriate for a business that is not making an adequate return on assets and for which a greater value can be realised by liquidating the business and selling its assets. A third party valuation may be used to give the fair value of a certain asset or group of assets.

Fund interests
Fund interests refer to participations in arrangements to create a designated pool of capital to invest in a wider range of assets than is feasible for an individual investor and to share the costs and benefits.

Open-ended funds, including investment companies with variable capital, typically report regular net asset values, which usually provide a reliable basis to estimate fair value. If the price reported by the fund is not available at the reporting date, the latest available price is used and may be adjusted to take account of changes or events to the reporting date.

Closed-ended funds include unlisted investment companies and limited partnerships. For these investments, the fair value estimate is based on a summation of the estimated fair value of the underlying investments. Fund manager valuation reports may be used where there is evidence that the valuation is derived using fair value principles and may be adjusted to take account of changes or events to the reporting date. Adjustment may also be necessary for features of the fund agreement not captured in the valuation report, such as performance fees or carried interest.

Other investments
Other investments include preference shares, loan notes or facilities, options, warrants and treasury instruments that are not publicly traded and do not form part of an investment in an unlisted company. For such investments, appropriate valuation techniques are adopted and used consistently.

Board of directors

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1 Rod Kent
Chairman
Appointed a non-executive director of Caledonia in 2011 and Chairman in 2012, he is also Chairman of the Nomination Committee. He was Managing Director of Close Brothers Group for 28 years until 2002 and then a non-executive director and later Chairman from 2006 until 2008. His non-executive roles have included the Chairmanships of M&G Group, Bradford & Bingley and BT Pension Trustees, Senior Independent Director of Whitbread and a Governor of the Wellcome Trust. He is currently a non-executive director of Grosvenor Group and Chairman of the Trustees of Calthorpe Estates. Age 65.

2 Will Wyatt
Chief Executive
He joined the Caledonia group in 1997 from Close Brothers Corporate Finance, working at Sterling Industries before transferring to Caledonia's head office in 1999 as an investment executive. He was appointed an associate director in 2002, a director in 2005 and Chief Executive in 2010. He is Chairman of the supervisory board of TGE Marine and of Sterling Industries and a non-executive director of Avanti Communications Group, Cobehold, Real Estate Investors and Terrace Hill. Age 45.

3 Stephen King
Finance Director
He joined Caledonia in 2009 as Finance Director. He is currently a non-executive director and Chairman of the Audit Committees of Bristow Group and TT Electronics. He was Group Finance Director of De La Rue from 2003 to 2009 and, prior to that, Group Finance Director of Midland Electricity. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Age 52.

4 Jamie Cayzer-Colvin
Executive Director
He joined the Caledonia group in 1995, initially working at its Amber specialty chemicals subsidiary before becoming an investment executive at Caledonia's head office in 1999. He was appointed an associate director in 2002 and a director in 2005. He is Chairman of The Henderson Smaller Companies Investment Trust and a non-executive director of India Capital Growth Fund and Polar Capital Holdings. Age 48.

5 Charles Allen-Jones
Senior Independent Non-Executive Director
Appointed a non-executive director of Caledonia in 2001, he is Chairman of the Governance Committee and a member of the Audit, Nomination and Remuneration Committees. He was a partner of the international law firm, Linklaters, for 33 years, including five years as Senior Partner until his retirement in 2001. He is currently a non-executive director of Hongkong Land Holdings and Jardine Strategic Holdings and Vice-Chairman of the Council of the Royal College of Art. Age 73.

6 Stuart Bridges
Non-Executive Director
Appointed a non-executive director of Caledonia in January 2013, he is a member of the Audit Committee. A chartered accountant, he has been Chief Financial Officer of Hiscox, the international specialist insurer, since 1999, prior to which he held positions in various financial services companies in the UK and US, including Henderson Global Investors. He is a member of the audit committee of the Institute of Chartered Accountants in England and Wales and of the Prudential Financial and Taxation Committee of the Association of British Insurers. Age 52.

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7 The Hon Charles Cayzer
Non-Executive Director
Having gained experience of merchant banking, commercial banking and corporate and project finance with Baring Brothers, Cayzer Irvine and Cayzer Ltd, he was appointed an executive director of Caledonia in 1985, becoming non-executive in December 2012. He is Chairman of The Sloane Club, Senior Independent Non-Executive Director of LondonMetric Property and a non-executive director of Eredene Capital and Quintain Estates & Development. Age 56.

8 Richard Goblet d'Alviella
Non-Executive Director
A Belgian national, he was appointed a non-executive director of Caledonia in 2005 and is a member of the Audit and Nomination Committees. He is Executive Chairman of Sofina, a quoted Belgian financial holding company, where he has been a board member since 1982, prior to which he was a managing director of the Paine Webber Group with a background in international investment banking in London and New York. He is a non-executive director of Group Danone and Eurazeo, in which Sofina has interests. Age 64.

9 Charles Gregson
Non-Executive Director
Appointed a non-executive director of Caledonia in 2009, he is Chairman of the Remuneration Committee and a member of the Audit, Governance and Nomination Committees. He spent his business career at United Business Media and its predecessor companies in a number of divisional and head office roles and is now Chairman of ICAP, CPPGroup and St James's Place. Age 66.

10 David Thompson
Non-Executive Director
Appointed a non-executive director of Caledonia in 2003, he is Chairman of the Audit Committee and a member of the Governance, Nomination and Remuneration Committees. He is currently Chairman of Marston's, having served as its Managing Director from 1986 to 2001, and is also Chief Executive of Anglia Maltings (Holdings). Age 58.

11 Robert Woods CBE
Non-Executive Director
Appointed a non-executive director of Caledonia in 2011, he is a member of the Governance, Nomination and Remuneration Committees. He spent most of his business career at P&O Steam Navigation Company, joining its main board in 1996 before serving as its Chief Executive from 2004 until its takeover by DP World in 2006. He was a non-executive director of Cathay Pacific Airways from 2006 to 2010 and is currently Chairman of P&O Ferries, Southampton Container Terminal and Tilbury Container Services and a non-executive director of John Swire & Sons. He is also Chairman of the Mission to Seafarers and was awarded the CBE in 2003. Age 66.

Directors' report

The directors present their report and accounts for the year ended 31 March 2013. The Chairman and Chief Executive's report, Investment of Financial reviews, the Directors' remuneration report and the Corporate governance report form part of this report.

Principal activities and results
Caledonia is an investment trust company. A review of the activities of the company, together with the results for the year, is given in the Chairman and Chief Executive's report and the Investment and Financial Reviews, which should be regarded as part of this report. There have been no significant changes in the activities of the company's operating subsidiaries during the year, which principally comprised engineering, chemicals, property, support services, leisure, financial services and investment.

The company has been approved by Her Majesty's Revenue and Customs ('HMRC') as an investment trust company for all relevant financial periods up to 31 March 2012. New tax rules for investment trust companies were introduced for accounting periods beginning on or after 1 January 2012, under which continuing approval may be granted by HMRC, subject to on-going compliance with the required eligibility conditions. HMRC have confirmed Caledonia's status as an investment trust company from 1 April 2012 and the directors are of the opinion that, since that date, the company has satisfied the eligibility conditions for continued approval under section 1158 of the Corporation Tax Act 2010 and associated regulations.

Dividends
An interim dividend of 12.9p per share (2012 – 11.7p) was paid on 10 January 2013 and the board has proposed that a final dividend of 34.3p per share (2012 – 31.2p) be paid on 8 August 2013. This will result in total dividends for the year of 47.2p per share (2012 – 42.9p).

Annual general meeting
The eighty-fourth annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Wednesday, 24 July 2013 at 11.30 am. The notice of the annual general meeting and details of all of the resolutions to be put to shareholders are set out in a separate circular sent to shareholders at the same time as this annual report.

Directors and their interests
The directors of the company are shown on pages 32 and 33. All of the directors served throughout the year, other than Mr S J Bridges, who was appointed on 1 January 2013. Mr J R H Loudon and Mr M E T Davies also served as directors until their retirements from the board on 25 July 2012 and 31 December 2012 respectively.

The interests of the directors and their families in the ordinary share capital of the company as at 31 March 2013 were as follows:

	Beneficial		Non-beneficial	
	2013 No	2012[1] No	2013 No	2012[1] No
R D Kent	–	–	–	–
W P Wyatt[2]	1,015,920	1,014,920	19,093	19,093
S A King	650	650	–	–
J M B Cayzer-Colvin	408,498	408,498	7,053	7,053
C M Allen-Jones	15,273	7,500	–	–
S J Bridges	–	–	–	–
Hon C W Cayzer[2]	40,892	40,892	18,985	23,985
R Goblet d'Alviella	–	–	–	–
C H Gregson	610	610	–	–
D G F Thompson	3,000	3,000	3,000	3,000
R B Woods	2,000	–	–	–

1. Or date of appointment, if later.
2. Mr Wyatt's beneficial interests included 6,485 shares (2012 – 11,845 shares) in which The Hon C W Cayzer had a non-beneficial interest and 920,000 shares (2012 – 914,000) held by The Dunchurch Lodge Stud Company, a private family company controlled by Mr Wyatt and certain of his connected persons. The Hon C W Cayzer's non-beneficial interests included 12,500 shares (2012 – 12,500 shares) in which Mr Wyatt also had a non-beneficial interest.

There have been no changes in the directors' interests shown above notified up to the date of this report.

Details of the directors' options to acquire ordinary shares in the company and awards over ordinary shares under the company's performance share scheme and deferred bonus plans as at 31 March 2013 are set out in the Directors' remuneration report on pages 43 to 50.

Directors' indemnity
Each of the directors has the benefit, under the company's articles of association, of an indemnity, to the extent permitted by the Companies Act 2006, against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the company.

Share capital structure
The company has two classes of share capital – ordinary shares of 5p each and deferred ordinary shares of 5p each.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All voting rights are however suspended in respect of any of the company's shares that are held in treasury or by group companies.

The deferred ordinary shares carry no voting rights and are not redeemable. They carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share, or £4,000 in aggregate, for all such shares currently in issue. The company is required to pay the dividend to the extent that it has distributable profits. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each ordinary share. All of the deferred ordinary shares are held by Sterling Industries PLC, a wholly-owned subsidiary of Caledonia.

At 31 March 2013, 56,222,028 ordinary shares and 8,000,000 deferred ordinary shares were in issue. The ordinary shares therefore represented approximately 88%, and the deferred ordinary shares approximately 12%, of the total issued share capital by nominal value. Of the ordinary shares in issue at 31 March 2013, 3,000 shares were held by a group company. As stated above, all voting rights are suspended on these shares.

During the year, the company purchased and cancelled 1,136,773 ordinary shares at a total cost of £18.0m. Since the year end, an additional 121,011 ordinary shares have been purchased and cancelled at a total cost of £2.2m. The company's issued share capital after these transactions, as at 29 May 2013, being the latest practicable date prior to signature of these accounts, was 56,101,017 ordinary shares and 8,000,000 deferred ordinary shares.

Restrictions on the transfer of shares
There are no specific restrictions on the transfer of the company's shares, although the articles of association contain provisions whereby the directors may refuse to register a transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in the share from taking place on an open and proper basis. The directors may also refuse to register the transfer of a certificated share unless it is (a) lodged, duly stamped, at the registered office or at such other place as the directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; (b) in respect of only one class of shares; and (c) in favour of not more than four transferees.

The directors may refuse to register a transfer of shares if a shareholder has not supplied information to the company in default of a request duly served under section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned.

Substantial interests
As at 31 March 2013, the following had notified the company that they held 3% or more of the voting rights of the company:

	Number of voting rights	Percentage of voting rights
The Cayzer Trust Company Ltd	19,608,252	34.9%
Rebelco S.A.[1]	2,847,344	5.1%

1. Rebelco S.A. is a wholly-owned subsidiary of Sofina S.A.

There have been no changes in the substantial interests notified to the company up to the date of this report.

Employee share trust
The Caledonia Investments plc Employee Share Trust acquires and holds ordinary shares in the company for subsequent transfer to employees exercising options under the company's executive share option schemes and under the performance share scheme or calling for awards vesting under the company's deferred bonus plans. The voting rights of shares held by the trust are exercisable by the independent trustee. The trustee has also waived all dividends payable in respect of the ordinary shares held by the trust, except to the extent of 0.0001% of such dividends. At 31 March 2013, the trust held 342,183 ordinary shares.

Restrictions on voting rights
The directors may direct that a shareholder shall not be entitled to attend and vote either personally or by proxy or exercise any other right conferred by membership in relation to general meetings of the company in respect of some or all of the shares held by him, if he or any person with an interest in such shares has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period in supplying to the company the information required or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular.

Agreements which may restrict the transfer of shares or exercise of voting rights
The company is not aware of any arrangements which may restrict the transfer of any of its shares or the exercise of any voting rights.

Appointment and removal of directors and the articles of association
The appointment and removal of directors is governed by the company's articles of association and prevailing company law.

The articles of association provide that at every annual general meeting one-third of the directors, or if not a multiple of three, the number nearest to one-third, shall retire by rotation and therefore be required to seek re-election by shareholders. New directors may be appointed by the board, but are subject to election by shareholders at the next annual general meeting of the company following their appointment. However, to comply with the provisions of The UK Corporate Governance Code, the company requires that all directors should be subject to annual election by shareholders. Shareholders may also appoint new directors by ordinary resolution. The articles of association limit the number of directors to not less than two and not more than twelve, unless the shareholders resolve otherwise.

A director may be removed from office if requested to resign by not less than three-quarters of the other directors or by an ordinary resolution of the shareholders.

Any amendment of the articles of association requires the approval of shareholders by a special resolution.

Authority to allot and purchase shares
At the annual general meeting of the company held on 25 July 2012, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £954,305, representing approximately one-third of the ordinary share capital then in issue, with authority to allot additional ordinary shares up to a nominal value of £954,305, representing approximately a further one-third of the issued ordinary share capital then in issue, by way of pre-emptive rights issues only, in accordance with guidance issued by the Association of British Insurers. The directors were further authorised to issue ordinary shares up to a nominal amount of £143,145 other than pro rata to existing ordinary shareholders. These authorities last until 25 October 2013 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 25 July 2012, shareholders also granted authority for the company to make market purchases of up to 5,725,830 of its own ordinary shares, being approximately 10% of the ordinary share capital then in issue, at a price not more than the higher of (a) 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase; and (b) the higher of (i) the price of the last independent trade in such ordinary shares; and (ii) the highest current independent bid relating thereto on the trading venue where the purchase is carried out, nor at a price less than 5p, being the nominal value of an ordinary share. This authority lasts until 25 October 2013 or, if earlier, the conclusion of the next annual general meeting. At the same time, shareholders who were not members of the Cayzer family concert party ('Cayzer Concert Party') gave their approval for a waiver by the Panel on Takeovers and Mergers of the obligation that could arise on the Cayzer Concert Party under Rule 9 of the City Code on Takeovers and Mergers to make a general offer for Caledonia on the implementation by the company of the above authority to purchase its own shares. The approval was subject to the maximum percentage of voting rights in which the Cayzer Concert Party is interested not exceeding 49.9% as a result of purchases by the company. This waiver expires on 25 October 2013 or, if earlier, the conclusion of the next annual general meeting.

Directors' report continued

Change of control rights
There are no special control rights in relation to the company's shares.

Options granted under the company's executive share option schemes, awards made under its performance share scheme and awards made under its deferred bonus plans may become exercisable or vest as a result of a change of control, although the number of shares comprised in those options or awards may be reduced. The service contracts of certain directors and associate directors also contain provisions whereby a liquidated sum is payable by the company in the event of termination within one year following a change of control. Any such liquidated sum would be equivalent to no more than one year's total emoluments.

Customers and suppliers
The group's policy in relation to all of its suppliers is to settle the terms of payment when agreeing the terms of the transaction. The group will abide by those terms on condition that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The group does not follow any code or statement on payment practice.

Statement of directors' responsibilities in respect of the annual report and the financial statements
The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRSs as adopted by the EU
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance report that comply with that law and those regulations.

Going concern
The company's and group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman and Chief Executive's report on pages 3 to 5 and the Investment review on pages 6 to 9. The financial position of the company and group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 26 and 27. In addition, note 21 to the financial statements includes the company's and group's objectives, policies and processes for managing capital, financial risk management objectives, details of financial instruments and hedging activities, and exposures to currency risk, interest rate risk, price risk, credit risk and liquidity risk.

The company and group have cash resources and committed bank facilities available to meet existing and new investment commitments. As a consequence, the directors believe that the company and group are well placed to manage business risks successfully.

The directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditor
KPMG Audit Plc has advised the board that it has instigated an orderly wind down of its business and has therefore requested that the audit of the Caledonia group in future be undertaken by its parent entity KPMG LLP. Resolutions will therefore be proposed at the annual general meeting to appoint KPMG LLP as auditor of the company in place of KPMG Audit Plc and to authorise the directors to agree the auditor's remuneration. A description of how the Audit Committee ensures the objectivity and independence of the auditor is set out on page 39 within the Corporate governance report.

The directors who held office at the date of approval of this Directors' report confirm that, so far as each is aware, there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board
Graeme Denison
Secretary
30 May 2013

Registered office:
Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Registered in England no 235481

Directors' statement of responsibility

We confirm that, to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Signed on behalf of the board by:

Will Wyatt
Chief Executive
30 May 2013

Stephen King
Finance Director
30 May 2013

Corporate governance report

Statement of compliance

The board recognises the importance of good corporate governance and this report describes how the company has complied with The UK Corporate Governance Code issued in June 2010.

Shareholders registered on the company's New Zealand branch register should note that the principles of good corporate governance set out in The UK Corporate Governance Code may differ materially from the New Zealand Exchange Ltd's corporate governance rules and the principles of its Corporate Governance Best Practice Code.

A copy of The UK Corporate Governance Code is available on the website of the Financial Reporting Council at www.frc.org.uk/our-work/publications/corporate-governance/the-uk-corporate-governance-code.aspx.

The board

Overall responsibility and operation

The board as a whole is collectively responsible for the success of the company and for supervising its affairs. It sets the company's strategy, ensures that the necessary financial and human resources are in place to enable the company to meet its objectives and reviews management performance. It also sets the company's values and standards and ensures that its obligations to its shareholders and others are understood and met. It aims to provide leadership of the company within a framework of prudent and effective controls, which enables risk to be assessed and appropriately managed.

To assist its operation, the board has adopted a Schedule of Authorities which sets out those matters which it specifically reserves for its own decision and those which are delegated to board committees and to executive management. Matters reserved for the board's own decision include the following:

- the appointment and removal of directors of the company, as prescribed by the company's articles of association, and of certain senior executive positions
- the terms of reference of board committees and the membership thereof
- the company's strategy
- annual budgets
- the company's systems of risk management and internal control
- treasury policies, banking counterparties and counterparty exposure limits
- policy on executive directors' remuneration and terms of appointment of non-executive directors
- significant capital transactions
- charitable donations and political donations.

The roles of the Chairman and the Chief Executive are separated and clearly defined in the Schedule of Authorities. The Chairman is primarily responsible for the leadership of the board and for ensuring that it carries out its role effectively and the Chief Executive for the implementation of the board's strategy and policies and the management of the company's activities, other than those matters specifically reserved to the board. The Schedule of Authorities is reviewed annually by the board.

All directors receive detailed papers in advance of board meetings to enable them to discharge their duties and also have unlimited access to senior management should further information be required. Presentations by senior executives of investee companies and external economic commentators may also be arranged periodically to enable the board, and the non-executive directors in particular, to gain a closer understanding of some of the company's significant investments and to assess macroeconomic trends which may affect the company's business and strategy.

Appointment, induction and training

The company complies with the recommendation of The UK Corporate Governance Code that all directors of FTSE 350 companies should be subject to annual election by shareholders.

On appointment, new directors are offered induction and training considered appropriate by the board and subsequently as necessary, and the annual performance evaluation of the board encompasses the identification of any individual training needs of board members so that these can be reviewed with the Chairman. The directors receive briefings at board meetings on regulatory and other issues relevant to the company and its business sector and, in addition, may attend external courses to assist in their professional development.

Board composition

The biographies of the directors appear on pages 32 and 33.

The board currently comprises eleven directors. Excluding the Chairman, three of the directors are executive and seven are non-executive. The board considers all of the non-executive directors to be independent, other than The Hon C W Cayzer, who was an executive director until 3 December 2012. In assessing Mr Goblet d'Alviella's independence, the board took account of his position as Executive Chairman of Sofina S.A., whose wholly-owned subsidiary, Rebelco S.A., has a 5.1% shareholding in Caledonia. Mr Goblet d'Alviella's position at Sofina has not given rise to any conflicts of interest and his circumstances very much accord with the importance that Caledonia attaches to its own executives having board positions at, or close contact with, investee companies. Mr Allen-Jones and Mr Thompson have both served as non-executive directors for more than nine years. The board has specifically considered each of these non-executive directors' independence in the context of The UK Corporate Governance Code and does not believe that their status is compromised simply by length of service. Rather, the experience, character and conduct of each director are the board's determinants of their independence. Mr Thompson will in any event be retiring from the board at the annual general meeting on 24 July 2013.

Board committees

The board has delegated certain specific areas of responsibility to the following standing committees: the Nomination Committee, the Remuneration Committee, the Audit Committee, and the Governance Committee.

The terms of reference of each committee are reviewed annually and are available on the company's website. The current membership of these committees is noted on page 81. The membership of these committees has remained unchanged throughout the year, other than that Mr Bridges was appointed a member of the Audit Committee on joining the board on 1 January 2013 and Mr Goblet d'Alviella was appointed a member of the Nomination Committee on 19 September 2012, at which time Mr Kent also ceased to be a member of the Governance Committee. Mr Gregson assumed the chairmanship of the Remuneration Committee from Mr Davies on 21 November 2012, prior to the latter's retirement from the board on 31 December 2012.

Nomination Committee

The Nomination Committee, chaired by Mr Kent, is responsible for the regular review of the structure, size and composition (including the skills, knowledge, experience and diversity) of the board and for giving consideration to succession planning for directors and, if requested by the board, for other senior executives. It is responsible for identifying, using external search consultants where necessary, candidates to fill board vacancies as and when they arise, for making recommendations to the board in relation thereto and for keeping under review the leadership needs of the company, both executive and non-executive.

The Nomination Committee also reviews the time required of the non-executive directors and ensures that they receive formal letters of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Nomination Committee met five times during the year and the principal business undertaken included:

- the recommendation to the board that Mr Kent be appointed Chairman following the retirement of Mr Loudon
- consideration of, and a recommendation to the board regarding, the independence of Mr Thompson in the context of his having served more than nine years as a director
- a formal review of the size and composition of the board following the 2012 annual board performance evaluation
- consideration of the contributions of the non-executive directors seeking election or re-election at the 2012 annual general meeting, prior to giving recommendations for their elections or re-elections
- the conduct of a search for an additional independent non-executive director, concluding with the recommendation to the board that Mr Bridges be appointed
- recommendations to the board on changes to the chairmanship or membership of the Audit, Governance, Nomination and Remuneration Committees, as detailed above.

The Nomination Committee engaged Odgers Berndtson to assist in the search for an additional independent non-executive director, which culminated in the appointment of Mr Bridges. Odgers Berndtson has no other connection with the company.

Remuneration Committee

The Remuneration Committee, chaired by Mr Gregson, is responsible for the review of executive remuneration policy. Within that policy, the Remuneration Committee determines the remuneration packages of executive directors and reviews those of other senior executives and also determines the fee of the Chairman. It is also responsible for the design of, and grant of awards under, the company's share incentive schemes and for the determination of the policy for, and scope of, pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, for other senior executives.

The Remuneration Committee met four times during the year. The business undertaken by the Remuneration Committee included:

- the approval of bonus awards for the year ended 31 March 2012 for executive directors and other senior executives
- the determination of the fee payable to Mr Kent on his appointment as Chairman
- the approval of the 2012 Directors' remuneration report
- the grant of awards under the 2011 performance share scheme and 2011 deferred bonus plan
- the approval of the terms of the termination of The Hon C W Cayzer's service agreement
- the determination of the fee of the Chairman and basic salaries for the executive directors and review of salaries for other senior executives for the year ending 31 March 2014.

Further information on the company's executive remuneration policy and the work of the Remuneration Committee is included in the Directors' remuneration report set out on pages 43 to 50.

Audit Committee

The Audit Committee, chaired by Mr Thompson, is responsible for the monitoring of the integrity of the financial statements of the company and any announcements relating to the company's financial performance and for reviewing any significant financial reporting judgements contained therein. It also reviews the company's systems of internal control and risk management procedures and considers annually whether an internal audit function is required. The Audit Committee believes that, in the context of the company's business as an investment trust company, the key issues on which it has to satisfy itself are the integrity of the application of the company's policy for the valuation of its investments, particularly those which are unlisted, and the robustness of the company's risk management and internal controls.

The valuations of the company's unlisted investments are subject to formal six monthly reviews by the Valuation Committee. The Audit Committee then selects a number of valuations for specific review. Risks facing the company are analysed under four broad headings – business risk, investment risk, financial risk and controls assurance. Business risk is monitored through a risk dashboard which identifies key operational, market and strategic risks, the controls and monitoring procedures in place to mitigate them and any outstanding actions required. Measurement of investment risk focuses on volatility risk and concentration risk, including an assessment of value at risk of the investment portfolio and movements since the previous report. Financial risk is monitored through analysis of performance risk, currency risk, liquidity risk, investment gearing risk and dividend cover. A controls assurance programme, undertaken by the Risk Manager, provides a rolling audit of the company's key operational systems and procedures. Reports on risk are presented to the Audit Committee and the board every six months. It is the Audit Committee's current opinion that, in view of these control processes, the size of the entities controlled by Caledonia and the relatively straightforward control considerations in relation to other investments, a separate internal audit function is not necessary.

It is also the Audit Committee's responsibility to review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit process and to develop and implement a policy on the engagement of the external auditor to supply non-audit services. In this regard, the Audit Committee has approved a schedule of specific non-audit activities which may not be undertaken by the external auditor, within the broad principles that the external auditor should not audit its own work, should not make management decisions on behalf of the company, should not be put into the role of advocate for the company and that no mutuality of interest should be created between the company and the external auditor. The Audit Committee believes that, by applying these principles, the objectivity and independence of the auditor is maintained, notwithstanding that non-audit work may be undertaken. The Audit Committee considers the appointment, re-appointment or removal of the external auditor and makes recommendations to the board where necessary in relation to these matters. The Audit Committee is also responsible for the company's formal whistle blowing arrangements, whereby members of staff may raise any issues of concern regarding possible impropriety in the conduct of the company's business and whereby any such concerns are properly investigated and appropriate action taken.

The UK Corporate Governance Code recommends that at least one member of the Audit Committee should have recent and relevant financial experience and the Financial Conduct Authority's Disclosure Rules and Transparency Rules similarly require that one member should have competence in accounting and/or auditing. Mr Bridges is a chartered accountant and, as Chief Financial Officer of Hiscox and a member of the audit

Corporate governance report continued

committee of the Institute of Chartered Accountants in England and Wales and of the Prudential Financial and Taxation Committee of the Association of British Insurers, has, in the opinion of the Audit Committee, the relevant financial experience and competence specified by The UK Corporate Governance Code and the Disclosure Rules and Transparency Rules. The Audit Committee also considers that Mr Allen-Jones has met these requirements given his extensive involvement in financial transactions as a corporate lawyer and that he was previously a member of the Financial Reporting Council and the Financial Reporting Review Panel.

The Audit Committee held three meetings during the year, each of which included a discussion with the auditor without any of the executive directors present. During the year, the business undertaken by the Audit Committee included:

- scrutiny of valuations of unlisted investments selected by the Audit Committee following the half-year and full-year Valuation Committee meetings
- consideration of the reports from the external auditor concerning its audit of the 2012 annual financial statements of the company and its review of the 2012 half-year report
- consideration of the financial disclosures contained in the 2012 annual and half-year reports to shareholders and financial reporting issues for the 2012 annual report
- a review of the company's policy for the allocation of expenses between revenue and capital
- consideration of financial reporting issues relating to the 2013 annual report and the scope of the 2013 annual audit, including agreement with the external auditor on the key areas of focus
- the review of six monthly reports from the company's Finance Director and Risk Manager on business risks and controls assurance
- consideration of financial reporting issues relating to the 2013 annual report and the need or otherwise for an internal audit function
- a review of the independence and objectivity of the external auditor, including a review of the audit and non-audit fees for services provided to the group
- an evaluation of the performance of the Audit Committee itself including a review of its role and responsibilities
- assurance of the company's compliance with the requirements for approval as an investment trust.

Governance Committee

The Governance Committee, chaired by Mr Allen-Jones, keeps under review corporate governance issues relating to the company and is responsible for the monitoring and review of the ability of each director to act in the interests of shareholders as a whole and to exercise independence of judgement free from relationships or circumstances which are likely to, or could appear to, affect his judgement. The Governance Committee also reviews conflict or potential conflict situations relating to directors which may require the prior authorisation of the board under the Companies Act 2006 and makes recommendations to the board as to whether such conflict or potential conflict situations should be authorised and, if so, whether any conditions, such as duration or scope of the authority, should be attached. The Governance Committee reviews annually all authorisations previously granted by the board to ensure that they remain appropriate. If the Governance Committee believes that a director may be subject to a conflict of interest which may prejudice his ability to exercise independence of judgement, it may make such recommendations to the board as it may think fit, including that the director abstains from participating in any decision of the board or any of its committees on the matter concerned.

The Governance Committee met three times during the year, and the principal matters it considered included:

- the review and approval of the Corporate governance report for the year ended 31 March 2012
- the review of potential conflict situations notified by directors in accordance with the Companies Act 2006 and the making of recommendations to the board in relation thereto
- consideration of the influence of the Cayzer Concert Party on Caledonia's board and whether it was in the general interest of the non-Cayzer Concert Party shareholders, with the conclusion that it was
- approval of the terms of the proposed sale of the Ocean Dial group to a joint venture comprising a majority third party investor and Ocean Dial's management
- approval of the terms of the proposed sale of certain artworks and memorabilia owned by Caledonia, the total value of which has been assessed by three external valuers at some £0.5m, at fair market value, to the Cayzer Family Archive, a charitable foundation established to preserve an historical archive of the Cayzer family and its heritage in shipping.

Attendance at board and board committee meetings

The following table identifies the number of board and committee meetings held in the year to 31 March 2013 and the attendance record of individual directors.

		Committees			
	Board	Nomination	Remuneration	Audit	Governance
Number of meetings	8[1]	5	4	3	3
Attendance by					
R D Kent[2]	8	5	–	–	1
W P Wyatt	8	–	–	–	–
S A King	8	–	–	–	–
J M B Cayzer-Colvin	8	–	–	–	–
C M Allen-Jones	7	4	4	3	3
S J Bridges[3]	2	–	–	–	–
Hon C W Cayzer	7	–	–	–	–
R Goblet d'Alviella[4]	8	1	–	3	–
C H Gregson	8	3	4	3	3
D G F Thompson	8	4	4	3	3
R B Woods	8	3	4	–	–
J R H Loudon[5]	3	2	–	–	–
M E T Davies[6]	6	5	3	–	2

1. Scheduled board meetings.
2. Mr Kent was only a member of the Governance Committee for one of its meetings during the year.
3. Mr Bridges was appointed as a director on 1 January 2013 and attended all board meetings held after that date, although was unable to attend the one meeting of the Audit Committee held after his appointment.
4. Mr Goblet d'Alviella was appointed a member of the Nomination Committee on 19 September 2012 and attended all meetings of this committee held after that date.
5. Mr Loudon retired from the board on 25 July 2012 but attended all meetings of the board and the Nomination Committee held prior to that date.
6. Mr Davies retired from the board on 31 December 2012 but attended all meetings of the board and the Governance, Nomination and Remuneration Committees held prior to that date.

Other committees

Various other committees have been established with responsibility for specific areas of the company's activities, other than matters reserved to the board as a whole, as follows:

Administrative Committee

The Administrative Committee of the board has been established to deal with administrative matters of a routine nature requiring board approval or matters which are reserved for the board, but for which full board approval has already been given in principle.

The Administrative Committee meets when required and is comprised of any two directors.

Executive Committee
The Executive Committee meets when required and is responsible for matters relating to the day to day management of the company's business, other than where delegated to other committees. It is chaired by the Chief Executive and attended by the Chairman, the executive directors, the heads of the pools of capital and the Company Secretary.

Investment Management Committee
The Investment Management Committee meets weekly and considers matters relating to the company's investment portfolio and monitors the company's cash requirements and its net asset value per share performance. The Investment Management Committee is chaired by the Chief Executive and is attended by the entire investment team, the Company Secretary and the Deputy Company Secretary.

Investment Approvals Committee
The Investment Approvals Committee considers and formally approves new investments and proposed realisations. This committee meets when required, is chaired by the Chief Executive and is attended by the Chairman, the executive directors, the heads of the pools of capital and the Company Secretary.

Compliance Committee
The Compliance Committee meets weekly to monitor the company's on-going compliance with the requirements for investment trust status and to approve all investment activity from an investment trust compliance perspective. It also monitors the potential impact of legal and regulatory developments. The Compliance Committee is chaired by the Company Secretary and attended by the Finance Director, the group heads of tax, treasury and finance, the Group Financial Controller/Risk Manager and the Deputy Company Secretary.

Valuation Committee
The Valuation Committee formally reviews valuations of all of the company's unquoted investments at each half-year and full-year. It is chaired by the Chief Executive and attended by the Finance Director, the head of finance, the Chairman of the Audit Committee and observed by representatives from KPMG Audit Plc.

Board performance evaluation
The board conducts an annual formal evaluation of its performance and that of its committees and individual directors. For the year ended 31 March 2013, the evaluation of the board as a whole and of its committees was led by the Chairman and was conducted by inviting individual board members to complete questionnaires regarding the operation and effectiveness of the board as a whole and of its committees, the responses from which were collated by the Company Secretary and discussed. The evaluation of the performance of the Chairman was led by the Senior Independent Non-Executive Director and involved individual private discussions with all other members of the board on his performance, the results of which were then considered by the non-executive directors, without the Chairman present. The performance of the non-executive directors was reviewed by the Chairman, the Chief Executive and the Senior Independent Non-Executive Director, with the Senior Independent Non-Executive Director absent in respect of his own performance appraisal. The evaluation of the performance of the Chief Executive was undertaken by the Chairman and the non-executive directors. The performance of the other executive directors was reviewed by the Chairman, Chief Executive and non-executive directors and the performance of all of the executive directors was also separately considered by the Remuneration Committee as part of the annual executive salary review process.

The results of the evaluation of the board as a whole and of its committees for the year ended 31 March 2013 were presented in a report to the board. No material points of concern arose from the evaluation process, although it was considered that greater visibility of investment opportunities in the pipeline and those which had been rejected after detailed appraisal would be informative for the non-executive directors. Non-executive directors were also encouraged to attend occasionally the meetings of the Investment Management Committee and Investment Approvals Committee in order to see at first hand the dynamics of the company's investment processes. The Nomination Committee reviewed the size, structure and composition of the board in the light of the report to the board.

Directors' conflicts of interest
Each director has a duty under the Companies Act 2006 to avoid a situation where he has, or could have, a direct or indirect interest which conflicts, or may possibly conflict, with the company's interests. The Companies Act 2006 however allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are safeguards in the company's articles which apply when the directors decide whether to authorise a conflict or potential conflict of interest. First, only independent directors, being those who have no interest in the matter being considered, are able to take the relevant decision and, second, in taking the decision, the directors must act in a way which they consider, in good faith, will be most likely to promote the success of the company. The directors are able to impose time limits or conditions when giving authorisations if they think this is appropriate.

The board has adopted procedures to address the requirements of the Companies Act 2006 in relation to directors' conflicts of interest. Each director is required to declare any potential conflict situation which may relate to him or his connected persons. If necessary, these are reviewed by the Governance Committee (with each member taking no part in the consideration of his own declaration, if relevant), which then puts forward recommendations to the board as to whether these situations should be authorised and, if so, whether any conditions to such authority should be attached. The board then considers and, if appropriate, approves these recommendations, again with each director taking no part in relation to his own potential conflict situations.

Each board meeting includes a standing agenda item on conflicts of interest to ensure that directors disclose any new potential conflict situation. These are then reviewed, if necessary also by the Governance Committee, and authorised by the board as appropriate. A register of directors' conflicts of interest is maintained by the Company Secretary and reviewed annually by the Governance Committee.

Internal control
The board has responsibility for risk management and internal control, although the detailed review is delegated to the Audit Committee. The system of internal control is designed to identify, assess and mitigate risk. The board confirms that the system of internal control operated by the group accords with the Turnbull Guidance 2005, has been in place throughout the year and up to the date of approval of these financial statements and has been reviewed by the board.

The board monitors risk by reviewing and discussing a risk report, compiled by the Risk Manager after consultation with the Investment Management Committee and approved by the Finance Director. This report is formally presented to the board every six months, with quarterly updates as required.

Corporate governance report continued

The report focuses on four distinct areas – investment risk, financial risk, business risk and controls assurance. Business risk is reviewed in greater detail through the maintenance of a risk dashboard. This details the principal risks facing the group, after consultation with executives, and describes the impact, likelihood and mitigation procedures put in place. Completed actions are noted and updates clearly identified. Each risk is given a target score and an actual risk factor assessed on its likelihood and impact in order to give an indication of the level of a particular risk on an on-going basis.

Caledonia's system of internal controls is typical of an investment company, with segregation of duties surrounding the processing and approval of financial data and payments. Internal reporting is structured to provide management with the key information for quick and effective decision making. External reporting is extensively reviewed before release. Committee review of investment activity ensures transactions are in accordance with strategy, meet internal guidelines and do not give rise to any unforeseen issues. A controls assurance programme has been operational and has reviewed and reported on a number of internal control procedures.

Subsidiaries and key investments, defined as those investments in which Caledonia is the principal investor, maintain their own risk registers, which are reviewed by the relevant investment manager. All these investments are within the Unquoted pool, which has recruited additional resource to increase supervision.

All of the company's investments are reviewed at least annually – significant investments by the board and the smaller portfolio holdings by the Investment Management Committee. These reports include an update on the risks facing the investment and how these are being managed. The Risk Manager produces reports for the Audit Committee on specific risk areas as and when requested.

New tax rules for investment trust companies were introduced for accounting periods beginning on or after 1 January 2012, which provide for continuing approval subject to satisfaction of on-going eligibility conditions. The Compliance Committee monitors compliance with these rules and updates the board as appropriate.

Financial performance is measured and reported weekly. Performance statistics are reported monthly to the board. Income and expenses are monitored by the board against an approved annual budget and regularly updated forecasts. Valuations of unlisted investments are subject to a rigorous six monthly review process undertaken by the Valuation Committee and selected valuations are then reviewed by the Audit Committee. All members of the board are provided with a copy of the valuations and supporting materials for all of the unquoted investments. All new investment activity and proposed disposals are subject to formal approval by the Investment Approvals Committee.

Since the year end, the directors have concluded their annual review of the operation and effectiveness of the group's system of internal control. No material control failings or weaknesses were identified.

Relations with shareholders

The company welcomes dialogue with investors in order to achieve a mutual understanding of objectives. The Chief Executive and the Finance Director regularly hold meetings with institutional investors, private client stockbrokers and fund managers. The Senior Independent Non-Executive Director is also available to attend some of these meetings. Any views put forward by shareholders are reported back to the board, which periodically also receives presentations from Caledonia's brokers on shareholder feedback and the general market perception of the company. In addition, the annual general meeting provides a forum for shareholders to meet the directors, both formally and informally.

The Chairmen of all of the board's committees will be available to answer questions at the annual general meeting.

Directors' remuneration report

This report has been prepared in accordance with Part 15 of the Companies Act 2006 and related regulations. The statements below on directors' remuneration and emoluments, deferred share awards, pensions, share options, performance share scheme awards and payment to a former director, have been audited.

The Remuneration Committee
The Remuneration Committee is a standing committee of the board whose current members are Mr Gregson (Chairman), Mr Allen-Jones, Mr Thompson and Mr Woods, all of whom served throughout the year. Mr Davies also served as Chairman or a member of the committee until his retirement from the board on 31 December 2012.

The Remuneration Committee, whose written terms of reference are published on the company's website, has been established for the following purposes:

- to determine and agree with the board the framework and broad policy for the remuneration of the executive directors and such other members of the executive management as it is requested by the board to consider and to review the on-going appropriateness and relevance of the remuneration policy
- to approve the design of, and determine targets for, any performance related pay schemes operated by the company and to approve the total annual payments made under such schemes
- to review the design of all share incentive plans for approval by the board and shareholders and, for any such plans, to determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used
- within the terms of the agreed policy, to determine the total individual remuneration packages of each executive director and, if requested by the board, other senior executives, including, where appropriate, bonuses, incentive payments, share options and other awards
- to determine the policy for, and scope of, pension arrangements, service agreements, termination payments and compensation commitments for executive directors and, if requested by the board, other senior executives
- to review and assess annually the remuneration trends across the group.

The Remuneration Committee also determines the fees of the Chairman.

During the year, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer, who are the company's main legal advisers, in relation to various employment related matters. The Remuneration Committee also consulted with the Chairman and the Chief Executive in relation to the remuneration of the executive directors and internal support was provided to the Remuneration Committee by the Company Secretary.

Remuneration policy for executive directors
The Remuneration Committee has adopted a remuneration policy with the following objectives:

- remuneration packages for executive directors should be linked to the company's long term performance and in line with its business strategy
- performance related remuneration should seek to align the interests of the executive directors with those of the shareholders
- a significant portion of the executive directors' remuneration packages should be linked to the performance of the company
- remuneration packages for the executive directors should be competitive, but not excessive, in terms of market practice, in order to attract, retain and motivate executive directors of the quality needed to manage and grow the company successfully.

In order to align further the interests of the executive directors with those of shareholders, the Remuneration Committee has adopted guidelines for minimum shareholdings which executive directors will be expected to attain over a reasonable period of time. For these purposes, shareholdings include the value to executive directors, net of associated income tax and national insurance, of options granted under the company's executive share option schemes and awards granted under its performance share scheme for which the performance targets have been met and also bonuses deferred into shares, both compulsorily and voluntarily, under the company's deferred bonus plans. For the Chief Executive, the minimum guideline shareholding has been set at a value of 200% of basic salary and for other executive directors 150% of basic salary. The current shareholdings of all of the executive directors meet these guidelines, other than of Mr King, who joined the company in December 2009 and has yet to attain the minimum shareholding.

In determining executive directors' remuneration, consideration is given to matters specific to the company, such as the performance of its net asset value ('NAV') per share on a total return basis, both in absolute terms and as measured against external benchmarks, to the experience and performance of individual directors and to their areas of responsibility. The Remuneration Committee also gives consideration to a report prepared by the Company Secretary on pay and employment conditions through the Caledonia group, although, given that Caledonia's trading subsidiaries operate in a number of diverse industries and geographical locations using both skilled and unskilled workforces, the executive directors' pay is principally set by the Remuneration Committee in the context of that of Caledonia's head office staff. Comparable external market data is also taken into account as a point of reference to determine appropriate remuneration packages for specific roles.

In July 2012, the Department of Business, Innovation and Skills announced new proposals which will grant shareholders of UK incorporated listed companies enhanced rights and greater transparency in relation to directors' remuneration. Final regulations have yet to be published, but it is expected that the new regime will apply for directors' remuneration reports for financial years ending after 1 October 2013. Under the new regime, companies will have to publish a forward looking report on pay policy, which will be subject to a binding shareholder vote. The Remuneration Committee will be reviewing Caledonia's policies on directors' pay in the light of the new requirements and will present its policy report for approval of shareholders at the 2014 annual general meeting.

Policy on individual components of executive directors' remuneration

Basic salary
Basic salary is determined by the Remuneration Committee by reference to the experience and responsibilities of the director concerned and taking into account external market research. The company's policy is to pay salaries and other benefits which are competitive, but not excessive, in relation to the marketplace.

Benefits
The company provides a range of benefits, including cash allowances in lieu of company cars, life insurance, permanent health insurance and private medical cover.

Bonus
The company operates a discretionary annual bonus scheme for executive directors, which takes into account both the performance of individual directors and the performance of the

Directors' remuneration report continued

company. At the determination of the Remuneration Committee, and subject to the compulsory deferral provisions of the company's deferred bonus plans, bonuses may either be paid in cash or as employer contributions to registered pension schemes.

The maximum potential bonus that may currently be awarded is 100% of basic salary. For the Chief Executive and the Finance Director, a maximum of 50% of basic salary is determined by reference to the company's performance and 50% by reference to individual performance. For executive directors responsible for a specific pool of capital, a significant proportion of bonus is linked to the performance and objectives of their individual pool. For these directors, the maximum potential bonus of 100% of basic salary is determined as to 25% by reference to the company's performance, 60% to pool performance and objectives and 15% to individual performance. In all cases, the company performance related element of bonus is determined by reference to the performance of the company's diluted NAV per share on a total return basis compared with that of the FTSE All-Share Total Return index over the financial year. Bonus payments commence if the performance of the company's NAV per share matches that of the FTSE All-Share index, increasing incrementally to the maximum entitlement payable if NAV per share outperforms the FTSE All-Share index by 6% or more. Pool performance is measured by reference to pool specific benchmark indices and objectives and individual performance by reference to personal objectives set at the start of the financial year, including non-financial measures such as marketing of the company, team leadership and promotion of Caledonia's corporate culture both internally and externally.

In view of the board's decision, as described in the Chairman and Chief Executive's report, to cease using the FTSE All-Share Total Return index as a one-year benchmark to measure performance, for the financial year ending 31 March 2014 and future years, the Remuneration Committee intends to change the existing bonus arrangements by adopting the relative performance of the company's diluted NAV per share on a total return basis against the Retail Prices Index ('RPI') as the measure of the company performance related element. For the year ending 31 March 2014, bonus payments will commence if the performance of the company's NAV per share matches that of RPI, increasing incrementally to the maximum entitlement payable if NAV per share outperforms RPI by 7% or more. On this basis, executives will be rewarded to the extent that they deliver positive real returns for shareholders. The Remuneration Committee will review the rate of increase in RPI at the start of each subsequent financial year and may adjust the level of outperformance required for the incremental and maximum bonus payments, if appropriate, in order to ensure that they remain a fair measure of performance.

All bonus payments are subject to the overriding discretion of the Remuneration Committee, which may reduce the amount of bonus payable, for example where NAV per share has reduced over the financial year, or increase it, for example if the amount produced by a formulaic calculation does not represent a fair reflection of an executive's performance or to take account of factors such as portfolio income or overall market conditions. In exceptional circumstances, the Remuneration Committee may also award bonuses outside the terms of the annual bonus scheme. No bonus payments are pensionable.

Deferral of bonus

The company's bonus arrangements are designed to align the interests of directors with those of shareholders and to encourage retention by requiring, in the Remuneration Committee's absolute discretion, that a proportion of any bonus paid to a director is compulsorily invested in shares under the company's deferred bonus plans. The Remuneration Committee's current policy is that any annual bonus paid, the amount of which is above 50% of a director's basic salary for the financial year to which the bonus relates, must be so compulsorily invested. Shares derived from the compulsory deferral of bonus are matched on a one for one basis, the vesting of which is subject to the satisfaction of performance conditions over a period of three years.

In addition, the deferred bonus plans entitle directors to convert voluntarily a proportion of any remaining cash bonus to an entitlement to shares. The Remuneration Committee's current policy is that up to half of any bonus not subject to compulsory deferral may be voluntarily converted into shares. The shares awarded for voluntary bonus deferral are also eligible for matching, on a one for one basis, the vesting of which is subject to the satisfaction of performance conditions over a period of three years. Further details of the company's deferred bonus plans and awards made to executive directors thereunder are set out on pages 46 and 47.

Pensions

The company's policy on pensions is to pay a fixed percentage of basic salary as employer contributions into either the Caledonia Group Personal Pension Plan ('GPPP') or other personal pension arrangements established by individual directors or, alternatively, a cash supplement in lieu of all or part of their pension contributions. If the cash supplement is chosen, the fixed percentage is reduced by such amount as is necessary to ensure that the cash payment is cost neutral for the company after taking into account the company's National Insurance contributions. The percentage of basic salary for the year ended 31 March 2013 was 22.5% for Mr Wyatt and 17.5% for Mr Cayzer-Colvin and Mr King.

For the portion of the year for which he was an executive director, The Hon C W Cayzer was an active member of the Caledonia Pension Scheme, a defined benefits scheme which is now closed to new members. The scheme provides a pension of up to two-thirds of final pensionable salary on retirement dependent on length of service and age and also provides dependants' pensions. The Hon C W Cayzer was a non-contributory member of the scheme and, on becoming a non-executive director, became a deferred member.

It is the company's policy that any future executive directors recruited from outside the company will be funded to operate their own pension arrangements or offered participation in the GPPP and that the company will not offer participation in any defined benefit arrangements.

Share option and performance share schemes

A key objective of the company's remuneration policy is to motivate executive directors to deliver long term shareholder value. The Remuneration Committee believes that this is best achieved through the grant of share based awards, receivable only if demanding performance conditions are met. Such awards are considered to be a key element of the remuneration package, alongside annual salary, annual bonus and the deferred bonus plans.

In 2011, the Remuneration Committee introduced a new executive performance share scheme to replace the existing executive share option scheme which was established in 2005. Under the 2011 performance share scheme, participants are awarded nil-cost options over shares, rather than options based on the current market value of those shares. The maximum value of nil-cost options that may be granted in any year is 200% of basic salary, although the Remuneration Committee's general policy is to grant awards of no more than 125% of basic salary.

Further details of the company's executive share option schemes and the 2011 performance share scheme and awards made to executive directors thereunder are set out on pages 47 to 49.

Policy on executive directors' service contracts

It is the policy of the company that no executive director should be offered a service contract that cannot be terminated on more than one year's notice or which contains provision for predetermined compensation in excess of one year's total emoluments. All existing directors' service contracts comply with this policy. The Remuneration Committee has regard to compensation commitments and believes that these are best addressed by restricting the term of the contract. In the event of a termination, the Remuneration Committee would consider all the relevant factors and circumstances and seek a just solution. It is the Remuneration Committee's intention that all future executive directors' service contracts should include provisions enabling the company to reduce compensation payments in the event that the director takes up alternative employment within the notice period to which such payments relate.

Policy on external non-executive directorships held by executive directors

It is the company's policy to allow executive directors to hold external non-executive directorships unrelated to the company's business, provided that the time commitment required is not material. Normally the company will retain any fees arising from such non-executive directorships, but may permit the executive director to retain fees in certain circumstances. Details of any such fees retained by executive directors are disclosed in the statement on directors' emoluments below.

Policy on the Chairman's and non-executive directors' terms of appointment and remuneration

It is the company's policy that the Chairman and the non-executive directors should be appointed for fixed periods of no more than three years (from the next annual general meeting following initial appointment in the case of new appointments) and that re-appointment at the end of such periods should not be automatic.

The Chairman receives an annual fee determined by the Remuneration Committee but does not receive any other emoluments. Non-executive directors are paid an annual fee determined by the board within the overall limit contained in the articles of association, but do not receive any other benefits from the company. For the year ended 31 March 2013, the fee for the Chairman was £167,670. The basic fee for the non-executive directors was £36,250 and additionally fees of £5,100 and £4,450 respectively were paid to the Chairmen of the Audit and Remuneration Committees and £2,100 and £1,450 respectively to the other members of those committees. A further £4,650 was paid to Mr Allen-Jones for his roles as Senior Independent Non-Executive Director and Chairman of the Governance Committee. These fees have not been changed for the financial year ending 31 March 2014.

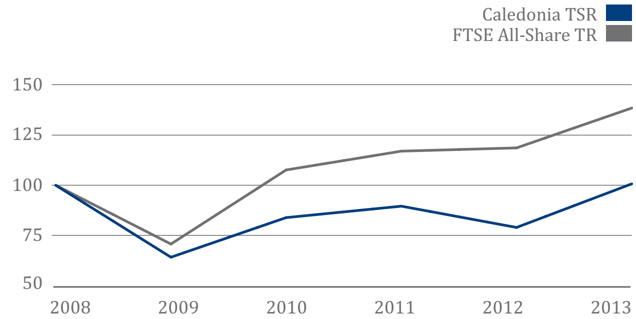
Non-executive directors may also be paid additional fees agreed by the board where they have performed services that, in the opinion of the board, are over and above their normal duties.

The company is entitled to terminate the Chairman's or a non-executive director's appointment at any time without compensation.

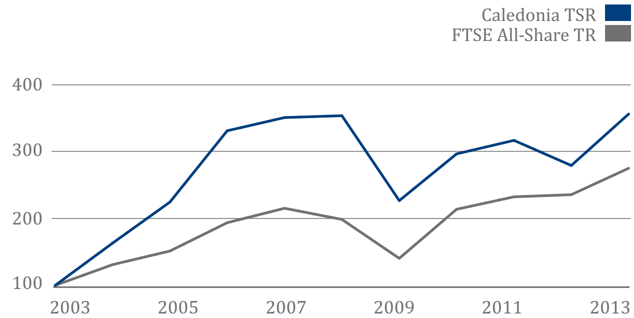
Performance graphs

The graphs below show the company's total shareholder return ('TSR') against that of the FTSE All-Share Total Return index for the five and ten financial years ending on 31 March 2013. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of shareholder value over the longer term.

TSR growth over five years



TSR growth over ten years



Statement on directors' remuneration (audited)

Total remuneration of the directors was as follows:

	2013 £'000	2012 £'000
Emoluments	3,134	2,439
Gains on exercise of share options	52	–
	3,186	2,439

Directors' remuneration report continued

Statement on directors' emoluments (audited)
The emoluments of individual directors were as follows:

Name	Fees and salaries £'000	Benefits £'000	Cash bonus £'000	Deferred shares[1] £'000	Compensation for loss of office £'000	Total 2013 £'000	Total 2012 £'000
R D Kent	126	–	–	–	–	126	18
W P Wyatt	480	18	240	240	–	978	485
J M B Cayzer-Colvin	288	18	144	144	–	594	298
S A King	340	4	170	170	–	684	434
C M Allen-Jones	44	–	–	–	–	44	45
S J Bridges[2]	10	–	–	–	–	10	–
Hon C W Cayzer[3]	225	14	–	–	215	454	298
R Goblet d'Alviella	38	–	–	–	–	38	38
C H Gregson	41	–	–	–	–	41	40
D G F Thompson	43	–	–	–	–	43	42
R B Woods	38	–	–	–	–	38	16
J R H Loudon[4]	53	–	–	–	–	53	168
M E T Davies[5]	31	–	–	–	–	31	41
Former director							516
	1,757	54	554	554	215	3,134	2,439

1. Deferred shares, forming part of the bonus, comprise amounts compulsorily and voluntarily deferred under the company's deferred bonus plan, which are satisfied in shares shortly after the announcement of the company's final results for the particular year, as described below.
2. Mr Bridges was appointed a director on 1 January 2013. His non-executive director's fee is paid to Hiscox Underwriting Group Services Ltd.
3. The emoluments shown above for The Hon C W Cayzer include his salary and benefits as an executive director until 3 December 2012 and thereafter his fee as a non-executive director. His fees and salary also include £19,762 paid by a subsidiary undertaking in respect of his services as Chairman of the Sloane Club from 4 December 2012.
4. Mr Loudon retired as a director on 25 July 2012.
5. Mr Davies retired as a director on 31 December 2012.

In addition to the amounts shown in the table above, Messrs Wyatt, Cayzer-Colvin and King respectively were paid amounts of £63,233, £11,066 and £52,345 (2012 – £65,209, £17,906 and £50,821 respectively) in lieu of contributions to their money purchase pension arrangements as described in the statement on directors' pensions below.

During the year, Mr King held external non-executive directorships of The Weir Group (of which he ceased to be a director on 9 May 2012) and TT Electronics and Mr Cayzer-Colvin of The Henderson Smaller Companies Investment Trust, which were unrelated to the company's business and where it had been agreed that they could retain the fees arising therefrom. Mr King received fees from The Weir Group of £6,462 (2012 – £60,000) and from TT Electronics of £44,916 (2012 – £16,707). Mr Cayzer-Colvin received fees from The Henderson Smaller Companies Investment Trust of £28,000 (2012 – £10,485), of which £4,500 was used to purchase shares in that company.

The Hon C W Cayzer was employed by Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, under a service agreement dated 11 June 2002 until 3 December 2012, at which point his service agreement was terminated and he became a non-executive director. Under his service agreement, he was entitled to twelve months' notice of termination, of which he worked under notice from 24 May 2012 to 3 December 2012 and, for the balance of the twelve month period, received an amount of £215,265 as a contractual payment in lieu of notice and waiver of statutory claims. Also in accordance with his service agreement, he received a credit of additional pensionable service in the Caledonia Pension Scheme for the period in respect of which he received the payment in lieu of notice, at a cost to the company of £51,000. The Remuneration Committee further agreed to the reimbursement of his legal fees of £3,900. The treatment of The Hon C W Cayzer's share plan entitlements on the termination of his service agreement is set out below.

As part of the arrangements for the termination of his service agreement, the Remuneration Committee also agreed that The Hon C W Cayzer should be entitled to benefit personally from non-executive directors' fees paid by certain investee companies of which he is a director (being LondonMetric Property, Quintain Estates & Development, Eredene Capital and General Practice Investment Corporation) and which had previously been retained by Caledonia. Such fees amounted to approximately £146,000 per annum at the date of termination. It was also agreed that The Hon C W Cayzer should receive from the termination date a fee of £60,000 per annum in respect of his services as Chairman of the Sloane Club.

Directors' deferred share awards
The deferred shares column in the table of directors' emoluments shows the amount of shares to be compulsorily and/or voluntarily deferred into shares under the company's 2011 deferred bonus plan. The number of shares awarded for both the compulsory and voluntary deferral of bonus is determined by reference to the market value of a share at the time the award is made, which occurs shortly after the announcement of the company's results for the financial year to which the bonus relates (or following the occurrence of exceptional circumstances justifying the making of awards). In both cases, the number of shares is set on a pre-tax basis, as the shares will be subject to income tax and National Insurance on release. Matching shares are awarded in respect of compulsory and voluntary deferral of bonus on a one for one basis.

Compulsorily deferred share awards
The shares comprised in a compulsory deferral will normally only vest, together with an amount equal to the dividends that would have accrued on those shares, if the director remains an employee of the Caledonia group for a three year period commencing on the first day of the financial year in which the award is made. The vesting of these shares is not subject to a further performance condition.

Voluntarily deferred share awards
The shares comprised in a voluntary deferral are not subject to a performance condition and will vest, together with an amount equal to the dividends that would have accrued on those shares, at the earlier of three years from the first day of the financial year in which the award is made or the date the director ceases to be an employee of the Caledonia group for any reason.

Matching share awards
The vesting of matching shares under the 2011 deferred bonus plan is dependent on the company's performance over the three financial years, starting with the year in which the award was made, by reference to two separate performance conditions, both of which relate to the performance of Caledonia's diluted NAV per share on a total return basis. For two-thirds of the matching shares awarded, the performance of diluted NAV per share on a total return basis is compared against the FTSE All-Share Total Return index over the three year period and, for the other one-third, the comparison is against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index. In each case, vesting of matching shares is on a graduated basis, commencing with 10% vesting on the achievement of 0.5% outperformance of the relevant index, rising on a straight line basis to 100% vesting on 3.5% outperformance of the relevant index. For the purposes of calculating the performance measures, an average of the figures for the company's NAV per share and the two benchmark indices published daily over the three months prior to the start and end of the performance period is used to reduce volatility.

There will be no re-testing of the performance conditions under the 2011 deferred bonus plan.

The reasons why the Remuneration Committee has chosen the above performance conditions for the 2011 deferred bonus plan are set out below in the statement on directors' performance share scheme awards. The Remuneration Committee may amend the performance targets if events occur that would make the amended target a fairer measure of performance and provided that any amended target is no more difficult to satisfy. In addition, the Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets that are imposed are no less demanding than those described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

Deferred share awards held as at 31 March 2013 by directors who served during the year are shown in the table below. In relation to The Hon C W Cayzer's deferred share awards, the Remuneration Committee determined in relation to the termination of his executive service agreement with effect from 3 December 2012 that, based on the measurement of the performance targets since the grant date to that date, all of the matching shares granted to him on 26 May 2011 should lapse. The Remuneration Committee also determined that The Hon C W Cayzer's compulsory award granted on 26 May 2011 should vest immediately and therefore he has a right to call for these in the twelve months following the termination of his service agreement.

There have been no changes in directors' deferred share awards up to the date of this report.

			Number of shares							Value at call		
Name	Award type	Award date	Opening balance	Awarded	Called	Lapsed	Closing balance	Market price at award	Market price at call	2013 £'000	2012 £'000	Vesting date
W P Wyatt	Compulsory	26.05.11	4,235	–	–	–	4,235	1734p	–	–		01.04.14
	Matching	26.05.11	4,235	–	–	–	4,235	1734p	–	–		01.04.14
			8,470	–	–	–	8,470			–	–	
J M B Cayzer-Colvin	Compulsory	26.05.11	2,335	–	–	–	2,335	1734p	–	–		01.04.14
	Matching	26.05.11	2,335	–	–	–	2,335	1734p	–	–		01.04.14
			4,670	–	–	–	4,670			–	–	
S A King	Compulsory	26.05.11	3,222	–	–	–	3,222	1734p	–	–		01.04.14
	Matching	26.05.11	3,222	–	–	–	3,222	1734p	–	–		01.04.14
			6,444	–	–	–	6,444			–	–	
Hon C W Cayzer	Compulsory	26.05.11	1,557	–	–	–	1,557	1734p	–	–		03.12.12
	Matching	26.05.11	1,557	–	–	(1,557)	–	1734p	–	–		
			3,114	–	–	(1,557)	1,557			–	–	
			22,698	–	–	(1,557)	21,141			–	–	

1. The Hon C W Cayzer ceased executive service on 3 December 2012.

Statement on directors' pensions (audited)

Mr Wyatt has established his own money purchase pension arrangements into which the company made employer contributions of £35,979 (2012 – £30,196) and in addition to which he elected to receive cash in lieu of pension contributions of £63,233 (2012 – £65,209). Mr King elected to receive his entire pension entitlement by way of cash payments in lieu of pension contributions of £52,345 (2012 – £50,821). Mr Cayzer-Colvin has also established his own money purchase pension arrangements into which the company made employer contributions of £37,778 (2012 - £28,527) in addition to which he elected to receive cash payments in lieu of pension of £11,066 (2012 – £17,906).

Pension benefits accrued by The Hon C W Cayzer during the year under the company's defined benefit scheme were as follows:

	Row ref	£
Accrued pension at 31 March 2013	a	170,417
Increase in accrued pension during the year	b	10,731
Increase in accrued pension during the year, net of inflation	c	6,292
Transfer value of increase in accrued pension over the year, net of inflation	d	93,919
Transfer value of accrued pension at 31 March 2013	e	2,980,793
Transfer value of accrued pension at 31 March 2012	f	2,622,399
Change in transfer value over the year	g	358,394

1. The accrued pension shown in row (a) was the amount which would be paid at normal retirement age, ignoring any revaluation. The Hon C W Cayzer left active service on 3 December 2012 and was granted a service credit in respect of the period for which he received a payment in lieu of notice.
2. The transfer value was the present value of the accrued pension and associated benefits at the relevant date. Transfer values were calculated using the transfer value basis as determined by the trustees of the Caledonia Pension Scheme, based on The Hon C W Cayzer's accrued pension at the date he left active service but with reference to market conditions at 31 March 2013 and in accordance with regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996.
3. The transfer value shown in row (d) represented the value of the increase in accrued pension (net of CPI inflation) during the year, as set out in row (c).
4. The change in transfer value over the year shown in row (g) (calculated as row (e) less row (f)) reflected the impact on transfer values of factors beyond the control of the company and the directors, such as movements in stock markets. Disclosed changes in value may therefore be subject to a large degree of volatility and may even be negative. In particular, the Caledonia Pension Scheme's transfer value assumptions have been updated to allow for changes in market conditions. The transfer value at 31 March 2013 would have been approximately 3% to 4% lower using the transfer value assumptions at 31 March 2012.

Statement on directors' share options (audited)

The company currently has two executive share option schemes – a 1998 scheme under which option grants were made from 1998 to 2004 and a 2005 scheme under which option grants were made from 2005 to 2010. No further option grants have been made under these schemes as all share-based long term incentives for 2011 onwards were awarded under the performance share scheme introduced in July 2011.

Under the terms of both executive share option schemes, options may be exercised between three and ten years after the date of grant, although only one-third of the shares comprised in an option may be exercised after three years from grant, with the remaining two-thirds becoming exercisable six years after grant. Options may only be exercised if performance targets are met.

Directors' remuneration report continued

The performance targets for all of the outstanding options under the 1998 and 2005 schemes have been tested.

The performance targets have been met for all outstanding options shown in the table below granted up to 2009. The options granted in 2010 have failed to achieve their performance targets and accordingly have lapsed in their entirety.

As at 31 March 2013, the market price of the company's shares was 1840p (2012 – 1485p) and the range during the year was 1237p to 1840p.

Options to acquire ordinary shares in the company held as at 31 March 2013, by those directors who served during the year and gains on the exercise of share options were as shown in the following table.

		Number of options						Gains on exercise			
Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	2013 £'000	2012 £'000	Exercisable from date	Expiry date
W P Wyatt	05.07.02	6,000	–	(6,000)	–	–	782.5p	52			
	20.11.03	9,000	–	–	–	9,000	945p	–		20.11.06	20.11.13
	26.05.04	9,500	–	–	–	9,500	1055p	–		26.05.07	26.05.14
	19.08.05	13,290	–	–	–	13,290	1580p	–		19.08.08	19.08.15
	01.06.06	6,789	–	–	–	6,789	1878p	–		01.06.09	01.06.16
	29.05.09	12,707	–	–	–	12,707	1446p	–		29.05.12	29.05.19
	21.05.10	33,936	–	–	(33,936)	–	1547p	–			
		91,222	–	(6,000)	(33,936)	51,286		52	–		
J M B Cayzer-Colvin	19.08.05	13,290	–	–	–	13,290	1580p	–		19.08.08	19.08.15
	01.06.06	6,789	–	–	–	6,789	1878p	–		01.06.09	01.06.16
	29.05.09	12,707	–	–	–	12,707	1446p	–		29.05.12	29.05.19
	21.05.10	26,179	–	–	(26,179)	–	1547p	–			
		58,965	–	–	(26,179)	32,786		–	–		
S A King	21.05.10	30,959	–	–	(30,959)	–	1547p	–			
		30,959	–	–	(30,959)	–		–	–		
Hon C W Cayzer	19.08.05	18,035	–	–	–	18,035	1580p	–		19.08.08	03.12.13
	01.06.06	8,387	–	–	–	8,387	1878p	–		01.06.09	03.12.13
	29.05.09	12,707	–	–	–	12,707	1446p	–		29.05.12	03.12.13
	21.05.10	26,179	–	–	(26,179)	–	1547p	–			
		65,308	–	–	(26,179)	39,129		–	–		
		246,454	–	(6,000)	(117,253)	123,201		52	–		

1. The Hon C W Cayzer ceased executive service on 3 December 2012.

In respect of the termination of The Hon C W Cayzer's service agreement, the Remuneration Committee exercised its discretion under the 2005 executive share option scheme such that all of the outstanding share options granted to him up to 2009, which had satisfied their performance targets prior to the termination date (being an aggregate of 39,129 shares), would become fully exercisable for a period of one year following the termination date. The Remuneration Committee further agreed that the options granted to The Hon C W Cayzer in 2010 should vest to the extent that they satisfied the performance targets at the end of their normal three year performance measurement period, and any vested options should then be exercisable within one year from the date on which the performance targets calculations were determined. As stated above, the performance targets for the options granted in 2010 were tested as at 31 March 2013 and were not achieved. Accordingly, the options over 26,179 shares granted to The Hon C W Cayzer on 21 May 2010 have lapsed.

There have been no changes in directors' options to acquire ordinary shares up to the date of this report.

Statement on directors' performance share scheme awards (audited)

In July 2011, a new performance share scheme was introduced to replace the existing 2005 executive share option scheme. Under the performance share scheme, participants are awarded nil-cost options over shares, rather than options based on the current market value of those shares.

Nil-cost options awarded under the 2011 performance share scheme are subject to performance targets related to the company's diluted NAV per share on a total return basis measured against a benchmark index. For two-thirds of the shares comprised in an award, the benchmark is the FTSE All-Share Total Return index and, for the remaining one-third, the benchmark is the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index. In each case, the performance period is a period of three financial years commencing with the financial year in which the awards are granted. Awards vest on a graduated basis, with 10% vesting on 0.5% outperformance of the relevant benchmark, rising on a straight line basis to maximum vesting on 3.5% outperformance of the relevant benchmark. There is no re-testing of either performance target and, to the extent that a performance target is not met, the relevant award will lapse. For the purposes of calculating the performance measures, an average of the figures for the company's NAV per share and the two benchmark indices published daily over the three months prior to the start and end of the performance period is used to reduce volatility.

To the extent that a performance target is met, awards may be exercised between the date of vesting and the tenth anniversary of the date of grant, except that only two-thirds of the shares that have vested may normally be exercisable after three years from grant, with the remaining one-third normally becoming exercisable five years after grant. On exercise, the participant will also receive an amount equal to the dividends that would have accrued on the shares comprised in the award during the relevant three or five year period.

For future performance share scheme awards, the Remuneration Committee proposes to extend the performance measurement period for a significant proportion of the shares comprised in an award by revising the application of the existing benchmark indices and exercise periods described above as follows.
For one-third of the shares comprised in an award, performance will be measured against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index over a period of three financial years commencing with the financial year in which the award is granted. Shares that vest as a result of the performance measurement will become exercisable immediately.
For the remaining two-thirds of shares comprised in the award, performance will be measured against the FTSE All-Share Total Return index over a period of five financial years commencing with the financial year in which the award is granted. Shares that vest as a result of that performance measurement will also then become exercisable immediately. In each case, awards will vest on the same graduated basis as currently applies.

In order not to disadvantage performance share scheme participants by the immediate adoption of the proposed changes to the performance measurement and vesting periods (which will involve a longer vesting period for a proportion of each award), the Remuneration Committee will adopt transitional arrangements whereby, for the current financial year and the financial year commencing 1 April 2014, one-half of the shares comprised in an award will be measured against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index over three years and the other half will be measured against the FTSE All-Share Total Return index over five years, with shares that vest in each case then becoming immediately exercisable. The revised performance measurement and exercise periods as described above will then be adopted for financial years commencing 1 April 2015 onwards.

For both the 2011 performance share scheme and the 2011 deferred bonus plan, the Remuneration Committee has chosen the FTSE All-Share Total Return index as a performance condition as it believes that this is the best way to incentivise executives to deliver continued strong NAV per share total return performance. This underpins Caledonia's objective of achieving total shareholder return in excess of the FTSE All-Share Total Return index. The FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index has also been chosen as a performance measure for both of the 2011 long term incentive plans as the Remuneration Committee regards it as reflective of the company's aim to provide a long term store of wealth for its shareholders. The Remuneration Committee believes that these targets are significantly challenging and would reward executives for delivering superior performance. It also considers that the revised performance measurement and vesting periods that it is proposing to adopt for the performance share scheme for the 2015 and subsequent financial years, in particular the lengthened performance measurement period for the majority of the shares comprised in an award, are better aligned to Caledonia's longer term investment horizon and to the delivery of the business objectives stated above.

The Remuneration Committee may amend the performance targets if events occur that would make the amended targets a fairer measure of performance and provided that any amended targets are no more difficult to satisfy. The Remuneration Committee will also have the ability to impose different performance targets in the future, provided that any targets imposed are no less demanding than described above. Any such amended or different performance targets will be described in the directors' remuneration report for the relevant year.

Performance share scheme awards held as at 31 March 2013 by directors who served during the year are shown below.

In relation to the termination of The Hon C W Cayzer's service agreement, the Remuneration Committee agreed that the performance share awards granted to him in 2011 should be preserved until the end of their normal three year performance measurement period and should then vest to the extent that the performance targets are met. Any vested awards will then be exercisable within twelve months of the date on which the outcomes of the performance targets are determined.

		Number of nil-cost options							Value at exercise			
Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Market price at award	Market price at exercise	2013 £'000	2012 £'000	Exercisable from date	Expiry date
W P Wyatt	11.08.11	37,682	–	–	–	37,682	1545p	–	–		11.08.14	11.08.21
	28.05.12	–	47,329	–	–	47,329	1267p	–	–		28.05.15	28.05.22
		37,682	47,329	–	–	85,011			–	–		
J M B Cayzer-Colvin	11.08.11	22,609	–	–	–	22,609	1545p	–	–		11.08.14	11.08.21
	28.05.12	–	28,397	–	–	28,397	1267p	–	–		28.05.15	28.05.22
		22,609	28,397	–	–	51,006			–	–		
S A King	11.08.11	26,738	–	–	–	26,738	1545p	–	–		11.08.14	11.08.21
	28.05.12	–	33,583	–	–	33,583	1267p	–	–		28.05.15	28.05.22
		26,738	33,583	–	–	60,321			–	–		
Hon C W Cayzer	11.08.11	22,609	–	–	–	22,609	1545p	–	–		31.03.14	31.03.15
		22,609	–	–	–	22,609			–	–		
		109,638	109,309	–	–	218,947			–	–		

1. The Hon C W Cayzer ceased executive service on 3 December 2012.

Directors' remuneration report continued

Statement on executive directors' service contracts and the Chairman's and non-executive directors' letters of appointment
Executive directors have service contracts with Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, details of which are summarised below:

Name	Date of contract	Notice period	Unexpired term
W P Wyatt	02.06.05	12 months	Rolling 12 months
J M B Cayzer-Colvin	19.04.05	12 months	Rolling 12 months
S A King	19.11.09	12 months	Rolling 12 months

Directors' service contracts contain provisions whereby the company may, in its discretion, terminate the contract without notice and make a lump sum payment in lieu of notice and (other than in the case of Mr King's service contract) whereby a liquidated sum is payable in the event of termination within one year following a change of control. Any such payment in lieu of notice or liquidated sum would be equivalent to no more than one year's total emoluments. Mr King's service contract contains provisions whereby, as an alternative to the payment of a lump sum in lieu of notice, the company may elect to pay the equivalent amount in equal monthly instalments, such instalments to be reduced by 50% of one-twelfth of the basic salary in excess of £20,000 per annum that Mr King receives from any alternative employment that he takes up during the notice period.

The Chairman and the non-executive directors do not have service contracts, but are appointed under letters of appointment which provide for termination without notice or compensation.

Executive directors' service contracts and the Chairman's and non-executive directors' letters of appointment are available for inspection at the registered office of the company.

Payment to a former director (audited)
Shortly after the year end, the company made a payment of £25,000 to Mr T C W Ingram, who retired as Caledonia's Chief Executive in July 2010, in recognition of assistance and advice he provided to the company regarding its holding in Alok Industries and the disposal thereof.

The directors' remuneration report was approved by the board on 30 May 2013 and signed on its behalf by:

Charles Gregson
Chairman of the Remuneration Committee

Independent auditor's report
to the members of Caledonia Investments plc

We have audited the financial statements of Caledonia Investments plc for the year ended 31 March 2013 set out on pages 52 to 79. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion 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; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate governance statement set out on pages 38 to 42 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 36, in relation to going concern;
- the part of the Corporate governance report on pages 38 to 42 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Jonathan Mills (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
30 May 2013

Company statement of comprehensive income
for the year ended 31 March 2013

	Note	2013 Revenue £m	2013 Capital £m	2013 Total £m	2012 Revenue £m	2012 Capital £m	2012 Total £m
Revenue							
Investment income	1	39.4	–	39.4	33.3	–	33.3
Gains and losses on fair value investments	8	–	178.0	178.0	–	(123.4)	(123.4)
Gains and losses on derivatives		–	(3.1)	(3.1)	–	4.4	4.4
Total revenue		39.4	174.9	214.3	33.3	(119.0)	(85.7)
Management expenses	2	(13.2)	(0.7)	(13.9)	(11.8)	(0.6)	(12.4)
Guarantee obligations provided	20	–	(2.1)	(2.1)	–	(7.0)	(7.0)
Guarantee obligations released	20	–	5.1	5.1	–	10.0	10.0
Profit/(loss) before finance costs		26.2	177.2	203.4	21.5	(116.6)	(95.1)
Treasury interest receivable	3	0.6	–	0.6	0.8	–	0.8
Finance costs	4	(1.7)	–	(1.7)	(0.6)	–	(0.6)
Exchange movements		(0.4)	–	(0.4)	(0.7)	–	(0.7)
Profit/(loss) before tax		24.7	177.2	201.9	21.0	(116.6)	(95.6)
Taxation	5	3.4	1.5	4.9	2.0	0.4	2.4
Profit/(loss) and total comprehensive income for the year		28.1	178.7	206.8	23.0	(116.2)	(93.2)
Basic earnings per share	7	49.7p	316.0p	365.7p	39.9p	-201.7p	-161.8p
Diluted earnings per share	7	49.2p	312.7p	361.9p	39.7p	-201.7p	-161.8p

The total column of the above statement represents the company's statement of comprehensive income, prepared in accordance with IFRSs as adopted by the European Union.

The revenue and capital columns are supplementary to the company's statement of comprehensive income and are prepared under guidance published by the Association of Investment Companies.

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Company statement of financial position
at 31 March 2013

	Note	2013 £m	2012 £m
Non-current assets			
Investments held at fair value through profit or loss	8	1,204.8	1,180.7
Investments in subsidiaries held at cost	8	0.8	0.8
Non-current assets		1,205.6	1,181.5
Current assets			
Derivative financial instruments		–	2.5
Trade and other receivables	15	11.9	8.0
Current tax assets	5	2.1	0.9
Cash and cash equivalents	16	96.5	8.4
Current assets		110.5	19.8
Total assets		1,316.1	1,201.3
Current liabilities			
Trade and other payables	18	(4.4)	(6.4)
Provisions	20	(12.9)	(15.9)
Current liabilities		(17.3)	(22.3)
Non-current liabilities			
Interest-bearing loans and borrowings	17	–	(45.0)
Non-current liabilities		–	(45.0)
Total liabilities		(17.3)	(67.3)
Net assets		1,298.8	1,134.0
Equity			
Share capital	22	3.2	3.2
Share premium	22	1.3	1.3
Capital redemption reserve	22	1.3	1.3
Capital reserve	22	1,015.1	854.3
Retained earnings	22	294.9	290.6
Own shares	22	(17.0)	(16.7)
Total equity		1,298.8	1,134.0
Undiluted net asset value per share	7	2324p	1989p
Diluted net asset value per share	7	2299p	1977p

The financial statements on pages 52 to 79 were approved by the board and authorised for issue on 30 May 2013 and were signed on its behalf by:

Will Wyatt
Chief Executive

Stephen King
Finance Director

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 March 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Capital reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 31 March 2011	3.3	1.3	1.2	992.8	288.3	(28.2)	1,258.7
Loss and total comprehensive income	–	–	–	(116.2)	23.0	–	(93.2)
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.6	0.6
Share-based payments	–	–	–	–	1.1	–	1.1
Own shares purchased	–	–	–	–	–	1.3	1.3
Own shares cancelled	(0.1)	–	0.1	(22.3)	–	9.6	(12.7)
Dividends paid	–	–	–	–	(21.8)	–	(21.8)
Total transactions with owners	(0.1)	–	0.1	(22.3)	(20.7)	11.5	(31.5)
Balance at 31 March 2012	3.2	1.3	1.3	854.3	290.6	(16.7)	1,134.0
Profit and total comprehensive income	–	–	–	178.7	28.1	–	206.8
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.6	0.6
Share-based payments	–	–	–	–	1.3	–	1.3
Own shares purchased	–	–	–	–	–	(0.9)	(0.9)
Own shares cancelled	–	–	–	(17.9)	–	–	(17.9)
Dividends paid	–	–	–	–	(25.1)	–	(25.1)
Total transactions with owners	–	–	–	(17.9)	(23.8)	(0.3)	(42.0)
Balance at 31 March 2013	3.2	1.3	1.3	1,015.1	294.9	(17.0)	1,298.8

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Group statement of comprehensive income
for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Revenue			
Investment income	1	33.5	31.4
Gains and losses on fair value investments		178.2	(123.3)
Gains and losses on derivatives		(3.2)	4.3
Revenue from sales of goods and services		117.0	115.3
Total revenue		325.5	27.7
Investment management expenses	2	(13.9)	(12.4)
Trade operating expenses	2	(106.7)	(107.1)
Loss on disposal of operations	24	–	(1.2)
Gain on investment property	11	0.4	0.3
Share of results of joint ventures	12	(0.6)	(1.0)
Profit/(loss) before finance costs		204.7	(93.7)
Treasury interest receivable	3	0.5	0.7
Finance costs	4	(3.2)	(2.4)
Exchange movements		(0.2)	(0.8)
Profit/(loss) before tax		201.8	(96.2)
Taxation	5	0.3	(2.0)
Profit/(loss) for the year		202.1	(98.2)
Other comprehensive income			
Exchange differences on translation of foreign operations		1.1	–
Actuarial losses on defined benefit pension schemes	19	(4.2)	(4.9)
Tax on other comprehensive income	5	1.4	1.5
Total comprehensive income		200.4	(101.6)
Profit/(loss) for the year attributable to			
Owners of the parent		201.3	(98.6)
Non-controlling interest		0.8	0.4
		202.1	(98.2)
Total comprehensive income attributable to			
Owners of the parent		199.6	(102.0)
Non-controlling interest		0.8	0.4
		200.4	(101.6)
Basic earnings per share	7	356.0p	-171.2p
Diluted earnings per share	7	352.3p	-171.2p

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Group statement of financial position
at 31 March 2013

	Note	2013 £m	2012 £m
Non-current assets			
Investments held at fair value through profit or loss	8	1,087.4	1,088.5
Available for sale investments	8	0.9	0.8
Intangible assets	9	2.8	2.6
Property, plant and equipment	10	73.8	76.8
Investment property	11	25.0	14.8
Interests in joint ventures	12	0.2	0.8
Deferred tax assets	13	5.0	5.4
Employee benefits	19	6.9	6.9
Non-current assets		1,202.0	1,196.6
Current assets			
Inventories	14	19.0	15.0
Derivative financial instruments		–	2.5
Trade and other receivables	15	41.7	35.7
Current tax assets	5	0.9	0.7
Cash and cash equivalents	16	116.2	24.6
Current assets		177.8	78.5
Total assets		1,379.8	1,275.1
Current liabilities			
Interest-bearing loans and borrowings	17	(0.2)	(20.8)
Derivative financial instruments		(0.2)	(0.1)
Trade and other payables	18	(25.4)	(25.3)
Employee benefits	19	(2.5)	(2.3)
Current tax liabilities		(0.5)	(1.2)
Provisions	20	(3.9)	(4.1)
Current liabilities		(32.7)	(53.8)
Non-current liabilities			
Interest-bearing loans and borrowings	17	(51.6)	(84.7)
Employee benefits	19	(17.5)	(15.4)
Deferred tax liabilities	13	(2.2)	(3.1)
Non-current liabilities		(71.3)	(103.2)
Total liabilities		(104.0)	(157.0)
Net assets		1,275.8	1,118.1
Equity			
Share capital	22	3.2	3.2
Share premium	22	1.3	1.3
Capital redemption reserve	22	1.3	1.3
Retained earnings	22	1,278.0	1,121.7
Foreign exchange translation reserve	22	5.4	4.3
Own shares	22	(17.0)	(16.7)
Equity attributable to owners of the parent		1,272.2	1,115.1
Non-controlling interest	22	3.6	3.0
Total equity		1,275.8	1,118.1

The financial statements on pages 52 to 79 were approved by the board and authorised for issue on 30 May 2013 and were signed on its behalf by:

Will Wyatt
Chief Executive

Stephen King
Finance Director

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Group statement of changes in equity
for the year ended 31 March 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Currency translation reserve £m	Own shares £m	Non–controlling interest £m	Total equity £m
Balance at 31 March 2011	3.3	1.3	1.2	1,267.7	4.3	(28.2)	(0.4)	1,249.2
Total comprehensive income								
Loss for the year	–	–	–	(98.6)	–	–	0.4	(98.2)
Other comprehensive income	–	–	–	(3.4)	–	–	–	(3.4)
Total comprehensive income	–	–	–	(102.0)	–	–	0.4	(101.6)
Transactions with owners of the company								
Contributions by and distributions to owners								
Exercise of share options	–	–	–	–	–	0.6	–	0.6
Own shares purchased	–	–	–	–	–	1.3	–	1.3
Share-based payments	–	–	–	1.1	–	–	–	1.1
Own shares cancelled	(0.1)	–	0.1	(22.3)	–	9.6	–	(12.7)
Dividends paid	–	–	–	(21.8)	–	–	(0.3)	(22.1)
Total contributions and distributions	(0.1)	–	0.1	(43.0)	–	11.5	(0.3)	(31.8)
Changes in ownership interests								
Non-controlling interest disposed	–	–	–	–	–	–	3.3	3.3
Non-controlling interest acquired	–	–	–	(1.0)	–	–	–	(1.0)
Total changes in ownership interests	–	–	–	(1.0)	–	–	3.3	2.3
Total transactions with owners	(0.1)	–	0.1	(44.0)	–	11.5	3.0	(29.5)
Balance at 31 March 2012	3.2	1.3	1.3	1,121.7	4.3	(16.7)	3.0	1,118.1
Total comprehensive income								
Profit for the year	–	–	–	201.3	–	–	0.8	202.1
Other comprehensive income	–	–	–	(2.8)	1.1	–	–	(1.7)
Total comprehensive income	–	–	–	198.5	1.1	–	0.8	200.4
Transactions with owners of the company								
Contributions by and distributions to owners								
Exercise of share options	–	–	–	–	–	0.6	–	0.6
Own shares purchased	–	–	–	–	–	(0.9)	–	(0.9)
Share-based payments	–	–	–	1.3	–	–	–	1.3
Own shares cancelled	–	–	–	(17.9)	–	–	–	(17.9)
Dividends paid	–	–	–	(25.1)	–	–	(0.4)	(25.5)
Total contributions and distributions	–	–	–	(41.7)	–	(0.3)	(0.4)	(42.4)
Changes in ownership interests								
Non-controlling interest acquired	–	–	–	(0.5)	–	–	0.2	(0.3)
Total changes in ownership interests	–	–	–	(0.5)	–	–	0.2	(0.3)
Total transactions with owners	–	–	–	(42.2)	–	(0.3)	(0.2)	(42.7)
Balance at 31 March 2013	3.2	1.3	1.3	1,278.0	5.4	(17.0)	3.6	1,275.8

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Company and group statements of cash flows
for the year ended 31 March 2013

	Note	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Operating activities					
Dividends received		38.9	30.6	31.2	27.4
Interest received		0.8	1.1	0.7	0.8
Cash received from customers		–	–	120.0	116.3
Cash paid to suppliers and employees		(12.7)	(11.9)	(122.7)	(116.9)
Taxes received/(paid)		0.4	(0.1)	0.5	(1.7)
Group relief received		3.8	0.7	–	–
Net cash flow from operating activities		31.2	20.4	29.7	25.9
Investing activities					
Purchases of investments		(141.8)	(251.7)	(127.6)	(244.6)
Proceeds from disposal of investments		290.8	129.0	302.2	126.2
Net receipts/(payments) from derivative financial instruments		(0.6)	1.1	(0.6)	1.3
Purchases of property, plant and equipment		–	–	(1.9)	(1.9)
Purchases of intangible assets		–	–	(0.1)	–
Purchases of investment property		–	–	(10.2)	(6.4)
Proceeds from disposal of joint ventures		–	–	–	0.9
Proceeds from disposal of investment property	11	–	–	0.4	1.4
Purchases of subsidiaries net of cash acquired	23	–	–	(1.2)	(2.6)
Loans advanced		–	(4.4)	–	(4.4)
Proceeds from disposal of subsidiaries net of cash disposed	24	–	–	–	12.9
Net cash flow from/(used in) investing activities		148.4	(126.0)	161.0	(117.2)
Financing activities					
Interest paid		(0.5)	(0.5)	(2.3)	(2.3)
Dividends paid to owners of the company		(25.1)	(21.8)	(25.1)	(21.8)
Distributions paid to non-controlling interest		–	–	(0.4)	(0.3)
Proceeds from new borrowings		–	45.1	7.2	61.5
Repayment of borrowings		(45.1)	–	(61.5)	(30.3)
Loans from/(to) group companies		(2.5)	2.5	–	–
Exercise of share options		0.6	0.6	0.6	0.6
Purchase of own shares		(18.9)	(13.1)	(18.9)	(13.1)
Net cash flow from/(used in) financing activities		(91.5)	12.8	(100.4)	(5.7)
Net increase/(decrease) in cash and cash equivalents		88.1	(92.8)	90.3	(97.0)
Cash and cash equivalents at year start		8.4	101.2	24.6	121.5
Exchange movements on cash and cash equivalents		–	–	1.3	0.1
Cash and cash equivalents at year end	16	96.5	8.4	116.2	24.6

The accounting policies and notes to the financial statements on pages 59 to 79 are an integral part of these financial statements.

Accounting policies

General information
Caledonia Investments plc is an investment trust company domiciled in the United Kingdom and incorporated in England in 1928, under the Companies Acts 1908 to 1917. The address of its registered office is Cayzer House, 30 Buckingham Gate, London SW1E 6NN. The ordinary shares of the company are listed on the London Stock Exchange and the New Zealand Exchange.

These financial statements were authorised for issue by the directors on 30 May 2013.

These financial statements are presented in pound sterling because that is the currency of the primary economic environment in which Caledonia operates.

In the current year, the group has not adopted any new Standards or Interpretations.

At the date of authorisation of these financial statements, the following Standards, which have not been applied in these financial statements, were in issue but not yet effective.

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosures of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 27 'Separate Financial Statements'
- IAS 28 'Investments in Associates and Joint Ventures'

The directors anticipate that the adoption of these Standards in future periods will have no material impact on the financial statements of the company, except to change the presentation of the group results.

Significant accounting policies
Basis of accounting
These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted for use in the EU and therefore the group financial statements comply with Article 4 of the EU IAS Regulation. IFRSs comprise accounting standards issued by the International Accounting Standards Board and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body.

Caledonia is an investment trust company. However, because it holds majority stakes and therefore has the power to control, it is required to prepare group accounts that consolidate the results of such investments. In order to present information that is comparable with other investment trust companies, Caledonia also publishes financial statements of the company, which include investments in subsidiaries regarded as part of the company's investing business at fair value.

The financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments and properties. Where presentational guidance set out in the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ('SORP') issued by the Association of Investment Companies in January 2009 is consistent with the requirements of IFRSs as adopted by the EU, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. The recommendations of the SORP have been applied to the company, but not to the group, financial statements, as the directors believe that it would be misleading to present a three column income statement for the group.

Under The UK Corporate Governance Code and applicable regulations, the directors are required to satisfy themselves that it is reasonable to presume that the company is a going concern. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future, as discussed in the Directors' report on page 36. Accordingly, they continue to adopt the going concern basis of preparing the financial statements.

The principal accounting policies are set out below.

Foreign currency translation
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair values were determined.

In the company financial statements, foreign exchange gains or losses are recognised in capital or revenue reserve depending on whether the gain or loss is of a capital or revenue nature respectively.

Assets and liabilities of the group's overseas operations are measured using their functional currency, being the currency of the primary economic environment in which they operate.

Accounting policies continued

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's foreign exchange translation reserve. Such exchange differences are recognised in the statement of comprehensive income in the period in which the operation is sold.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, excluding transaction costs.

Investments held as part of the group's business of investing in financial assets are designated as measured at fair value through profit or loss in both the consolidated financial statements and the company financial statements. Other investments held by subsidiaries are designated as available for sale in the consolidated financial statements. Other investments in subsidiaries held by the company are accounted for at cost in the financial statements of the company.

Investments designated as held at fair value through profit or loss or as available for sale are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the value of investments designated as held at fair value through profit or loss, including foreign exchange movements, are included in net profit or loss for the period as a capital return. For available for sale investments, gains and losses arising from changes in fair value are recognised in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the net profit or loss for the period. If, in the subsequent period, the fair value of the available for sale investments, for which impairment was previously recognised, increases in value, the impairment loss is reversed through the statement of comprehensive income.

Listed investments are valued at bid price or the last traded price when a bid price is not available. Unlisted investments are valued using recognised valuation methodologies, based on the International Private Equity and Venture Capital Valuations Guidelines, which reflect the amount for which an asset could be exchanged between knowledgeable, willing parties on an arm's length basis. The portfolio valuation methodology is detailed on page 31.

Distributions from investment limited partnerships are treated as disposal proceeds or income in accordance with the nature of the distribution. Any surplus capital distributions after repaying partner's capital are treated as realised gains.

Income

Dividends receivable on equity shares are recognised as revenue when the shareholders' right to receive payment has been established, normally the ex-dividend date. Where no ex-dividend date is available, dividends receivable on or before the period end are treated as revenue for the period. Provision is made for any dividends not expected to be received.

The fixed returns on debt securities, loans and non-equity shares are recognised on an effective interest rate basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

For trading subsidiaries, revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the group. Sales of goods are recognised when goods are delivered and title has passed. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

The company's share of net income from limited partnerships is recognised as revenue when received.

Where uncertainty arises over the collectability of an amount already included in income, the uncollectible amount or the amount in respect of which the recovery has ceased to be probable, is recognised as an expense. When the uncertainty over collectability is removed, normally on receipt, the income is recognised in the statement of comprehensive income.

Expenses

All expenses are accounted for on an accrual basis. In the company financial statements, management expenses and performance fees are included in revenue reserves. Expenses of acquisition of an investment designated as held at fair value through profit or loss or expenses of an aborted acquisition or disposal of an investment are presented as transaction costs or deducted from the proceeds of sale as appropriate and included in capital reserves.

Taxation

The tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that were applicable at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trust companies that have approval as such under section 1159 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Dividend distribution

Dividends are recognised in the period in which they are appropriately authorised and no longer at the discretion of the entity. For interim dividends, this will normally mean the date on which they are paid and, for final dividends, the date on which they are approved in general meeting.

Employee benefits

Pension schemes

Payments to defined contribution schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in other comprehensive income and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Profit-sharing and bonus plans

The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Where employees of a subsidiary are granted rights to the equity instruments of its parent as consideration for the services provided to the subsidiary, the subsidiary recognises an equity settled share-based payment transaction expense with a corresponding increase recognised in equity representing a contribution from the parent.

An employee share trust is used for distributing option and performance share and deferred bonus awards to employees under Caledonia's share remuneration schemes. The trustee purchases shares with money lent interest free by Caledonia and transfers shares to participating employees on receipt of the requisite consideration or calling of awards.

The transactions the employee share trust undertakes are considered to be performed by the trust as an agent for Caledonia. The transactions of the employee share trust are included in the separate financial statements of the parent company and, following the requirements of SIC 12, in the consolidated financial statements as if they arose in that company. Own shares held by the employee share trust as at the reporting date are accounted for as if they were treasury shares.

National Insurance on share option scheme gains and performance share and deferred bonus awards

National Insurance payable on the exercise of certain employee share options and performance share awards at the date of exercise and deferred bonus awards at the date of call have been charged as an expense spread over the respective vesting periods. The charge is based on the difference between the market value of the underlying shares at the reporting date and the exercise price for share options or £nil for performance share awards and deferred bonus awards and calculated at the latest enacted National Insurance rate.

Capital reserve

The company maintains a capital reserve. The following items are transferred into the capital reserve from profit or loss:

- gains and losses on investments held at fair value through profit or loss
- gains and losses on derivatives used to hedge the fair value of investments
- expenses and finance costs incurred directly in relation to capital transactions
- taxation on items recognised in the capital reserve.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land or properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Property	25-40 years
Plant	10-15 years
Equipment	3-8 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in the statement of comprehensive income for the period in which they arise.

Intangible assets

Brands, trademarks, computer software and customer relationships

Brands, trademarks, computer software and customer relationships acquired by the group are stated at cost less accumulated amortisation and impairment losses. Where such items are not deemed to have an indefinite life, amortisation is expensed on a straight-line basis over their estimated useful lives.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Accounting policies continued

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of assets
At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, intangible assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Properties that are held for sale in the ordinary course of business or are being developed for future sale are classified as inventories.

Receivables
Receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Borrowings
Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest method allocates the interest expense over the life of the instrument so as to reflect a constant return on the carrying amount of the liability.

Borrowings include a component of the company's deferred ordinary shares and preference shares in subsidiaries held by third parties that fall under the definition of financial liabilities under IAS 32.

Provisions
A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

In the company financial statements, provisions recognised for investments are recognised in the statement of comprehensive income as a capital return.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis.

Lessee
Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Share capital
Equity instruments issued by the company are recorded as the proceeds received, net of direct issue costs.

Where any group company and the Caledonia Investments plc Employee Share Trust purchases the company's equity share capital or the company buys shares into treasury, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's owners until the shares are cancelled or transferred. Where such shares are subsequently transferred, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's owners.

Derivative financial instruments

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

Hedge accounting is not applied. Changes in the fair value of derivative financial instruments are recognised in the statement of comprehensive income as they arise.

Operating segments

Operating segments are based on the financial information reported to the chief operating decision maker.

Basis of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the company and entities controlled by the company (its subsidiaries) made up to the reporting date. Control is achieved where the company has the power to govern the financial and operating policies of the investee entity so as to obtain economic benefits from its activities.

On acquisition, the identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at fair values on that date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the statement of comprehensive income in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlled proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through the financial and operating policy decisions of the investee entity.

As Caledonia is an investment trust company, and its investments held in associates are designated as held at fair value through profit or loss, the provisions of IAS 28 'Investments in Associates' do not apply. Such investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.

No other group company held investments in associates.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is the subject of joint control.

As Caledonia is an investment trust company, and its interests in joint ventures are designated as held at fair value through profit or loss, the provisions of IAS 31 'Interests in Joint Ventures' do not apply. Such interests are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur. However, the provisions of IAS 31 do apply to interests in joint ventures held by other companies in the group, as set out below.

The results and assets and liabilities of joint ventures held by subsidiaries are incorporated in these financial statements using the equity method of accounting, except when classified as held for sale. Interests in joint ventures are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the group's share of net assets of the joint ventures, less any impairment in the value of individual investments. Losses of the joint ventures in excess of the group's interest in those joint ventures are not recognised.

Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the joint ventures at the date of acquisition is recognised as goodwill. Any deficiency in the cost of acquisition below the group's share of the fair values of the identifiable net assets at the date of acquisition is credited in profit or loss in the period of acquisition.

Where a group company transacts with joint ventures of the group, profits and losses are eliminated to the extent of the group's interest in the relevant joint ventures. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

Notes to the financial statements

1. Investment income

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Dividends from equity shares				
Listed UK	14.7	16.7	14.7	16.7
Listed non-UK	6.2	4.2	6.4	4.3
Unlisted	8.9	7.3	9.0	7.5
Subsidiaries	7.7	3.3	–	–
Interest on loan investments				
Unlisted	1.9	1.8	3.4	2.9
	39.4	33.3	33.5	31.4

2. Expenses

Investing operations
Management expenses

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Personnel expenses	8.4	7.7	8.4	7.7
Depreciation	0.1	0.1	0.1	0.1
Auditor's remuneration	0.2	0.1	0.2	0.1
Other administrative expenses	4.5	3.8	4.5	3.8
Other expenses	–	0.1	–	0.1
	13.2	11.8	13.2	11.8

Caledonia Group Services Ltd, a wholly-owned subsidiary, provides management services to the company and charges for its services on the basis of net expenses incurred. The table above includes both an analysis of this expense and Caledonia's own management expenses.

Other expenses

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Transaction costs	0.7	0.6	0.7	0.6

Transaction costs were expenses incidental to the acquisition of investments held at fair value through profit or loss and expenses incurred as part of aborted investment purchases or sales and were allocated to the capital reserve.

Trading operations
Operating expenses

	Group 2013 £m	Group 2012 £m
Cost of sales	83.7	81.8
Distribution expenses	3.9	3.7
Administrative expenses	19.1	21.6
	106.7	107.1

Operating expenses included the following items:

	Group 2013 £m	Group 2012 £m
Depreciation	4.1	4.1
Amortisation	0.6	1.5
Impairment loss on goodwill	–	0.7
Impairment loss on customer relationships	–	1.1
Impairment loss on property, plant and equipment	1.4	–
Direct operating expenses of investment property that generated rental income	0.1	0.1
Operating lease rentals (note 25)	1.2	1.2
Auditor's remuneration	0.2	0.2

Further information
Auditor's remuneration

Fees payable to KPMG Audit Plc were as follows:

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Audit services				
Company audit	0.1	0.1	0.1	0.1
Consolidation audit	–	–	0.1	0.1
Annual report	0.1	0.1	0.2	0.2
Subsidiaries' audit	–	–	0.1	0.1
	0.1	0.1	0.3	0.3
Other services				
Other assurance and tax compliance	0.1	–	0.1	–
	0.2	0.1	0.4	0.3

Personnel expenses

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Wages and salaries	5.6	5.6	31.1	30.8
Compulsory social security contributions	0.8	0.7	5.0	4.7
Contributions to defined contribution plans	0.3	0.3	1.0	0.8
Defined benefit pension plans expense (note 19)	–	–	(1.5)	0.1
Increase in liability for long service leave	–	–	–	0.1
Equity-settled share-based payments (note 19)	1.3	1.1	1.3	1.1
National Insurance on share awards	0.4	–	0.4	–
	8.4	7.7	37.3	37.6

The average number of employees, including executive directors, throughout the year was as follows:

	Company 2013 No	Company 2012 No	Group 2013 No	Group 2012 No
Average number of employees	44	42	767	664

3. Treasury interest receivable

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Interest on bank deposits	0.3	0.3	0.3	0.4
Other interest receivable	0.2	0.3	0.2	0.3
Guarantee fees	0.1	0.2	–	–
	0.6	0.8	0.5	0.7

4. Finance costs

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Interest on bank loans and overdrafts	0.5	0.6	2.1	2.4
Loan impairments	1.2	–	1.1	–
	1.7	0.6	3.2	2.4

5. Taxation

Recognised in comprehensive income

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Current tax expense				
Current year	(1.7)	(1.8)	2.5	2.2
Adjustments for prior years	(3.2)	(0.1)	(3.8)	(2.0)
	(4.9)	(1.9)	(1.3)	0.2
Deferred tax expense				
Origination and reversal of timing differences	–	(0.5)	1.0	0.2
Benefit of tax losses recognised	–	–	–	1.6
	–	(0.5)	1.0	1.8
Total tax expense/(income)	(4.9)	(2.4)	(0.3)	2.0

Reconciliation of effective tax expense

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Profit/(loss) before tax	201.9	(95.6)	201.8	(96.2)
Tax at the domestic rate of 24% (2012 – 26%)	48.5	(24.9)	48.4	(25.0)
Effect of tax rate in foreign jurisdictions	–	–	1.2	2.3
Non-deductible expenses	–	0.1	0.8	0.8
Utilisation of tax losses	–	–	(0.4)	–
Losses for the year unrelieved	1.3	0.9	1.9	2.8
Non-taxable losses/(gains) on investments	(42.5)	29.7	(41.0)	29.5
Non-taxable UK dividend income	(5.4)	(6.4)	(3.6)	(5.5)
Tax exempt revenues	(3.6)	(1.7)	(3.5)	(1.8)
Other timing differences	–	–	(0.3)	0.9
Over provided in prior years	(3.2)	(0.1)	(3.8)	(2.0)
Tax Expense/(income)	(4.9)	(2.4)	(0.3)	2.0

Recognised in other comprehensive income

	Group 2013 £m	Group 2012 £m
Deferred tax credit		
Relating to actuarial losses on defined benefit pension schemes	1.2	1.5
Relating to share options and deferred bonus awards	0.2	–
	1.4	1.5

Current tax assets

Current tax assets of £2.1m in the company represented loss relief surrender for settlement and £0.9m in the group (2012 – £0.9m in the company and £0.7m in the group) represented the amount of income taxes recoverable in respect of current and prior years that exceeded payments.

6. Dividends

Amounts recognised as distributions to owners of the company in the year were as follows:

	2013 p/share	2013 £m	2012 p/share	2012 £m
Final dividend for the year ended 31 March 2012 (2011)	31.2	17.8	26.0	15.0
Interim dividend for the year ended 31 March 2013 (2012)	12.9	7.3	11.7	6.8
	44.1	25.1	37.7	21.8
Proposed final dividend for the year ended 31 March 2013 (2012)	34.3	19.1	31.2	17.8

The proposed final dividend has not been included as a liability in these financial statements. This dividend, if approved by shareholders at the annual general meeting to be held on 24 July 2013, will be payable on 8 August 2013 to holders of shares on the register on 12 July 2013. The ex-dividend date will be 10 July 2013.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2013 are the interim and final dividends for that year, amounting to £26.4m (2012 – £24.6m).

7. Earnings and net asset value per share

Basic and diluted earnings per share

The calculation of basic earnings per share of the company and of the group was based on the profit or loss attributable to shareholders and the weighted average number of shares outstanding during the year. The calculation of diluted earnings per share included an adjustment for the effects of dilutive potential shares.

The company earnings were as follows:

	Revenue 2013 £m	Revenue 2012 £m	Capital 2013 £m	Capital 2012 £m
Profit/(loss) for the year	28.1	23.0	178.7	(116.2)

Notes to the financial statements continued

The profit attributable to shareholders was as follows:

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Profit/(loss) attributable to shareholders (basic and diluted)	206.8	(93.2)	201.3	(98.6)

The weighted average number of shares was as follows:

	Company 2013 000's	Company 2012 000's	Group 2013 000's	Group 2012 000's
Issued shares at year start	57,359	58,795	57,359	58,795
Effect of shares cancelled	(463)	(455)	(463)	(455)
Effect of shares held in treasury	–	(391)	–	(391)
Effect of shares held by the employee share trust	(346)	(350)	(346)	(350)
Shares held by a subsidiary	–	–	(3)	(3)
Basic weighted average number of shares during the year	56,550	57,599	56,547	57,596
Effect of share options and performance share and deferred bonus awards	589	303	589	303
Diluted weighted average number of shares during the year	57,139	57,902	57,136	57,899

Net asset value per share
The company's undiluted net asset value per share is based on the net assets of the company at the year end and on the number of shares in issue at the year end less shares held by the Caledonia Investments plc Employee Share Trust, shares held by a subsidiary and shares accounted as held in treasury. The company's diluted net asset value per share assumes the exercise of all outstanding in-the-money share options and the calling of performance share and deferred bonus awards and, in the prior year, the re-issue of shares accounted as held in treasury at the closing mid-market price on the reporting date.

	2013 Net assets £m	2013 Number of shares 000's	2013 NAV p/share	2012 Net assets £m	2012 Number of shares 000's	2012 NAV p/share
Undiluted	1,298.8	55,880	2324	1,134.0	57,009	1989
Adjustments	3.2	764	(25)	2.6	476	(12)
Diluted	1,302.0	56,644	2299	1,136.6	57,485	1977

8. Investments

Company

	2013 £m	2012 £m
Non-current investments		
Investments held at fair value through profit or loss	1,204.8	1,180.7
Investments in subsidiaries held at cost	0.8	0.8
	1,205.6	1,181.5

The movements in non-current investments were as follows:

	Listed UK £m	Listed non-UK £m	Unlisted £m	Subsidiaries £m	Total £m
Balance at 31 March 2011	563.0	155.0	354.1	111.9	1,184.0
Purchases at cost	69.7	103.4	55.6	19.1	247.8
Reclassifications	–	–	(1.1)	1.1	–
Disposal proceeds	(60.6)	(25.5)	(33.0)	(9.5)	(128.6)
Losses on investments	(74.8)	(13.5)	(29.7)	(5.4)	(123.4)
Rolled-up interest	–	–	1.7	–	1.7
Balance at 31 March 2012	497.3	219.4	347.6	117.2	1,181.5
Purchases at cost	26.1	54.9	42.1	19.1	142.2
Disposal proceeds	(199.1)	(44.8)	(51.4)	(2.6)	(297.9)
Gains/(losses) on investments	89.3	42.2	47.5	(1.0)	178.0
Rolled-up interest	–	–	1.8	–	1.8
Balance at 31 March 2013	413.6	271.7	387.6	132.7	1,205.6

Rolled-up interest is the movement in the fair value of loan instruments attributable to investment income.

Group

	2013 £m	2012 £m
Non-current investments		
Investments held at fair value through profit or loss		
Listed UK securities	414.2	497.9
Listed non-UK securities	279.2	226.6
Unlisted securities	394.0	364.0
	1,087.4	1,088.5
Available for sale investments		
Unlisted securities	0.9	0.8
	1,088.3	1,089.3

9. Intangible assets

Group

	Goodwill £m	Customer relationships £m	Other £m	Total £m
Cost				
Balance at 31 March 2011	35.1	13.6	1.2	49.9
Acquisition of operations	0.2	0.6	–	0.8
Disposal of operations	(27.7)	(11.8)	(1.2)	(40.7)
Exchange movements	(0.1)	–	–	(0.1)
Balance at 31 March 2012	7.5	2.4	–	9.9
Acquisition of operations	–	0.6	–	0.6
Other acquisitions	0.1	–	–	0.1
Exchange movements	0.2	–	–	0.2
Balance at 31 March 2013	7.8	3.0	–	10.8
Amortisation and impairment				
Balance at 31 March 2011	30.7	10.4	1.2	42.3
Amortisation	–	1.5	–	1.5
Impairment	0.7	1.1	–	1.8
Disposal of operations	(25.3)	(11.8)	(1.2)	(38.3)
Balance at 31 March 2012	6.1	1.2	–	7.3
Amortisation	–	0.6	–	0.6
Exchange movements	0.1	–	–	0.1
Balance at 31 March 2013	6.2	1.8	–	8.0
Carrying amounts				
At 31 March 2011	4.4	3.2	–	7.6
At 31 March 2012	1.4	1.2	–	2.6
At 31 March 2013	1.6	1.2	–	2.8

Goodwill and customer relationships primarily relate to business combinations. Other intangible assets included brands and trademarks, recipes and formulae and computer software.

Impairment charge

The impairment charge for the previous year of £1.8m was recognised in operating expenses of trading operations in the statement of comprehensive income.

Impairment tests for goodwill

The carrying amount of goodwill was predominantly attributable to a single cash generating unit, Amber Chemicals. The recoverable amount of the unit has been determined on the basis of value in use based on recent forecasts from the unit management's business plan.

10. Property, plant and equipment

Group

	Property £m	Plant £m	Equipment £m	Total £m
Cost				
Balance at 31 March 2011	93.7	6.1	14.6	114.4
Acquisition of operations	–	0.4	0.1	0.5
Other acquisitions	0.4	0.9	0.6	1.9
Disposal of operations	–	–	(2.0)	(2.0)
Other disposals	–	(0.2)	–	(0.2)
Exchange movements	(2.6)	(0.4)	(0.2)	(3.2)
Balance at 31 March 2012	91.5	6.8	13.1	111.4
Acquisition of operations	–	0.1	–	0.1
Other acquisitions	0.3	1.0	0.6	1.9
Other disposals	–	(0.1)	(0.1)	(0.2)
Exchange movements	0.8	0.4	0.2	1.4
Balance at 31 March 2013	92.6	8.2	13.8	114.6
Depreciation and impairment				
Balance at 31 March 2011	25.0	3.3	5.0	33.3
Depreciation charge	1.8	1.2	1.2	4.2
Disposal of operations	–	–	(1.9)	(1.9)
Other disposals	–	(0.1)	–	(0.1)
Exchange movements	(0.5)	(0.2)	(0.2)	(0.9)
Balance at 31 March 2012	26.3	4.2	4.1	34.6
Depreciation charge	1.8	1.3	1.1	4.2
Impairment	1.4	–	–	1.4
Other disposals	–	(0.1)	(0.1)	(0.2)
Exchange movements	0.3	0.3	0.2	0.8
Balance at 31 March 2013	29.8	5.7	5.3	40.8
Carrying amounts				
At 31 March 2011	68.7	2.8	9.6	81.1
At 31 March 2012	65.2	2.6	9.0	76.8
At 31 March 2013	62.8	2.5	8.5	73.8

Security

At 31 March 2013, properties with a carrying amount of £31.3m (2012 – £33.0m) were subject to charges to secure bank loans (note 17).

11. Investment property

Group

	2013 £m	2012 £m
Balance at the year start	14.8	20.5
Additions	10.2	6.4
Disposals	(0.4)	(1.6)
Disposal of operations	–	(10.8)
Fair value adjustments	0.4	0.3
Balance at the year end	25.0	14.8

During the previous year an investment property was sold for £0.4m, which had been leased out for £2,800 per annum.

Notes to the financial statements continued

The carrying value of investment property was the fair value of the property as determined by a registered independent appraiser, having an appropriate recognised qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location. Investment property comprised commercial property that is leased out over 10 to 20 years (note 25) and vacant freehold land.

Security
At 31 March 2013, investment properties with a carrying value of £18.8m (2012 – £6.0m) were subject to charges to secure bank loans (note 17).

12. Interests in joint ventures

The group had the following interests in joint ventures:

	Country of domicile	Ownership 2013 %	Ownership 2012 %
Moredun LP	UK	33	33
Willmoreton Properties Ltd	UK	50	50

The group's share of post-acquisition total recognised profit or loss in the above joint ventures for the year ended 31 March 2013 was £0.6m loss (2012 – £1.0m loss).

Summarised financial information of joint ventures was as follows:

	Assets £m	Liabilities £m	Equity £m	Revenue £m	Loss £m
2013					
Moredun LP	3.5	(3.2)	0.3	0.4	(1.8)
Willmoreton Properties Ltd	0.1	–	0.1	–	–
2012					
Moredun LP	5.3	(3.2)	2.1	1.6	(2.0)
Willmoreton Properties Ltd	0.1	–	0.1	0.4	(0.7)
	5.4	(3.2)	2.2	2.0	(2.7)

13. Deferred tax assets and liabilities

Company
Movement in temporary differences during the year

	Balance at year start £m	Compre–hensive income £m	Balance at year end £m
2013			
Investments	–	–	–
2012			
Investments	(0.5)	0.5	–

Unrecognised deferred tax assets
Deferred tax assets were not recognised in respect of the following items:

	2013 £m	2012 £m
Tax losses	2.2	1.8

A deferred tax asset was not recognised in respect of the tax losses because it was not probable that future taxable profits would be available against which the company could utilise the benefits.

Group
Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2013			
Employee benefits	4.3	(1.1)	3.2
Other items	0.7	(1.1)	(0.4)
	5.0	(2.2)	2.8
2012			
Employee benefits	4.6	(1.7)	2.9
Tax losses	0.5	–	0.5
Other items	0.3	(1.4)	(1.1)
	5.4	(3.1)	2.3

Unrecognised deferred tax assets
Deferred tax assets were not recognised in respect of the following items:

	2013 £m	2012 £m
Tax losses	6.6	7.3

A deferred tax asset was not recognised in respect of the tax losses because it was not probable that future taxable profit would be available against which the group could utilise the benefits.

Movement in temporary differences during the year

	Balance at year start £m	Compre-hensive income £m	Other comprehensive income: Taxation £m	Other comprehensive income: Exchange movement £m	Disposed in the year £m	Balance at year end £m
2013						
Employee benefits	2.9	(1.2)	1.4	0.1	–	3.2
Tax losses	0.5	(0.5)	–	–	–	–
Other items	(1.1)	0.7	–	–	–	(0.4)
	2.3	(1.0)	1.4	0.1	–	2.8
2012						
Investments	(0.5)	0.5	–	–	–	–
Employee benefits	2.3	(0.9)	1.5	–	–	2.9
Tax losses	2.1	(1.6)	–	–	–	0.5
Other items	(1.2)	0.2	–	–	(0.1)	(1.1)
	2.7	(1.8)	1.5	–	(0.1)	2.3

14. Inventories

	Group 2013 £m	Group 2012 £m
Raw materials and consumables	5.8	4.8
Work in progress	1.2	1.5
Finished goods	2.7	2.5
Properties held for sale	9.3	6.2
	19.0	15.0

Security

At 31 March 2013, properties held for sale with a carrying value of £1.6m (2012 – £1.4m) were subject to charges to secure bank loans (note 17).

15. Trade and other receivables

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Trade receivables and prepayments	8.8	3.8	38.6	31.5
Other receivables	3.1	4.2	3.1	4.2
	11.9	8.0	41.7	35.7

16. Net cash and cash equivalents

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Bank balances	0.2	2.6	19.9	18.8
Short term deposits	96.3	5.8	96.3	5.8
Cash and cash equivalents	96.5	8.4	116.2	24.6

17. Interest-bearing loans and borrowings

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Non-current liabilities				
Secured bank loans	–	–	31.6	3.5
Unsecured loans	–	45.0	19.9	81.1
Cumulative preference shares	–	–	0.1	0.1
	–	45.0	51.6	84.7
Current liabilities				
Current portion of secured loans	–	–	0.2	20.8
	–	–	0.2	20.8

Group bank loans of £31.8m (2012 – £24.3m) were secured by a charge over certain properties and receivables of the group (notes 10, 11 and 14).

18. Trade and other payables

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Trade payables	–	–	9.7	8.8
Non-trade payables and accrued expenses	4.4	6.4	15.7	16.5
	4.4	6.4	25.4	25.3

19. Employee benefits

	Group 2013 £m	Group 2012 £m
Non-current assets		
Defined benefit pension asset	6.9	6.9
Current liabilities		
Short term compensated absences	(0.5)	(0.5)
Profit-sharing bonus	(2.0)	(1.8)
	(2.5)	(2.3)
Non-current liabilities		
Defined benefit pension obligations	(11.0)	(11.2)
National Insurance on share options and performance share and deferred bonus awards	(0.5)	(0.2)
Profit-sharing bonus	(5.3)	(3.3)
Liability for long term service leave	(0.7)	(0.7)
	(17.5)	(15.4)
Total employee liabilities	(20.0)	(17.7)

Defined benefit pension obligations

The group makes contributions to four (2012 – four) plans in the UK and US that provide pension benefits for employees.

	Group 2013 £m	Group 2012 £m
Present value of funded obligations	82.9	73.3
Fair value of plan assets	(78.8)	(69.0)
Present value of net obligations	4.1	4.3

Changes in the present value of defined benefit obligations were as follows:

	Group 2013 £m	Group 2012 £m
Balance at year start	73.3	69.1
Service cost	1.1	0.9
Interest cost	3.3	3.5
Actuarial loss	8.4	2.1
Actual benefit payments	(2.2)	(2.3)
Settlement/curtailment	(2.0)	–
Exchange movements	1.0	–
Balance at year end	82.9	73.3

Changes in the fair value of plan assets were as follows:

	Group 2013 £m	Group 2012 £m
Balance at year start	69.0	64.4
Expected return on assets	3.9	4.3
Actuarial gain/(loss)	4.2	(2.8)
Employer contributions	3.2	5.3
Actual benefit payments	(2.2)	(2.3)
Exchange movements	0.7	0.1
Balance at year end	78.8	69.0

Notes to the financial statements continued

Amounts recognised in the statement of comprehensive income were as follows:

	Group 2013 £m	2012 £m
Current service cost	1.1	0.9
Interest on obligations	3.3	3.5
Expected return on plan assets	(3.9)	(4.3)
Settlement/curtailment	(2.0)	–
	(1.5)	0.1

The expense was recognised in the following lines in the statement of comprehensive income:

	Group 2013 £m	2012 £m
Operating expenses of trading activities	(1.5)	0.1

Amounts recognised in other comprehensive income were as follows:

	Group 2013 £m	2012 £m
Actuarial losses in the year	4.2	4.9
Cumulative actuarial losses	16.5	12.3

An analysis of plan assets and expected returns at the end of the year (expressed as weighted averages) was as follows:

	Group 2013 £m	2012 £m
Plan assets		
Equities	46.1	39.9
Bonds	15.4	14.6
Other assets	17.3	14.5
	78.8	69.0
Expected returns	%	%
Equities	7.0	7.0
Bonds	4.0	4.0
Other assets	3.4	3.4
	5.6	5.6

Principal actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

	Group 2013 %	2012 %
Discount rate at year end	4.4	4.6
Future salary increases	4.6	4.5
Future pension increases	3.4	3.4
Price inflation	3.2	3.1

The main changes in 2013 relating to pension and other post-retirement obligations concerned the Bloom Inc Pension Plan which was frozen to further benefit from 31 March 2013, giving rise to a £2.1m curtailment gain in the year.

In 2012, the main changes were to the Sterling Industries Pension Scheme. The UK Government announced in July 2010 that inflation as measured by the Consumer Price Index ('CPI') rather than the Retail Prices Index ('RPI') would be used to determine future statutory pension increases for private sector pension schemes. As CPI inflation is generally lower than RPI inflation, the anticipated lower pension payments reduced the defined benefit obligation by around £0.7m in 2012, following a reduction of £0.2m when the change was applied to members in the Caledonia and Amber schemes in 2011.

Mortality rates are assumed to follow the Self-Administered Pension Schemes 'Series 1' light tables applicable to each member's year of birth, projected to calendar year 2009 in line with medium cohort improvements. Allowance has also been made for further improvements in line with medium cohort improvement rates with a minimum improvement of 1.5% pa. Life expectancy on retirement in normal health is assumed to be 27.5 years for males and 28.7 years for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ending 31 March 2014 were £2.7m (2013 – £3.2m).

Amounts for the current and previous four years were as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Group					
Present value of defined benefit obligations	82.9	73.3	69.1	67.9	56.5
Fair value of plan assets	(78.8)	(69.0)	(64.4)	(60.0)	(47.4)
Deficit in the plan	4.1	4.3	4.7	7.9	9.1
Experience adjustment on plan liabilities	(0.3)	(1.5)	(0.8)	(0.1)	(2.1)
Experience adjustment on plan assets	4.2	(2.8)	1.0	14.5	(16.3)

Share-based payments

The company currently has two executive share option schemes, a 1998 scheme and a 2005 scheme. These schemes entitle senior employees to purchase shares in the company at the market price of the shares at the date of grant and on similar terms, subject to service and company performance criteria. Under the terms of the schemes, options may be exercised between three and ten years after the date of grant, although only one-third of the options may be exercised after three years from grant, with the remaining two-thirds becoming exercisable six years after grant. A number of grants have been made under these schemes.

At the 2011 annual general meeting, shareholders approved a new performance share scheme to replace the existing share option scheme as the means of delivering long term incentive awards to senior executives. The performance share scheme entitles senior executives to receive options over the company's shares which are exercisable at nil-cost, subject to service and performance conditions. The nil-cost option awards may be exercised between three and ten years after the date of grant, although only two-thirds of the awards may be exercised after three years, with the remaining one-third becoming exercisable five years after grant. Initial grants of awards under this scheme were made in 2011.

The company also has two deferred bonus plans, a 2005 plan and a 2011 plan, under which senior employees compulsorily defer part of their annual bonus, being any bonus in excess of 50% of their basic salary for the bonus year, into shares and may voluntarily defer up to 50% of their remaining cash bonus into shares. The company will match the number of shares comprised in both compulsory and voluntary deferral, subject to service and company performance criteria.

The terms and conditions of the grants outstanding as at 31 March 2013 were as follows, whereby all grants are settled by physical delivery of shares:

Grant date	Entitlement	Vesting conditions	Number of shares
Share options			
20.11.03	Option grant to senior staff	Note 1	21,100
26.05.04	Option grant to senior staff	Note 2	19,300
19.08.05	Option grant to senior staff	Note 3	82,074
01.06.06	Option grant to senior staff	Note 3	42,379
29.05.09	Option grant to senior staff	Note 3	106,353
			271,206
Performance share scheme awards			
11.08.11	Award grant to senior staff	Note 4	226,462
28.05.12	Award grant to senior staff	Note 4	273,648
			500,110
Deferred bonus awards to senior staff			
21.05.10	Voluntary award	Note 5	2,762
26.05.11	Compulsory award	Note 7	14,112
26.05.11	Voluntary award	Note 5	2,335
26.05.11	Matching shares	Note 6	14,890
28.05.12	Voluntary award	Note 5	680
28.05.12	Matching shares	Note 8	680
			35,459

Vesting conditions are as follows:

1. Three/six years of service and NAV outperforms RPI by 9% or NAV outperforms FTSE All-Share.
2. Three/six years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share.
3. Three/six years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share by 3%.
4. Three/five years of service and two-thirds vest if NAV total return outperforms the FTSE All-Share Total Return and/or one-third vests if NAV total return outperforms the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return, in each case with vesting increasing on a straight-line basis from 10% to 100% on outperformance of 0.5% to 3.5%.
5. Three years of service or earlier termination of employment.
6. Three years of service and 50% vests if NAV outperforms RPI by 9% and/or 50% vests if NAV outperforms FTSE All-Share by 3%.
7. Three years of service.
8. Three years of service and two-thirds vest if NAV total return outperforms the FTSE All-Share Total Return and/or one-third vests if NAV total return outperforms the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return, in each case with vesting increasing on a straight-line basis from 10% to 100% on outperformance of 0.5% to 3.5%.

All share options and performance share awards have a life of ten years and all deferred bonus awards have a life of four years.

The number and weighted average exercise prices of share options were as follows:

	2013		2012	
	Weighted average exercise price p/share	Number of options 000's	Weighted average exercise price p/share	Number of options 000's
Outstanding at the year start	1512	605	1503	815
Exercised during the year	1503	(113)	1545	(38)
Lapsed during the year	1547	(221)	1461	(172)
Outstanding at the year end	1487	271	1512	605

The options outstanding at 31 March 2013 have an exercise price in the range of 945p to 1878p and a weighted average contractual life of ten years.

The fair value of services received in return for performance share scheme and deferred awards granted was measured indirectly, by reference to the share price at the date of grant.

Under the schemes, share options were granted with service and non-market performance conditions. Such conditions were not taken into account in the fair value measurement of the services received at the dates of grant. There were no market conditions associated with the share option grants.

The fair value of services received in return for deferred share awards was measured directly, by reference to the fair value of services received during the period. This was based on the amount of annual bonus that was compulsorily and voluntarily deferred in accordance with the rules of the company's deferred bonus plan.

Employee expenses/(credits) were as follows:

	Company		Group	
Years ended 31 March	2013 £m	2012 £m	2013 £m	2012 £m
Share options granted in 2006	(0.1)	–	(0.1)	–
Share options granted in 2007	(0.1)	–	(0.1)	–
Share options granted in 2010	0.1	(0.1)	0.1	(0.1)
Share options granted in 2011	(0.4)	0.2	(0.4)	0.2
Performance share awards granted in 2012	0.9	0.5	0.9	0.5
Performance share awards granted in 2013	0.7	–	0.7	–
Deferred bonus awards for 2008	–	0.2	–	0.2
Deferred bonus awards for 2010	–	0.1	–	0.1
Deferred bonus awards for 2011	0.2	0.2	0.2	0.2
	1.3	1.1	1.3	1.1

Notes to the financial statements continued

20. Provisions

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Balance at the year start	15.9	18.9	4.1	4.1
Bank guarantee provisions				
Released during the year	(5.1)	(10.0)	–	–
Increased during the year	2.1	7.0	–	–
Other provisions				
Decreased during the year	–	–	(0.2)	–
Balance at the year end	12.9	15.9	3.9	4.1
Current liabilities	12.9	15.9	3.9	4.1

During the year, the company recognised a £2.1m solvency guarantee provision and released a £5.1m provision related to bank guarantees provided for subsidiary borrowings. In the prior year, £3.0m of net bank guarantee provisions were released. These provisions have been allocated to the capital reserve. Other provisions in the group related to environmental and warranty claims. Provisions are based on an estimate of the expenditure to be incurred as a result of past events. The matters that gave rise to the provisions were expected to be resolved over the next year.

21. Financial instruments

Financial instruments comprise securities and other investments, cash balances, borrowings and receivables and payables that arise from operations. The investment portfolio includes listed and unlisted equity investments, debt instruments and investments in funds that are intended to be held for the long term.

Risk analysis

The main types of financial risk to which the group is exposed are market risk, credit risk and liquidity risk.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed are discussed below.

Market risk

Market risk embodies the potential for both losses and gains and includes price risk, currency risk and fair value interest rate risk.

The strategy for managing market risk is driven by the investment objective, which is to outperform the FTSE All-Share Total Return index over ten years. Investments are made in a range of instruments, including listed and unlisted equities, debt and non-equity investment funds, in a range of sectors and regions.

Details of the investment portfolio at the reporting date are shown on pages 2 and 6 to 21.

Price risk

Price risk may affect the value of listed and unlisted investments as a result of changes in market prices (other than arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

As the majority of financial instruments are carried at fair value, with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect reported portfolio returns.

Price risk is managed by constructing a diversified portfolio of instruments traded on various markets and hedging where appropriate.

The exposures of listed and unlisted equity investments, equity linked bonds and funds were as follows:

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Investments held at fair value through profit or loss	1,147.4	1,120.3	1,047.6	1,031.8

The following table details the sensitivity to a 10% variation in equity prices. The sensitivity analysis includes all equity and fund investments held at fair value through profit or loss and adjusts their valuation at the year end for a 10% change in value.

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Increase in prices	114.7	112.0	104.8	103.2
Decrease in prices	(114.7)	(112.0)	(104.8)	(103.2)

The sensitivity to equity and fund investments has increased during the year due to the market movement in the year.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure throughout the year as a whole.

Currency risk

Investments in financial instruments and other transactions may be denominated in currencies other than the functional currency. Consequently, there is exposure to the risk that the exchange rate of the functional currency may change relative to other currencies in a manner that has an adverse effect on the value of that portion of assets and liabilities denominated in currencies other than the functional currency.

The company's non-functional currency denominated investments and gains/losses thereon are reviewed regularly by the directors and the currency risk is managed by the directors with the overall asset allocation strategies and risk. At 31 March 2012, the company and group had a euro forward currency contract hedging a euro denominated investment which was fully closed out in 2013.

The fair values of the monetary items that have foreign currency exposure were as follows:

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Cash and cash equivalents	0.2	2.3	0.6	2.6
Trade and other receivables	3.1	4.2	5.4	6.1

The following table details the sensitivity to a 10% variation in exchange rates. This level of change is considered to be reasonable, based on observation of market conditions and historic trends. The sensitivity analysis includes all foreign denominated debt investments.

	Company		Group	
	2013 £m	2012 £m	2013 £m	2012 £m
Sterling depreciates (weakens)	0.3	0.5	0.5	0.7
Sterling appreciates (strengthens)	(0.2)	(0.4)	(0.4)	(0.6)

The exposure to foreign currency has decreased during the year due to the decrease in foreign cash and cash equivalent balances and decrease in foreign trade and other receivables.

Interest rate risk

Interest rate movements may affect the fair value of investments in fixed interest securities and the level of income receivable from fixed income securities and cash at bank and on deposit.

The company and group held fixed rate, interest-bearing financial assets, with maturity of up to five years, cash at bank and term deposits, with the term to maturity of up to three months, and floating rate, interest-bearing financial assets. The group also had floating rate, interest-bearing borrowings.

The exposure to interest rate risk on financial assets and liabilities was as follows:

	Company		Group	
	2013 £m	2012 £m	2013 £m	2012 £m
Fixed rate				
Investments in debt instruments	11.4	15.0	7.6	24.4
Interest-bearing loans and borrowings	–	–	(9.2)	(2.7)
Floating rate				
Investments in debt instruments	46.8	46.2	32.2	32.3
Cash and cash equivalents	96.5	8.4	116.2	24.6
Interest-bearing loans and borrowings	–	(45.0)	(42.6)	(102.8)

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date from a 50 basis point change taking place at the beginning of the financial year and held constant throughout the year. This level of change is considered to be reasonable, based on observation of market conditions and historic trends.

	Company		Group	
	2013 £m	2012 £m	2013 £m	2012 £m
Decrease in interest rates	0.2	0.7	0.1	1.1
Increase in interest rates	(0.2)	(0.7)	(0.1)	(1.1)

The company and group's sensitivity to interest rates has decreased in the year due to the reduction in variable rate borrowings and increase in cash and cash equivalents.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment. A credit policy is in place and exposure to credit risk is regularly monitored.

At 31 March 2013, the financial assets exposed to credit risk were as follows:

	Company		Group	
	2013 £m	2012 £m	2013 £m	2012 £m
Investments in debt instruments	59.3	63.3	40.9	58.8
Operating and other receivables	11.9	8.0	41.7	35.7
Derivatives	–	2.5	–	2.5
Cash and cash equivalents	96.5	8.4	116.2	24.6
	167.7	82.2	198.8	121.6

Prior to making investments in debt instruments, management has in place a process of review that includes an evaluation of a potential investee company's ability to service and repay its debt. Management reviews the financial position of investee companies, including their continuing ability to service and repay debt, on a regular basis.

The exposure to credit risk on operating and other receivables is mitigated by performing credit evaluations on investee companies as part of the due diligence process.

Credit risk arising on money market funds and cash and cash equivalents is mitigated by spreading investments and deposits across a number of approved counterparties in accordance with board policy. These are either investment grade banks with a credit rating of 'AA3' or 'AA-' or higher, as determined by the ratings agencies, Moody's and Fitch, or banks specifically approved by the board. These credit ratings are reviewed regularly.

All transactions in listed securities are settled on contract terms using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet their obligations. Listed security trades are settled through HSBC Global Custody.

There were no significant concentrations of credit risk to counterparties at 31 March 2013 (2012 – £nil).

Fair value

Most of the financial instruments are carried at fair value in the statement of financial position. Usually, the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For certain other financial instruments, specifically operating and other receivables and payables, the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

The principal methods and assumptions used in estimating the fair value of investments are disclosed on page 31.

Liquidity risk

Liquidity risk arises as a result of the possibility that the company may not be able to meet its obligations as they fall due.

Notes to the financial statements continued

The corporate treasury function provides services to the company and group, coordinating access to domestic financial markets for both borrowing and depositing. Group companies access local financial markets when this is more favourable, in liaison with the corporate treasury function. Executive management monitors the group's liquidity on a weekly basis.

The following table shows the group's exposure to gross liquidity risks, based on the undiscounted contractual maturities of the financial liabilities:

	Up to 1 year £m	1 to 5 years £m	Over 5 years £m	Discount £m	Net total £m
2013					
Secured bank loans	1.7	38.0	0.6	(8.5)	31.8
Unsecured loans	0.3	20.1	–	(0.5)	19.9
Cumulative preference shares	–	–	0.1	–	0.1
	2.0	58.1	0.7	(9.0)	51.8
2012					
Secured bank loans	21.4	4.0	–	(1.1)	24.3
Unsecured loans	1.3	82.4	–	(2.6)	81.1
Cumulative preference shares	–	–	0.1	–	0.1
	22.7	86.4	0.1	(3.7)	105.5

Capital management policies and procedures

The company's capital management objectives are:

- to ensure that it will be able to continue as a going concern
- to maximise the income and capital return to its shareholders principally through the use of equity capital, although the company will maintain appropriate borrowing facilities, to be used for short term working capital or bridging finance, currently £75m (2012 – £100m).

The company's total capital at 31 March 2013 was £1,298.8m (2012 – £1,134.0m) comprising equity share capital and reserves. The company was ungeared at the year end (2012 – 4% geared).

The board monitors and reviews the broad structure of the company's capital on an on-going basis. This review includes:

- the planned level of gearing, which takes into account planned investment activity
- the possible buy-back of equity shares for holding in treasury or cancellation, which takes account of the discount of the share price to net asset value per share
- the annual dividend policy.

The company's objectives, policies and processes for managing capital are unchanged from the preceding year.

The company is subject to the following externally imposed capital requirements:

- as a public limited company, the company is required to have a minimum issued share capital of £50,000
- to maintain its approval as an investment trust company, the company is required to comply with the provisions of section 1158 of the Corporation Tax Act 2010 as amended by the Investment Trust (Approved Company) (Tax) Regulations 2011.

The company has complied with these requirements, which are unchanged since the previous year end.

Fair value hierarchy

The company's valuation methodology is disclosed on page 31. The table below analyses financial instruments held at fair value according to the subjectivity of the valuation method, using the following hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets.

Level 2 Inputs other than quoted prices included within Level 1 that are directly or indirectly observable.

Level 3 Inputs for the asset that are not based on observable market data.

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Investments held at fair value				
Level 1	685.3	716.7	693.4	724.5
Level 2	42.9	48.9	10.3	19.1
Level 3	476.6	415.1	383.7	344.9
	1,204.8	1,180.7	1,087.4	1,088.5
Available for sale investments				
Level 2	–	–	0.9	0.8
Derivatives				
Level 2	–	2.5	–	2.5

In the year, an investment with a value of £3.2m was transferred from Level 2 to Level 3 as a result of there no longer being any observable market data.

Movement in Level 3 financial instruments was as follows:

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Balance at the year start	415.1	403.5	344.9	340.2
Reclassifications	3.2	–	3.2	–
Purchases	60.5	69.1	42.7	55.6
Disposal proceeds	(52.4)	(32.6)	(61.9)	(29.1)
Gains and losses on investments sold in the year	24.6	(73.2)	26.1	(36.8)
Gains and losses on investments held at the year end	25.6	48.3	28.7	15.0
Balance at the year end	476.6	415.1	383.7	344.9

22. Capital and reserves

Share capital and share premium

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2011	2.9	0.4	1.3	4.6
Shares cancelled	(0.1)	–	–	(0.1)
Balance at 31 March 2012 and 2013	2.8	0.4	1.3	4.5

The number of fully paid shares in issue was as follows:

	Ordinary shares 2013 000's	Ordinary shares 2012 000's	Deferred ordinary shares 2013 000's	Deferred ordinary shares 2012 000's
Balance at the year start	57,359	58,795	8,000	8,000
Shares cancelled	(1,137)	(1,436)	–	–
Balance at the year end	56,222	57,359	8,000	8,000

The company has also outstanding share options and performance share scheme and deferred bonus awards (note 19).

As at 31 March 2013, the issued share capital of the company comprised 56,222,028 ordinary shares (2012 – 58,358,801) and 8,000,000 deferred ordinary shares (2012 – 8,000,000). The ordinary and deferred ordinary shares have a nominal value of 5p each.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. In respect of the company's ordinary shares that are held by the group, all voting rights are suspended.

The deferred ordinary shares carry no voting rights and are not redeemable. They carry the right to a fixed cumulative preference dividend of 1% per annum (exclusive of any associated tax credit) of the nominal value of such deferred ordinary shares, being 0.05p per share, or £4,000 in aggregate, for all such shares currently in issue. The company is required to pay the dividend to the extent that it has distributable profits. On a winding-up or other return of capital, the deferred ordinary shares carry the right to the payment of the amount paid up on such shares only after holders of the ordinary shares have received the sum of £100,000 in respect of each such ordinary share. All of the deferred ordinary shares are held by Sterling Industries PLC, a wholly-owned subsidiary of Caledonia.

Capital redemption reserve

The capital redemption reserve comprises the nominal value of those shares purchased by the company out of its own profits and cancelled. At 31 March 2013, the capital redemption reserve was £1.3m (2012 – £1.3m and 2011 – £1.2m). 1,125,273 shares were cancelled in the year (2012 – 1,435,980) shares.

Reserves

Company

	Capital reserve 2013 £m	Capital reserve 2012 £m	Revenue reserve 2013 £m	Revenue reserve 2012 £m
Total comprehensive income	178.7	(116.2)	28.1	23.0
Share-based payments	–	–	1.3	1.1
Own shares cancelled	(17.9)	(22.3)	–	–
Dividends to shareholders	–	–	(25.1)	(21.8)
	160.8	(138.5)	4.3	2.3
Balance at the year start	854.3	992.8	290.6	288.3
Balance at the year end	1,015.1	854.3	294.9	290.6

Group

	Translation reserve £m	Retained earnings £m	Non-controlling interest £m
Balance at 31 March 2011	4.3	1,267.7	(0.4)
Total comprehensive income	–	(102.0)	0.4
Non-controlling interest disposed	–	–	3.3
Non-controlling interest acquired	–	(1.0)	–
Own shares cancelled	–	(22.3)	–
Share-based payments	–	1.1	–
Dividends paid	–	(21.8)	(0.3)
Balance at 31 March 2012	4.3	1,121.7	3.0
Total comprehensive income	1.1	198.5	0.8
Non-controlling interest acquired	–	(0.5)	0.2
Own shares cancelled	–	(17.9)	–
Share-based payments	–	1.3	–
Dividends paid	–	(25.1)	(0.4)
Balance at 31 March 2013	5.4	1,278.0	3.6

The foreign exchange translation reserve comprised all foreign exchange differences arising from the translation of the financial statements of foreign operations that were not integral to the operations of the group.

Own shares

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Balance at the year start	16.7	28.2	16.7	28.2
Additions	0.9	0.7	0.9	0.7
Shares cancelled	–	(9.6)	–	(9.6)
Disposals	(0.6)	(2.6)	(0.6)	(2.6)
Balance at the year end	17.0	16.7	17.0	16.7

Company

The company own shares reserve represents the net cost to the employee share trust of acquiring shares to satisfy employee share options, performance share awards and deferred bonus awards and the cost of shares in Caledonia purchased in the market and held in treasury in the prior year.

Group

The group own shares reserve also included Caledonia's shares held by a subsidiary company.

Notes to the financial statements continued

23. Acquisition of subsidiaries

During the year, the group acquired subsidiaries for an aggregate consideration of £0.9m (2012 – £3.4m). The group also paid deferred consideration of £0.4m (2012 – £0.8m) for the purchase of a US subsidiary in 2009 and £0.1m (2012 – £0.2m) for a non-controlling interest acquired in 2011.

The aggregate net assets of subsidiaries acquired in the year were as follows:

	2013 £m	2012 £m
Intangible assets	0.6	0.6
Investments held at fair value through profit or loss	–	0.8
Property, plant and equipment	0.1	0.5
Inventories	1.0	0.5
Trade and other receivables	1.3	1.1
Cash and cash equivalents	0.1	1.8
Trade and other payables	(2.0)	(0.9)
Deferred tax liabilities	–	(0.1)
Net assets acquired	1.1	4.3
Goodwill	–	0.2
Fair value of investment held	–	(1.1)
Non-controlling interests acquired	(0.2)	–
Deferred consideration	0.5	1.0
Consideration	1.4	4.4
Satisfied by		
Cash	1.4	4.4
Cash and cash equivalents acquired	(0.1)	(1.8)
Net cash outflow arising on acquisition		
Cash consideration	1.3	2.6

24. Disposal of subsidiaries

The aggregate net assets of subsidiaries sold were as follows:

	2013 £m	2012 £m
Goodwill	–	2.4
Property, plant and equipment	–	0.1
Investment property	–	10.8
Deferred tax assets	–	0.1
Trade and other receivables	–	1.5
Cash and cash equivalents	–	1.2
Interest-bearing loans and borrowings	–	(2.4)
Trade and other payables	–	(1.6)
Current tax liabilities	–	(0.1)
	–	12.0
Non-controlling interest disposed	–	3.3
Loss on disposal	–	(1.2)
Total consideration	–	14.1
Net cash inflow arising on disposal		
Cash and cash equivalents received	–	14.1
Cash and cash equivalents sold	–	(1.2)
	–	12.9

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals were payable as follows:

	Group 2013 £m	Group 2012 £m
Less than one year	1.6	1.2
Between one and five years	4.7	3.4
More than five years	14.6	11.0
	20.9	15.6

The group leases properties and various items of equipment under operating leases. None of the leases included contingent rentals.

During the year, £1.2m (2012 – £1.2m) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

Leases as lessor

The group leases out its investment property under operating leases (note 11). The future minimum lease receipts under non-cancellable leases were as follows:

	Group 2013 £m	Group 2012 £m
Less than one year	2.9	2.5
Between one and five years	8.6	6.2
More than five years	6.8	5.5
	18.3	14.2

During the year, £2.6m (2012 – £2.0m) was recognised as income in the statement of comprehensive income in respect of operating leases.

26. Capital commitments

At the reporting date, the company and group had entered into unconditional commitments to limited partnerships, commitments to other investment funds and loan facilities to portfolio companies, as follows:

	Company 2013 £m	Company 2012 £m	Group 2013 £m	Group 2012 £m
Investments				
Contracted but not called	59.2	67.5	59.2	67.5
Conditionally contracted	19.7	12.9	19.7	12.9
	78.9	80.4	78.9	80.4

At the reporting date, the company had entered into a non-discretionary share buy-back arrangement with Winterflood Securities to acquire its own shares for cancellation, within certain parameters, up to a limit of £20m. The arrangement terminated on 29 May 2013.

27. Contingencies

The company has provided guarantees capped at £6.5m, £3.7m and £5.0m to the trustees of the Caledonia Pension Scheme, the Sterling Industries Pension Scheme and the Amber Industrial Holdings PLC Pension & Life Assurance Scheme respectively in respect of the liabilities of the participating employers of those schemes.

In addition, the company guaranteed a €1.75m (£1.5m) loan by an associated company to a fellow investor. Security was received over shares in the associated company.

At 31 March 2013, there was no material litigation outstanding against the company or any of its subsidiary undertakings.

28. Related parties

Identity of related parties

The company and group had a related party relationship with its subsidiaries (note 30), associates (note 31), joint ventures (note 12) and with its key management personnel, being its directors.

Transactions with key management personnel

Certain directors of the company and their immediate relatives had significant influence in The Cayzer Trust Company Ltd, which held 34.9% of the voting shares of the company as at 31 March 2013 (2012 – 34.2%).

In addition to their salaries, the group provided non-cash and post-employment benefits to directors and executive officers. Details of directors' pension benefits are set out on page 47 in the Directors' remuneration report.

The key management personnel compensation was as follows:

	Company		Group	
	2013 £m	2012 £m	2013 £m	2012 £m
Short term employee benefits	2.5	2.0	2.5	2.0
Post-employment benefits	0.2	0.2	0.2	0.2
Termination benefits	0.2	0.4	0.2	0.4
Equity compensation benefits	0.6	0.8	0.6	0.8
	3.5	3.4	3.5	3.4

Total remuneration of directors is included in 'Personnel expenses' (note 2).

During the year, the group invoiced and received £0.1m (2012 – £0.1m) in rent and administration fees from The Cayzer Trust Company Ltd.

Other related party transactions

Subsidiaries

Intra-group transactions are eliminated on consolidation and are not reported in the group accounts. Transactions between the company and its subsidiaries were as follows:

	2013		2012	
	Amount of transactions £m	Balance at year end £m	Amount of transactions £m	Balance at year end £m
Comprehensive income items				
Guarantee fees receivable	0.1	–	0.2	0.1
Dividends receivable on equity shares	7.7	–	3.3	–
Capital distributions receivable	1.3	–	1.1	–
Management fees payable	(12.3)	(2.3)	(11.0)	(1.0)
Taxation	2.5	–	1.2	0.5
Financial position items				
Investments purchased	0.3	–	–	–
Equity subscribed	15.0	–	5.6	–
Capital contributions	3.8	–	11.1	–
Loans advanced	(1.3)	19.0	(13.3)	20.3
Loans repaid/(received)	2.5	–	(2.5)	(2.5)
Guarantees	(6.9)	(77.7)	19.1	(70.8)

Associates and joint ventures

Transactions between the company and group and associates and joint ventures were as follows:

	2013		2012	
	Amount of transactions £m	Balance at year end £m	Amount of transactions £m	Balance at year end £m
Company				
Dividends receivable on equity shares	5.6	–	3.8	–
Interest receivable on loan securities	1.9	–	1.9	–
Equity contributed	–	–	16.7	–
Loans advanced	(8.4)	42.3	(6.8)	50.7
Other group companies				
Directors' fees receivable	0.3	0.1	0.3	0.1
Investments purchased	–	–	4.5	–

Notes to the financial statements continued

29. Operating segments

The chief operating decision maker has been identified as the Executive Committee, which reviews the company's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The performance of operating segments is assessed on a measure of company total revenue, principally comprising gains and losses on investments and derivatives hedging those investments and investment income. Reportable profit or loss is after 'Treasury income' and 'Other items', which comprise management and other expenses and provisions. Reportable assets equate to the company's net asset value. Cash and cash equivalents and other items are not identifiable operating segments.

Reportable results and assets view subsidiaries and joint ventures as investments held at fair value and include liabilities of the company. To reconcile to group profit or loss and total assets 'Eliminations' comprise the difference between the aggregate fair value and total assets of subsidiaries and joint ventures and the company's liabilities.

During the year, investments previously in the Asia and Property pools were reallocated to the Quoted, Unquoted and Funds pools. 'Other investments' comprise subsidiaries not managed as part of the investment portfolio.

	Profit or loss before tax		Assets	
	2013 £m	2012 £m	2013 £m	2012 £m
Quoted pool	120.9	(59.5)	517.2	552.1
Unquoted pool	52.8	(22.5)	348.1	311.7
Funds pool	12.9	(9.0)	166.8	209.6
Income & Growth pool	27.5	5.3	162.0	110.6
Investment portfolio	214.1	(85.7)	1,194.1	1,184.0
Other investments	0.2	–	11.5	–
Total revenue/investments	214.3	(85.7)	1,205.6	1,184.0
Cash and cash equivalents	0.6	0.8	96.5	8.4
Other items	(13.0)	(10.7)	(3.3)	(58.4)
Reportable total	201.9	(95.6)	1,298.8	1,134.0
Eliminations	(0.1)	(0.6)	81.0	141.1
Group total	201.8	(96.2)	1,379.8	1,275.1

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

	UK £m	US £m	Other £m	Total £m
2013				
Revenue	187.2	94.9	43.4	325.5
Non-current assets	62.3	4.4	35.1	101.8
2012				
Revenue	(45.2)	57.1	15.8	27.7
Non-current assets	52.3	4.2	38.5	95.0

Non-current assets exclude financial instruments, deferred tax and employee benefit assets.

Major clients

The group is reliant on a number of investments accounting for more than 10% of the group revenues, which included gains and losses on investments.

30. Group entities

Significant subsidiaries were as follows:

Name	Country of domicile	Shares held	Ownership 2013 %	Ownership 2012 %
Amber 2010 Ltd	UK	Ordinary	100	100
Amber Chemical Co Ltd	UK	Ordinary	100	100
Brookshire Capital LLP	UK	Capital	80	80
Buckingham Gate Ltd	UK	Ordinary	100	100
Caledonia CCIL Distribution Ltd	UK	Ordinary	100	100
Caledonia Group Services Ltd	UK	Ordinary	100	100
Caledonia Sloane Gardens Ltd	UK	Ordinary	100	100
Caledonia Treasury Ltd	UK	Ordinary	100	100
Easybox Sarl	Luxembourg	Ordinary	100	100
		Preference	100	
Edinmore Holdings Ltd	UK	Ordinary	100	100
Edinmore Investments Four Ltd	UK	Ordinary	100	100
Ocean Dial Group Ltd	UK	Ordinary	100	100
Ocean Dial Gateway to India Ltd	Mauritius	Ordinary		94
Sloane Club Management Ltd	UK	Ordinary	100	100
Sloane Club Properties LLP	UK	Capital	100	
Sterling Industries PLC	UK	Ordinary	100	100
		Preference	80	80

A complete list of investments in subsidiaries will be submitted with the company's annual return to the Registrar of Companies.

31. Interests in associates

The company is an investment trust company and, accordingly, does not equity account for associates, which are designated as investments held at fair value through profit or loss.

Significant associates of the company were as follows:

Name	Country of domicile	Shares held	Ownership 2013 %	Ownership 2012 %
B&W Group Ltd	UK	Preferred	20	20
Empresaria Group plc	UK	Ordinary	22	23
Eredene Capital plc	UK	Ordinary	21	22
General Practice Investment Corp Ltd	UK	Ordinary Preference	24 100	24 100
India Capital Growth Fund Ltd	Guernsey	Ordinary	24	24
Marwadi Shares & Finance Ltd	India	Ordinary	32	32
Omniport Holdings Ltd	UK	Ordinary	39	39
Oval Ltd	UK	Ordinary	24	24
Real Estate Investors PLC	UK	Ordinary	28	30
Satellite Information Services Ltd	UK	Ordinary	23	23
Seven Publishing Group Ltd	UK	Ordinary	29	29
TCL Holdings Ltd	UK	Ordinary	50	50
TGE Marine AG	Germany	Ordinary	50	50

A complete list of investments in associates will be submitted with the company's annual return to the Registrar of Companies.

Aggregated amounts relating to associates, extracted on a 100% basis, were as follows:

	2013 £m	2012 £m
Assets	991.0	950.8
Liabilities	(584.5)	(622.0)
Equity	406.5	328.8
Revenues	740.8	912.5
Profit/(loss)	33.0	(9.8)

32. Accounting estimates and judgements

Key sources of estimation uncertainty

Fair values of financial instruments

Many of the group's financial instruments are measured at fair value in the statement of financial position and it is usually possible to determine their fair values within a reasonable range of estimates.

For the majority of the group's financial instruments, quoted market prices are readily available. However, certain financial instruments, such as unlisted securities, are fair valued using valuation techniques, including reference to the current fair values of instruments that are substantially the same (subject to appropriate adjustments).

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g. interest rates, volatility, estimated cash flows) and therefore cannot be determined with precision.

Information for investors

Dividends, change of address and other shareholder services

UK registered shareholders

Shareholders on the UK register who wish to have dividends paid directly into a UK bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Mandates may be obtained from Capita Registrars. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Capita Registrars also offer an international payments service whereby overseas shareholders registered on the UK register may convert their dividend payments into a chosen currency and receive payment either in the form of a currency draft or by a direct payment into an overseas bank account. Details of the currencies available under the service and how to apply, including the terms and conditions, are available on-line at international.capitaregistrars.com or an application pack can be requested by telephone on +44 20 8639 3405 (from outside the UK) or 0871 664 0385 (from within the UK, calls cost 10p per minute including VAT, plus network extras) between 9.00am and 5.30pm, UK time.

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment, shareholders on the UK register should notify Capita Registrars, under the signature of the registered holder, or where there is more than one registered holder, under the signature of the first named holder.

Post and telephone contact details for Capita Registrars are shown on the opposite page. Capita Registrars also provide an online facility to enable shareholders to manage securely their shareholdings via the internet. By registering to use the facility, shareholders can access a range of online services, including viewing shareholding details, transaction and dividend histories, change of address and bank mandate and use of the online proxy voting service. The online facility is available at www.capitashareportal.com.

Capita Registrars also offer a share dealing service and dividend reinvestment plan for existing shareholders. The share dealing service is available online at www.capitadeal.com or by telephone on 0871 664 0384 (calls cost 10p per minute including VAT, plus network extras, with lines open Monday to Friday 8.00am to 4.30pm).

The dividend reinvestment plan provides a convenient way for shareholders to build up their shareholdings by using cash dividends to buy more shares in the company. An application form for the dividend reinvestment plan is available online at www.capitashareportal.com or by telephone from Capita IRG Trustees Ltd on 0871 664 0381 (calls cost 10p per minute including VAT, plus network extras, or +44 20 8639 3402 if calling from overseas). In each case, lines are open from Monday to Friday 8.30am to 5.30pm. Alternatively, an application form can be requested by email from shares@capitaregistrars.com.

New Zealand registered shareholders

Shareholders on the New Zealand register may arrange to receive their dividends by direct credit to a specified New Zealand bank account. New Zealand registered shareholders should contact Computershare Investor Services if they wish to set up such an arrangement.

Shareholders on the New Zealand register should also notify Computershare Investor Services if they have changed their address, but where there is more than one registered holder, all holders should sign the notification.

The contact details for Computershare Investor Services are shown on the opposite page. New Zealand registered shareholders may also change their addresses, update payment instructions and view their shareholdings, including transactions, online at www.investorcentre.com/nz. General enquiries can be directed to enquiry@computershare.co.nz. It will assist Computershare Investor Services if the CSN or shareholder number is quoted in any communication with them.

Caledonia Investments ISA

The Caledonia Investments Individual Savings Account ('ISA') is a tax efficient savings account that allows participants to invest up to an annual amount of £11,520 (for the tax year ending 5 April 2014). Lump sum payments or regular monthly deposits can be made into the ISA. Details of the ISA are available on Caledonia's website or by request from the company.

Caledonia Investments Share Savings Scheme

The Caledonia Investments Share Savings Scheme is a plan that aims to provide a simple and flexible way for investors to purchase shares in Caledonia. Lump sum payments or regular monthly deposits can be made into the Share Savings Scheme. Details of the Share Savings Scheme are available on Caledonia's website or by request from the company.

PEPs and ISAs

Caledonia's shares can be treated as qualifying investments for the purposes of the PEP and ISA rules.

Share prices

The company's ordinary shares are listed on the London Stock Exchange under the SEDOL code of 0163992 or TIDM code of CLDN. Prices are published daily in the Financial Times under the 'Investment Companies' heading and in other leading newspapers and can also be viewed on the company's website at www.caledonia.com.

The company's ordinary shares are also listed on the New Zealand Exchange under the security code of CDN. Shareholders in New Zealand are able to trade their shares locally and receive dividends in New Zealand dollars.

The ISIN code for Caledonia's ordinary shares is GB0001639920.

Monthly net asset value

The company releases a net asset value announcement and publishes a fact sheet shortly after each month end. These can be found on the company's website at www.caledonia.com.

Directors and advisers

Chairman
Roderick D Kent[2]

Executive directors
William P Wyatt (Chief Executive)
Stephen A King (Finance Director)
Jamie M B Cayzer-Colvin

Non-executive directors
Charles M Allen-Jones (Senior Independent)[1,2,3,4]
Stuart J Bridges[1]
The Hon Charles W Cayzer
Richard Goblet d'Alviella[1,2]
Charles H Gregson[1,2,3,4]
David G F Thompson[1,2,3,4]
Robert B Woods CBE[2,3,4]

1. Member of the Audit Committee
2. Member of the Nomination Committee
3. Member of the Remuneration Committee
4. Member of the Governance Committee

Associate directors
Graeme P Denison
Charles H Edwards
Sally D Flanagan
Jonathan R Hale
Duncan E Johnson
Mathew S D Masters
Sheena D McNeill
Stephen J Mitchell
Paul M Whiteley

Secretary
Graeme P Denison

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Registered number
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The Association of Investment Companies

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