CALEDONIA
INVESTMENTS

Annual report 2014

Year ended 31 March 2014

Welcome to Caledonia

We are a self-managed investment trust company with net assets of £1.4bn. We aim to deliver long term growth in shareholder capital and income by investing in well-managed, long term businesses and funds, both listed and private, in a range of sectors and regions.

Company highlights

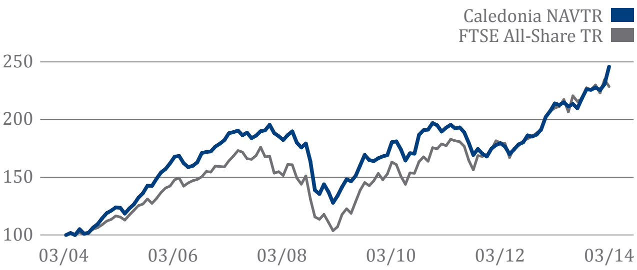
- Net asset value per share total return of 14.9%
- Annual dividend per share up 4.0% to 49.1p

Strategic report

Results summary

	31 March 2014	31 March 2013	Change %
Net asset value	£1,446m	£1,302m	11.1
NAV per share	2593p	2305p	12.5
Annual dividend per share	49.1p	47.2p	4.0

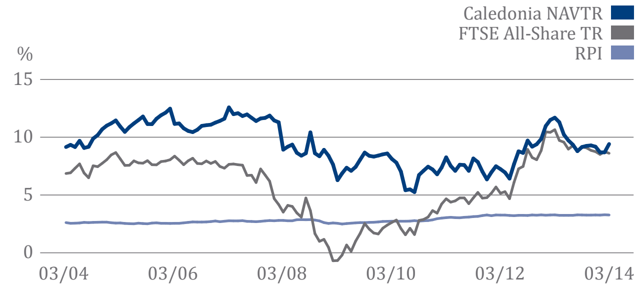
NAV total return growth over ten years



Performance

	1 year %	5 years %	10 years %
NAV total return	14.9	83.6	146.0
Total shareholder return	8.8	113.3	128.7
Dividend growth	4.0	45.3	81.9

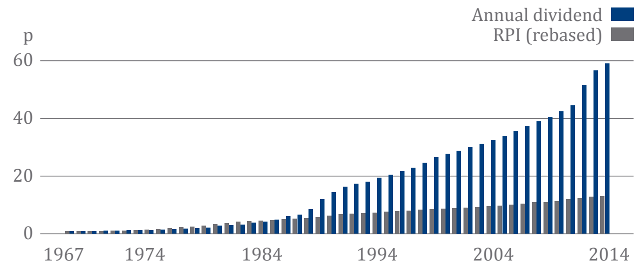
Annualised ten year rolling performance



Pools

	Value £m	Return %
Quoted	497.8	20.5
Unquoted	568.3	17.7
Funds	204.4	11.8
Income & Growth	189.6	0.1
Portfolio	1,460.1	15.4
Cash and other items	(14.5)	
Net assets	1,445.6	14.9

Annual dividends over 47 years



NAV per share was calculated on a diluted, cum income basis.

Chairman's and Chief Executive's report

We have achieved a strong performance in a year in which we undertook significant activity across our portfolio. We continued to take advantage of opportunities to reduce some of our larger holdings to maintain the right balance of risk across the portfolio, and reported a substantial uplift in NAV on the sale of two unquoted investments. Our investment activity included two significant acquisitions, the purchase of Choice Care Group and Park Holidays, both of which fit well with our investment criteria.

Results

We are delighted to report another successful year for the company, which has witnessed strong growth from the investment portfolio combined with profitable realisations and substantial new investments. Net asset value per share total return ('NAVTR') was 14.9%, building on last year's 18.9%. Income generation was slightly above the previous year and continued to cover the cost of both expenses and dividend. The board is recommending an increase in the final dividend that would result in a 4.0% improvement on the previous year, a rate comfortably ahead of inflation. This would represent the forty-seventh consecutive year that the dividend paid to shareholders has been increased.

Caledonia offers investors the chance to invest alongside the company's largest shareholder, the Cayzer family. The company achieves its long term outperformance by carefully choosing investments with strong management and sound financial discipline in both the listed and unlisted sectors. Caledonia's balance sheet and ownership structure allow the company to take a genuinely long term view (in excess of ten years). As a closed end fund, we are not under pressure, as many other fund managers are, of having to invest new monies raised or having to make disposals within a fixed timescale.

The portfolio has evolved significantly since the incumbent management team took over four years ago. We have sold many of the smaller investments which, whilst good businesses, were unlikely to make a material impact on Caledonia's net asset value. We have successfully sold several long term investments from our unquoted holdings and have reinvested in typically larger unit sizes or added to other larger shareholdings.

A recent but important emphasis has been on the management of risk such that returns from the risk taken compare favourably with the wider market. Above all, we recognise that we manage capital that has already been created and our job is one of both preservation and growth within sensible levels of risk.

It is worth reiterating Caledonia's overriding strategic aims:

- to grow capital value over the long term measured in real terms
- to pay an increasing annual dividend, which grows at or in excess of inflation over the long term
- to manage risk commensurate with shareholders' requirements and our investment horizon.

A review of the detailed strategy adopted in 2011 was carried out by the board during the year. The result of this saw the strategic allocation to the Unquoted pool marginally increasing and allocation to the Funds pool reducing. This has reflected both market conditions and available opportunity. Details are given on page 7. In addition, we have made changes to overall performance measurement, which reflect the way we manage the business to achieve our strategic aims.

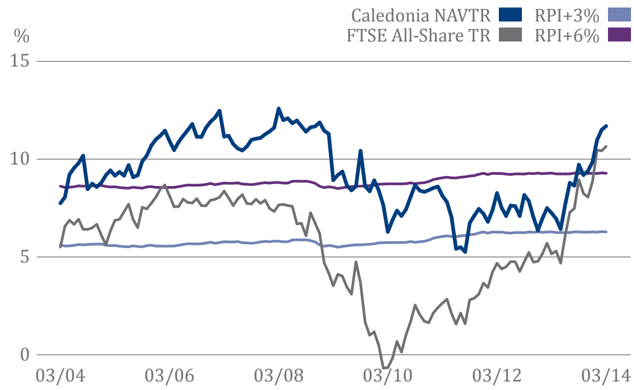
Performance measurement

Last year, the board ceased using a one year benchmark to measure performance, which had hitherto been the FTSE All-Share, preferring to concentrate on the ten year total return measure. Over a shorter period of time, it is more relevant to measure our absolute performance on an inflation adjusted basis. Since our shareholders expect to increase their wealth in real terms on an annual basis, we, in turn, should expect, on average, to beat inflation. Should markets fall substantially, so the value of our portfolio will fall as we will not move substantially into cash. But over several years, we would expect our portfolio to grow somewhat ahead of inflation. The table below shows the performance of markets over varying periods of time and is instructive in judgement of inflation adjusted performance.

Years	Periods	Annualised FTSE All-Share Total Return %	Outperformance to RPI %
25	1989-2014	8.8	5.4
20	1994-2014	7.8	4.8
15	1999-2014	4.7	1.7
10	2004-2014	8.5	5.2
5	2009-2014	16.2	12.4

With both our longer term investment strategy and our exposure to unlisted investments, a true picture of how the portfolio is performing is only really apparent after a substantial amount of time has passed. The board therefore has settled on a rolling ten year timeframe as being a relevant period against which to compare performance with the FTSE All-Share Total Return index. In addition, the board's aim is for the company to deliver annual average returns over a ten year period of between RPI+3% and RPI+6%. Historically, this level of performance would be in line with or above most share indices, including the FTSE All-Share Total Return. Caledonia's own track record since 1987, the year in which Caledonia realised its holding in British & Commonwealth Holdings and embarked on its strategy to build a diversified holding company, was RPI+9% against that of the FTSE All-Share Total Return, which was RPI+6%. The graph below shows the ten year rolling performance of the FTSE All-Share and Caledonia's NAV total returns marked against inflation.

Annualised ten year rolling performance



The table below shows performance over various time frames:

	1 year %	3 years %	5 years %	10 years %
NAVTR	14.9	27.4	83.6	146.0
NAVTR annualised	14.9	8.4	12.9	9.4
RPI annualised	2.5	3.1	3.8	3.3
Caledonia RPI outperformance	**12.4**	**5.3**	**9.1**	**6.1**
FTSE All-Share TR annualised				8.6
Caledonia FTSE outperformance				**0.8**

Income

Income received during the year rose slightly to £41.7m, compared with £41.4m last year. Significant growth in income is unlikely to resume until 2016, when we expect the most recent unquoted investments to begin to make a full contribution.

Balance sheet

At the year end, we had net debt of £7.1m, compared with net assets of £1,445.6m, though one day later, we received initial cash of £67.2m from the disposal of Oval, taking the net cash to £60.1m. In addition to the cash balances, the company has £175m of committed bank facilities available to it. Our policy is to keep gearing at modest levels and this is primarily confined to the unlisted companies that we own rather than on Caledonia's balance sheet. This is closely monitored by our investment team from their board positions at these companies. Our bank facilities are primarily in place to provide flexibility for timing differences between investment and divestment, but also in the case of extreme market movements when we might wish to deploy significant amounts of capital.

Overview of portfolio

This year's performance has been driven by the Quoted, Unquoted and Funds pools. Income & Growth had a flat year following on from two years of strong outperformance, so its overall performance since inception remains healthy.

Pool	Value 2013 £m	Invest-ments £m	Disposals £m	Change in value £m	Value 2014 £m	Income £m	Return %
Quoted	517.2	26.9	(127.8)	81.5	497.8	10.6	20.5
Unquoted	384.5	166.7	(37.1)	54.2	568.3	22.4	17.7
Funds	166.8	35.1	(17.4)	19.9	204.4	1.7	11.8
Income & Growth	162.0	103.7	(69.3)	(6.8)	189.6	7.0	0.1
Portfolio	1,230.5	332.4	(251.6)	148.8	1,460.1	41.7	15.4

The portfolio weighting by pool has changed modestly during the year, as the Quoted pool has continued to take profits and the Unquoted pool has made substantial new investments. The Quoted pool, measured as a percentage of net assets, has decreased from 40% to 35%, whereas the Unquoted pool has increased from 29% to 39%, although this reduced to 34% after the sale of Oval. The movement reflects partially our view as to comparative valuation metrics between listed and unlisted markets and partly the individual opportunities that presented themselves to us. The Funds pool continued to build its investments in public and private equity funds, particularly in the US and Asia, which is a long term process and will not influence performance in a significant way for several years. Caledonia's top ten investments accounted for 44% of the portfolio, which is consistent with the previous year.

Chairman's and Chief Executive's report continued

Caledonia's portfolio is invested worldwide though, in general, we restrict our direct unlisted investing activities to the UK.

We invest in funds, both private and public equity, to give shareholders wider geographical exposure, backing managers for whom we have a high regard. The portfolio has wide exposure to currencies other than sterling, which represented 47% of the overall exposure when investee companies are analysed by revenue rather than by domicile. Our policy, as a long term investor, is to accept currency fluctuation as a part of investment risk. We do not therefore hedge unless a contractual obligation has been entered into concerning either proceeds of a disposal or funds for an acquisition.

Pool performance

Quoted (£498m, 35% of net assets)

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

The Quoted pool produced an impressive 20.5% return for the year, despite reducing its capital base by a net £101m. There were notable performances from Polar Capital, returning 69%, and Quintain Estates, returning 62%, both investments that have been part of the portfolio for many years. The latter had a difficult time during the financial crisis, culminating in a rights issue, which we supported, and we are delighted to see it return to robust health. Close Brothers also contributed significantly, producing the second largest gain in value in the portfolio over the year. We continued to lighten our holding in this company, but we still retain a substantial, albeit reduced, shareholding. We also took profits on our long term shareholding in Bristow Group, which has produced a series of excellent results over the past three years.

New positions have been taken in Rolls-Royce, Diageo and Atlas Copco and we added to a number of existing quoted businesses that we hold, notably Jardine Matheson. All pay healthy levels of dividends.

Unquoted (£568m, 39% of net assets)

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

The Unquoted pool produced a healthy return of 17.7% for the year, including generating £22.4m of income. The return included a significant uplift on the disposal of Amber Chemicals and an increase in value of Oval to its sale value, with healthy contributions from most of the remainder of the portfolio.

It has been a year of intense deal making for the Unquoted pool, with two significant new investments, Park Holidays and Choice Care Group, and two sales, Amber Chemicals and Oval.

We purchased 98% of the equity of Choice Care Group for £49.5m in August 2013. The business is based near Reading and owns and operates 49 homes in the south of England, providing personalised residential care and supported living for adults with severe learning difficulties. The company has significant asset backing from its properties and has many other characteristics that fit well with our strategy. Caledonia's long term approach is well matched with this business, which seeks to grow gradually without compromising its provision of care, which is its first and foremost priority. We have already provided the company with additional capital to fund its plans for expansion.

In November 2013, we acquired Park Holidays, the UK's fourth largest caravan park operator, for an equity consideration of £88.1m. This is also a business that fits well with our investment criteria, being asset backed and highly cash generative. The business has made a good start, with bookings and caravan sales showing good growth on the previous year, as we head into the high season.

We sold our holding in Oval to the US family-owned insurance company, Arthur J Gallagher, one day after the year end. Whilst the investment is still shown as part of the portfolio at the year end, it is included at the disposal value of £70.0m, a 65% uplift to our previous holding value. The final division of Amber Chemicals was sold for £22.9m, which represented an uplift of over 60% on the holding value prior to sale.

The remainder of the portfolio, which consisted of ten principal investments, exhibited good growth. At TGE Marine, the liquefied gas engineering company, profits more than doubled as its strong order book was translated into sales. Our 2013 US acquisition of Latshaw Group, consisting of five engineering businesses, has been successful, with strong profits growth across the companies, as the US economy continues to recover. The Sloane Club had a good year, with occupancy rising to new highs. Cobehold, which is our largest single investment, valued at £100.2m, saw its NAV total return grow by 7%. During the year, we participated in Cobehold's €400m capital raising, committing €19.8m of which €9.9m (£8.4m) has been paid to date, enabling the company to make several interesting new acquisitions. However, we wrote down the value of Easybox, our Italian self-storage business, and Satellite Information Services, the media company, recognising difficult trading conditions.

Funds (£204m, 14% 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 return of 11.8% was particularly creditable, especially as we are in the process of progressively building its exposure to private equity, which means that investment gains will not fully come through for several years. The most notable performance came from our Chinese private equity fund holding, Capital Today China ('CTC'), where the valuation of our stake increased by 53% to £44.8m as at 31 March 2014. We originally committed $20m to this fund and have to date received $15.2m (£9.9m) in cash. CTC holds a 7% stake in JD.com, a Chinese internet retailer, which has recently completed an IPO in the US. The fund also owns three other investments of note: Youku Tudou, an online video sharing site in which Alibaba recently took an 18% stake, Shanghai Sinoway Herbage Cosmetics Company, the leading herbal skincare brand in China, and City, the largest lingerie retail chain in China.

During the year, we invested in several new funds: $10.0m (£6.0m) in the Ranger fund managed by Arlington Value Capital, a US based value investor which targets listed US equities, and £10.0m in the launch of the Polar Capital Global Financials Trust, which aims to benefit from the re-rating of financial assets across the globe. In addition, we committed $50m to FLAG Capital, a US private equity fund of funds, of which $8.5m (£5.7m) was drawn in the year. Soon after the year end, we invested $20.0m (£11.9m) in the NTAsian Discovery Fund, a Bangkok-based small-cap public equity fund, and committed $15m to Vision Knight Capital II, an Asian private equity fund.

Income & Growth (£190m, 13% of net assets)

The portfolio holds interests in 40 international listed businesses, which provide a reliable and growing dividend. Cash flow returns to shareholders are prioritised in the invested businesses.

The Income & Growth pool's flat performance for the year contrasted with last year's excellent performance, when it produced a 23.7% return. The pool has completed three full years in existence and performance figures have been very pleasing, with a three year return of 28%. Higher yield investments went out of vogue during the year under review as investors chased growth in higher risk assets. The pool produced income of £7.0m, a 40% increase on the previous year, representing a gross yield of 4.3%. This will continue to build in the future.

The top five holdings were SES, Zurich Insurance, Swedbank, HSBC and General Electric. The pool not only provides Caledonia with a sustainable income, but also gives us exposure to some of the world's best companies, something we believe is essential in any portfolio. We added £20m to the pool during the year and would anticipate doing so again during the current year, whilst we have surplus cash, to bring the pool in line with its strategic allocation.

Discount and share buy-backs

During the year, we bought back shares for a total of £15.0m, which were subsequently cancelled. We view buy-backs as a low risk, long term tool for enhancing returns, providing a permanent benefit to shareholders when purchased at a discount to net assets. The discount to net asset value has traded in the range of 16% to 26% throughout the year and we were able to take advantage of this to buy shares at an average discount of 19.7%. We will once again seek the necessary shareholder approvals at the forthcoming annual general meeting to continue with these buy-backs for a further year.

Dividend

The board is recommending shareholder approval of a final dividend of 35.7p, giving a total for the year of 49.1p, a 4.0% increase on the previous year. This would represent the forty-seventh consecutive year of increase in our annual dividend. The final dividend will be paid on 7 August 2014, assuming its payment is approved at the annual general meeting to be held at Cayzer House on 17 July 2014.

Board

After serving on the board for nine years, Richard Goblet d'Alviella has decided to step down on 25 June 2014. He will be replaced by Harold Boël, CEO of Sofina, the Belgian investment company, which has a 5% stake in Caledonia and shares our philosophy of close involvement in its investee companies. Richard has been a great advocate and supporter of our long term outlook and we will miss his wise counsel. Harold is a material sciences engineer by training and has been CEO of Sofina for six years, prior to which he held a number of operational and managerial roles with Corus, now part of Tata Steel. We look forward to welcoming him to the board as an independent non-executive director.

Charles Allen-Jones has also signalled his wish to step down at some point during the current year. Charles has served on the board for over 12 years and has made an immeasurable impact on the affairs of the company, especially as senior independent non-executive director. His sage advice and independent thinking will be difficult to replace, but when the time comes he will retire with our deep gratitude and very best wishes.

Outlook

It makes a pleasant change to be able to write that economic growth is finally returning to western economies, albeit at a low level. Asian and other developing economies continue to grow at a much faster rate than those in the west, though not without signs of slowing down. This has affected their stock markets and has brought valuations back to levels where we now feel comfortable to deploy capital in these regions.

Elsewhere, stock markets are now mainly being valued on a fundamentals basis, with earnings growth to the fore. We believe that the gains of the past two years will not be repeated to the same extent this or next year and remain wary of external events, which often lead to heavy falls in markets. In the UK, economic growth continues to pick up, but we face the uncertainty caused by the Scottish vote on independence in September this year and a UK general election in 2015.

Our portfolio remains cautiously positioned, but invested in sound businesses with good prospects providing they are allowed to flourish by those entrusted to govern our economy. We remain confident in our strategy, which is delivering long term outperformance and annual returns in excess of inflation.

Rod Kent	Will Wyatt
Chairman	Chief Executive

Business model and strategy

Caledonia is a self-managed investment trust company with net assets of £1.4bn. Our heritage can be traced back to the shipping empire established by Sir Charles Cayzer in 1878. We continue to enjoy the backing of the Cayzer family, which owns some 48.5% of the share capital. The Cayzer family shareholding provides both support for our long term value investment horizon and provides a foundation to our culture of conservative generational wealth management.

Business model

We aim to deliver long term growth to both shareholder capital and income by investing in a balanced, risk managed range of asset classes, across diversified sectors and regions. We focus on established businesses, where return on capital employed is a differentiator of longer term performance and where underlying real assets provide risk mitigation to the balance sheet. We use gearing cautiously and focus it within appropriate asset classes, principally to mitigate risk rather than to drive returns. This typically arises within the Unquoted pool, where the existence of preference share capital and structured loans provides both a level of additional security over assets and a mechanism for preferential annual income flows.

We have funding flexibility, through a £125m revolving credit facility, which is used to mitigate any short term illiquidity within the portfolio, facilitating the bridging of short term investment flows. We also have a £20m term loan, used to provide long term funding to investments and an additional £30m revolving credit facility for liquidity management in a service company.

Our business model has been developed over many years to deliver long term growth in capital and an increasing annual dividend to shareholders.

Pools of capital

We manage our portfolio through distinct ‘pools’ of capital, each headed by an experienced, specialist investment executive. Each pool invests to achieve target capital and income returns, combining to provide a managed total return for Caledonia.

- The *Quoted pool* focuses on identifying opportunities to build meaningful 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 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 an 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.

Strategic report

Investment principles

The key principles we apply in building and financing our portfolio are:

Principles

We allocate our capital predominantly amongst quoted equities, private companies and funds. We identify a strategic allocation range to each of these classes commensurate with our overall risk and return objectives. These allocation ranges are reviewed regularly to ensure they remain consistent with our strategy and market conditions.

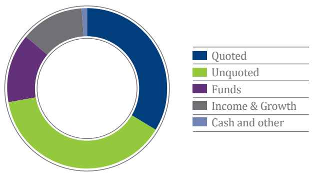
Where we are now

Pool	Investment style	Strategic allocation %	Allocation 2014 %
Quoted	Large equity holdings in high quality companies	35-50	35
Unquoted	8-10 direct stakes in private companies >£25m	20-35	39
Funds	Private and public equity funds, (US and Asia focus)	15-20	14
Income & Growth	Mega-cap, 5% yield, global equity portfolio	15-20	13
Cash and other		(10)-10	(1)
Portfolio			100

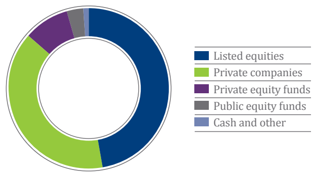
We look to achieve a diverse investment portfolio by asset class, industry sector, geography and currency. Overall exposures in each case are actively monitored and managed by our executive management, under the supervision of the board. The portfolio is further diversified through our fund investment portfolio and the selection of external fund managers with clear mandates.

Despite being primarily a sterling based asset portfolio, we achieve a significant exposure outside the UK through the revenue exposure provided, in particular, from our Funds pool and our Income & Growth pool investments.

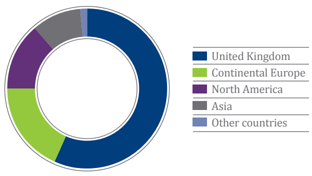
Pool distribution



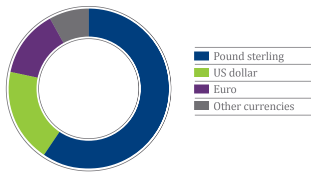
Asset class distribution



Geographic distribution

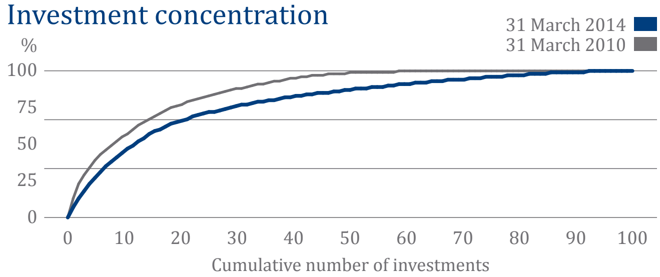


Currency exposure



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 recycle value throughout the portfolio to achieve this in an appropriate timeframe. In recent years, our investment concentration has reduced.

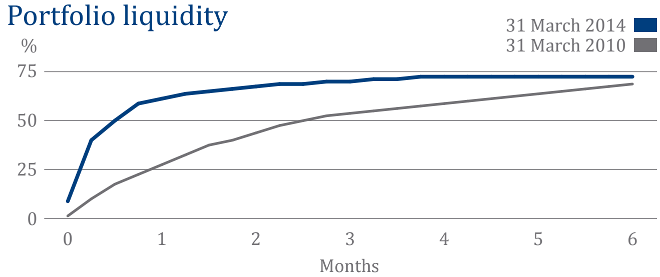
Investment concentration



We maintain a degree of portfolio liquidity to provide both risk mitigation and increased flexibility in opportunistic markets.

Our portfolio is increasingly focused on established businesses of scale, particularly within the Quoted and Income & Growth pools, which has resulted in further enhanced liquidity.

Portfolio liquidity



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.

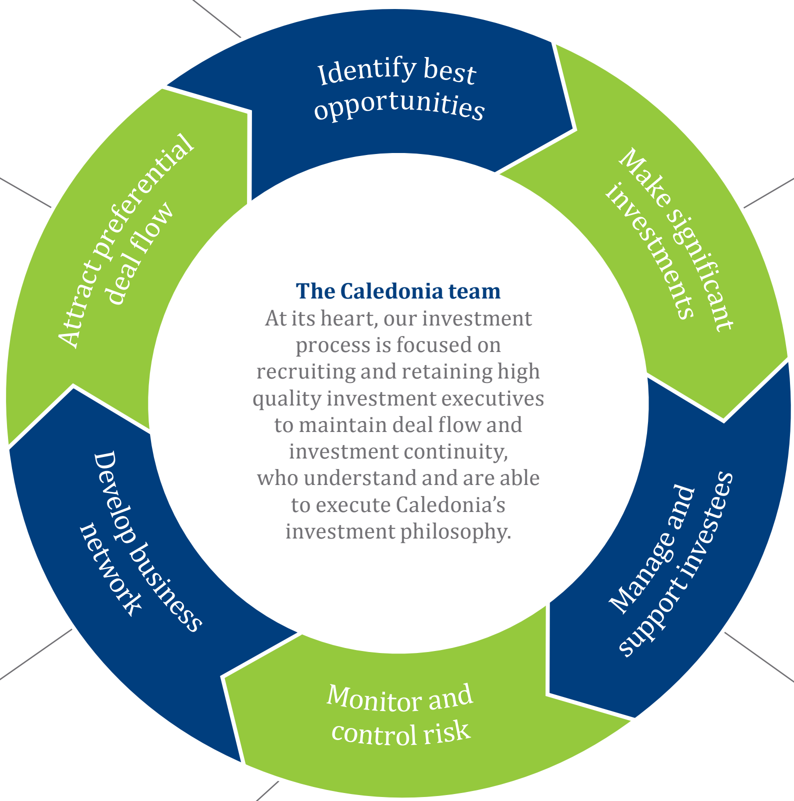
Business model and strategy continued

Investment process
Our investment process is built from a disciplined series of steps, leveraging Caledonia's reputation and the experience of our investment team. We look to identify long term value through each stage, including sourcing opportunities and initial reviews, through due diligence, approval and deal execution. The performance of our investments is subject to a formal review process and both individual investments and the 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 ensure that we have formal representation on the board of all our core private company investments and, where we have a significant holding, some listed investments.

Attract preferential deal flow
Our reputation, network of deal originators and family tradition enable 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 control risk
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.

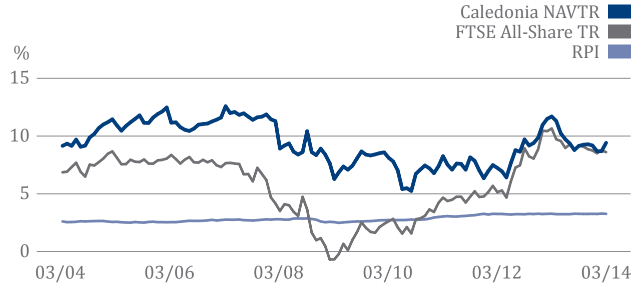
Manage and support investees
We manage our investments as pools of capital, focusing ownership and responsibility on our executive team. Where we take a board seat, we can both actively monitor the development of our investment and contribute long term support and governance.

Target returns
Our investment approach is aimed at delivering high single digit total annual returns, over rolling ten year periods. This investment horizon provides the time frame for businesses to grow and accumulate in value in a controlled manner, within both the public and private markets, whilst mitigating some of the volatility inherent in short term trading investment strategies.

Over rolling ten year periods, we believe such an investment approach both optimises risk/return characteristics and outperforms most markets. Over a ten year investment horizon, we target a sustainable annual yield from portfolio assets, providing a balance to total return between income and capital appreciation.

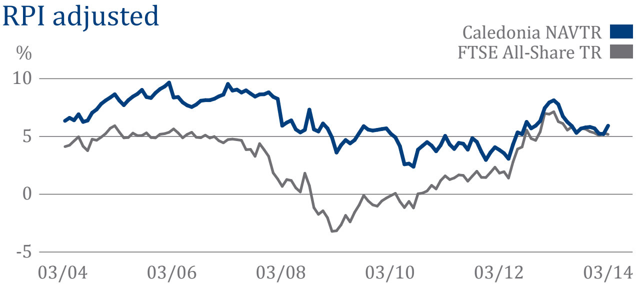
The chart below shows Caledonia's annualised ten year rolling net asset value total return ('NAVTR') growth, compared with the FTSE All-Share Total Return index ('FTSE All-Share TR') and the Retail Prices Index ('RPI').

Annualised ten year rolling performance



The chart below compares the RPI adjusted NAVTR and FTSE All-Share TR.

Annualised ten year rolling performance, RPI adjusted



Investment review

Performance and analysis

Over the year, our investment performance delivered an NAV total return of 14.9%.

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

Our investment process is at the heart of our current performance and future prospects. We have an unconstrained approach, which allows us to look across regions, sectors, size and time horizons. Fundamental to our choice of investments is our research and disciplined investment process.

Performance

Our NAV total return over the year was 14.9%, which built on a total return of 18.9% in the previous year.

Over the year, we have developed our portfolio through significant new investment, funded by opportunistic disposals and managed top-slicing. The portfolio has benefited from significant revaluation and realisation gains, as well as higher levels of income. Our investment portfolio produced a 15.4% return, which, after management and other expenses, delivered an overall NAV total return of 14.9%.

The 15.4% portfolio return comprised increases in the valuation of our investments and the income that they yielded.

Pool	Value 2013[1] £m	Investments £m	Disposals £m	Change in value[2] £m	Value 2014[1] £m	Income £m	Return %
Quoted	517.2	26.9	(127.8)	81.5	497.8	10.6	20.5
Unquoted	384.5	166.7	(37.1)	54.2	568.3	22.4	17.7
Funds	166.8	35.1	(17.4)	19.9	204.4	1.7	11.8
Income & Growth	162.0	103.7	(69.3)	(6.8)	189.6	7.0	0.1
Portfolio	1,230.5	332.4	(251.6)	148.8	1,460.1	41.7	15.4
Other	71.9				(14.5)		
Net assets	1,302.4				1,445.6		14.9

1. Unallocated investments totalling £10.3m (2013 – £10.9m) were included in Other.
2. Change in value comprised £152.0m of net gains, after adjusting for a £0.6m loss on unallocated investments, less £3.2m of rolled-up interest.

Portfolio movements

At the beginning of the year, the overall value of our investment portfolio was £1,230.5m. After £148.8m of net portfolio gains and £80.8m of net investments, this increased to £1,460.1m at the year end. The following chart illustrates the components of this movement:

Movement in the investment portfolio

Around half of our £332.4m of investments were in new and follow-on situations in Unquoted pool companies, principally Park Holidays, the UK caravan parks operator, and Choice Care Group, the UK care homes provider. A third of investments arose within the Income & Growth pool and the balance in Quoted pool situations and Funds pool drawdowns.

During the year, we realised £251.6m, around half resulting from the reduction of holdings in the Quoted pool and a quarter from recycling within the Income & Growth pool.

Net portfolio gains over the year totalled £152.0m (after adjusting for a £0.6m loss on unallocated investments), comprising £196.4m of gains, offset by £44.4m of losses. £57.7m of net gains were generated by the Unquoted pool, principally Oval, sold on 1 April 2014, and TGE Marine. The Quoted pool generated £81.5m of net gains and the Funds pool £19.9m. The Income & Growth pool lost £6.8m.

Investments

Total portfolio investments during the year were £332.4m (2013 – £141.6m), summarised as follows:

Name	Pool	Cost £m
New investments		
Park Holidays	Unquoted	88.1
Choice Care Group	Unquoted	49.5
Polar Capital Global Financials Trust	Funds	10.0
Atlas Copco	Quoted	8.3
Arlington Ranger fund	Funds	6.0
FLAG Capital fund	Funds	5.7
Rolls-Royce Holdings	Quoted	5.1
Diageo	Quoted	4.8
		177.5
Follow-on investments		
TGE Marine	Unquoted	8.9
Cobehold	Unquoted	8.4
Brookshire Capital	Unquoted	7.5
Jardine Matheson	Quoted	5.2
Income & Growth pool	Income & Growth	103.7
Other follow-on investments		21.2
		154.9
Total portfolio investments		332.4

During the year, we made two substantial unquoted investments. We invested £88.1m for 100% of the equity in Park Holidays, a UK caravan parks owner and operator. We also invested £49.5m for 97.7% of the equity in Choice Care Group, a UK owner and operator of residential learning disability homes, in each case to support a management buy-out.

Other new investments included £10.0m in the Polar Capital Global Financials Trust, a UK investment trust investing in global financial companies, and drawdowns from new fund commitments.

Follow-on investments included an increase in our holding in TGE Marine, the German gas engineering company, to 67.9% at a cost of £8.9m. We invested a further £8.4m in part paid shares in Cobehold, the Belgian investment company, as part of a €400m capital raising. During the year, we advanced a further £7.5m of loan finance to Brookshire Capital, a UK property investment company, to enable it to expand its portfolio.

The £103.7m invested through the Income & Growth pool represented both an increased allocation of cash to this pool of £20.0m and changing holdings within the pool. This portfolio contained 40 companies at 31 March 2014 (down from 42 at the previous year end), in a range of sectors across the globe, with stakes ranging in value from £2.0m to £7.5m.

Realisations

Proceeds from portfolio realisations during the year totalled £251.6m (2013 – £309.6m), summarised as follows:

Name	Pool	Proceeds £m
Close Brothers	Quoted	43.4
Bristow Group	Quoted	35.2
Amber Chemicals	Unquoted	22.9
LondonMetric Property	Quoted	23.2
Quintain Estates	Quoted	13.4
Greggs	Quoted	8.1
Kingdom Group	Quoted	6.6
Income & Growth pool	Income & Growth	69.3
Other realisations		29.5
Total portfolio realisations		251.6

We have continued to sell down our substantial investment in Close Brothers, to enable us to broaden the spread of our investments across the portfolio. In addition, we released capital from a number of other substantial long term investments held in the Quoted pool, in particular, Bristow Group, LondonMetric Property, Quintain Estates and Kingdom Group.

The £69.3m of realisations through the Income & Growth pool were recycled into new investments, or used to increase our holdings in existing companies. This demonstrates the active management of the Income & Growth pool and indicates an average portfolio turnover of around three years.

Portfolio returns

The total return on our investment portfolio over the year was 15.4%. The following table highlights the principal contributors to this performance:

Name	Gain or loss £m	Income £m	Return £m	Return %
Oval	35.3	1.2	36.5	103.4
Close Brothers	21.2	2.5	23.7	37.1
Quintain Estates	18.0	–	18.0	62.0
Polar Capital	14.9	1.2	16.1	68.7
Capital Today China	15.5	0.3	15.8	54.3
TGE Marine	12.9	1.1	14.0	66.3
LondonMetric Property	8.2	1.8	10.0	40.6
Amber Chemicals	7.2	2.0	9.2	63.4
Sterling Industries	5.7	3.5	9.2	30.2
Latshaw Group	5.5	3.6	9.1	33.0
AG Barr	6.1	0.3	6.4	12.5
Easybox	(3.4)	–	(3.4)	(46.0)
Satellite Information Services	(7.9)	–	(7.9)	(27.8)
Income & Growth pool	(6.8)	7.0	0.2	0.1
Other investments	19.6	17.2	36.8	
Total portfolio returns	152.0	41.7	193.7	15.4

The overall return primarily arose from strong market performances of our top listed investments, including Close Brothers, Quintain Estates, Polar Capital, LondonMetric Property and AG Barr. Amber Chemicals delivered a gain of £7.2m as a result of our sale to ICM Corporation on 31 March 2014 and Oval was marked up to the value of its sale to Arthur J Gallagher on 1 April 2014.

Investment review continued

Performance and analysis

On the other hand, the valuation of Satellite Information Services fell as a result of the loss of its BBC outside broadcasting contract and reduced prospects for its core betting content services. The value of the Income & Growth pool investments fell in aggregate, particularly during the first quarter of 2014, when market sentiment moved quickly against income stocks, which is the core of this portfolio, in favour of growth opportunities.

Portfolio analysis

Pools

The following chart shows the distribution of net assets between the pools of capital and cash.

Pool distribution

	2014	2013
Quoted	35%	40%
Unquoted	39%	29%
Funds	14%	13%
Income & Growth	13%	12%
Cash and other	-1%	6%

The chart shows a significant shift during the year, from the Quoted pool and cash and into the Unquoted pool. However, this omits the sale of Oval on 1 April 2014, which reduced the Unquoted pool to 34% and increased cash to 4%.

The increase in the Funds pool reflected the investment in the Polar Capital Global Financials Trust and commitment drawdowns in two new US funds.

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

	2014	2013
United Kingdom	57%	56%
Continental Europe	18%	15%
North America	14%	16%
Asia	10%	10%
Other countries	1%	3%

The increase in the value of TGE Marine, a shift in the geographic weighting of the Income & Growth pool, the Quoted pool investment in Atlas Copco and the additional fund raising by Cobehold has increased our exposure to Europe over the year. Similarly, the realisation of part of our holding in Bristow Group has reduced our exposure to the US.

At the end of the year, UK listed and resident companies accounted for 57% of our portfolio. However, much of our UK exposure is through multinational companies, which generate a large proportion of their revenues overseas. The following chart shows the geographic analysis by revenue generation, which shows an exposure to the UK economy of 47%.

Geographic by revenue generation

	2014	2013
United Kingdom	47%	54%
Continental Europe	17%	25%
North America	14%	11%
Asia	15%	2%
Other countries	7%	8%

Asset class

The following chart shows the distribution of net assets by asset class. Listed securities represented 48% of net assets at the year end and unlisted investments (companies and funds) in total accounted for 53%.

Asset class distribution

	2014	2013
Listed equities	48%	53%
Private companies	40%	30%
Private equity funds	10%	9%
Public equity funds	3%	2%
Cash and other	-1%	6%

Over the year, there has been a substantial shift in allocation from listed equities and cash to private companies. The reduction in listed equities principally arose from part realisations of Close Brothers, Bristow Group, LondonMetric Property and Quintain Estates. The new investments in Park Holidays and Choice Care Group principally accounted for the increase in private companies.

After the year end, we realised our investment in Oval, which would have had the effect of reducing private companies and increasing cash each by 5%.

Currency

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

Currency exposure

	2014	2013
Pound sterling	60%	62%
US dollar	19%	20%
Euro	13%	10%
Other currencies	8%	8%

The changes in currency exposure over the year principally reflected portfolio changes. In particular, the sales of UK quoted company holdings and additional European investments have shifted the balance from sterling to the euro.

Portfolio summary

Holdings over 1% of net assets at 31 March 2014 were as follows:

Name	Pool	Geography[1]	Business	Value £m	Net assets %
Cobehold	Unquoted	Belgium	Investment company	100.2	6.9
Park Holidays	Unquoted	UK	Caravan parks operator	88.1	6.1
Bristow Group	Quoted	US	Helicopter services	74.5	5.2
Oval	Unquoted	UK	Insurance broking	70.0	4.9
Close Brothers	Quoted	UK	Financial services	64.6	4.5
AG Barr	Quoted	UK	Soft drinks	57.7	4.0
Choice Care Group	Unquoted	UK	Care homes provider	50.2	3.5
Avanti Communications	Quoted	UK	Satellite communications	46.8	3.2
Capital Today China	Funds	China	Private equity fund	44.8	3.1
The Sloane Club	Unquoted	UK	Residential club	43.8	3.0
Quintain Estates	Quoted	UK	Property services	41.2	2.9
TGE Marine	Unquoted	Germany	LNG engineering	39.3	2.7
Polar Capital	Quoted	UK	Fund manager	39.0	2.7
Sterling Industries	Unquoted	UK	Engineering	36.4	2.5
Latshaw Group	Unquoted	US	Manufacturing	33.0	2.3
Dewan Housing Finance	Quoted	India	Housing finance	31.0	2.1
Perlus Microcap	Funds	US	Public equity fund	24.3	1.7
Bowers & Wilkins	Unquoted	UK	Audio equipment	24.1	1.7
Satellite Information Services	Unquoted	UK	Broadcasting services	20.6	1.4
LondonMetric Property	Quoted	UK	Property investment	20.5	1.4
Buckingham Gate	Unquoted	UK	Property investment	18.5	1.3
Spirax Sarco	Quoted	UK	Steam engineering	18.0	1.2
Jardine Matheson	Quoted	Singapore	Industrial engineering	16.2	1.1
Nova Springboard	Funds	UK	Private equity fund	14.9	1.0
Brookshire Capital	Unquoted	UK	Property investment	14.8	1.0
Other investments				427.6	29.6
Investment portfolio[2]				1,460.1	101.0
Cash and other items				(14.5)	(1.0)
Net assets				1,445.6	100.0

1. Geography is based on the country of listing, country of domicile for unlisted investments and underlying regional analysis for funds.
2. Unallocated investments totalling £10.3m are included in Cash and other items.

Strategic report

Investment review continued

Quoted pool

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

Our focus is on mature, long term businesses with significant presence in their market space and where tangible assets produce strong returns on capital, giving strength to their balance sheets.

+20.5%

return over the year
35% of NAV at 31 March 2014

The Quoted pool contains significant holdings in well managed companies, held for the long term. 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 and a strong asset base. 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 £517.2m and ended with a value of £497.8m, as the opportunity was taken to top-slice a number of strongly performing investments into a buoyant market. In total, £100.9m of net realisations were made, principally £43.4m from Close Brothers, £35.2m from Bristow Group and £23.2m from LondonMetric Property.

Including £10.6m of income, the Quoted pool achieved a return over the year of 20.5%, following last year's return of 24.6%.

A number of strong performances contributed to the Quoted pool gains totalling £81.5m, notably from Close Brothers, Polar Capital, Bristow Group and Quintain Estates.

We have established new initial investments in a number of quality businesses, including Atlas Copco (£8.3m), the Swedish industrial engineering group, Rolls-Royce (£5.1m), the aircraft engine manufacturer, and Diageo (£4.8m), the premium drinks business, and added £5.2m to our holding in Jardine Matheson, the diversified business group focused principally on Asia.

	£m
Opening value	517.2
Investments	26.9
Realisations	(127.8)
Revaluation	81.5
Closing value	497.8
Investment income	10.6

Top investments

Name	Business	Geography	First invested	Equity held %	Residual cost £m	Value £m	Pool %	Income/(expense) recognised in the year Revenue £m	Income/(expense) recognised in the year Capital £m
Bristow Group	Helicopter services	US	1991	4.5	24.8	74.5	15.0	1.0	4.0
Close Brothers	Financial services	UK	1987	3.1	10.0	64.6	13.0	2.5	21.2
AG Barr	Soft drinks	UK	1977	8.1	1.1	57.7	11.6	0.3	6.1
Avanti Communications	Satellite communications	UK	2005	13.7	42.9	46.8	9.4	–	(0.5)
Quintain Estates	Property services	UK	1994	7.7	45.3	41.2	8.3	–	18.0
Polar Capital	Fund manager	UK	2001	9.2	0.6	39.0	7.8	1.2	14.9
Dewan Housing Finance	Housing finance	India	2005	11.0	31.8	31.0	6.2	0.8	3.2
LondonMetric Property	Property investment	UK	2007	2.3	14.8	20.5	4.1	1.8	8.2
Spirax Sarco	Steam engineering	UK	2011	0.8	11.9	18.0	3.6	1.0	0.6
Jardine Matheson	Industrial engineering	Singapore	2011	0.1	13.8	16.2	3.3	0.3	(1.0)

The table above shows pool holdings of over 1% of net assets at 31 March 2014.

Bristow Group is a leading provider of helicopter services to the offshore energy industry, quoted on the NYSE. We initially invested in Bristow in the UK in 1991 and saw it merged with the US-based Offshore Logistics in 1996. Bristow had a successful year, with revenue and earnings increasing over the previous year. In February 2014, Bristow acquired 60% of Eastern Airways, a UK airline providing charter and scheduled services, principally for UK oil and gas industry transport.

Close Brothers, the UK listed specialist financial services group, had a strong first half result to 31 January 2014, with increases across the banking, brokerage and asset management divisions. Although we continued to top-slice our holding into a buoyant market, our investment returned an excellent 37.1% over the year.

AG Barr, the UK soft drinks manufacturer, particularly notable for its Scottish soft drinks, Irn-Bru and Rubicon, had another good year, with earnings and dividends increased by some 10%.

Avanti Communications, the AIM listed company supplying satellite broadband services to telecoms companies across Europe, Africa and the Middle East, had an excellent close to 2013. For the six months to 31 December 2013, Avanti's revenues nearly doubled and it signed a number of new contracts. However, its share price slipped a little over the year, resulting in a negative return of 1.0%.

Quintain Estates, the UK listed property company, returned 62.0% over the year, as it completed its corporate re-positioning with the sale of its interest in Greenwich Peninsula and the advancement of development at Wembley Park. We have taken advantage of the improving market for Quintain stock to lighten our holding over the year.

Polar Capital, the AIM listed investment manager, almost doubled its assets under management over the year to $13.2bn. We provided initial capital for this business in 2001, which has now grown to 99 employees.

Dewan Housing Finance, the Indian listed company providing house financing to lower and middle income purchasers returned 14.7% over the year, supported by strong results.

LondonMetric Property, is a UK REIT investing in commercial and residential property, principally in the UK. Strong earnings growth and valuation increases resulted in a 40.6% return to Caledonia whilst, at the same time, we reduced our holding substantially.

We invested in Spirax Sarco, a supplier of engineered solutions for the design, maintenance and operation of industrial and commercial steam systems, in 2011. Although the company's performance improved over the last year, its share price advanced only a modest amount. However, an 11% increase in its annual dividend helped us achieve a 9.8% return.

We increased our investment in Jardine Matheson, the diversified business group focused on Asia, over the year. However, a flat result led to a slight decline in the share price, which could not be offset by its dividend, resulting in a negative return to us of 4.1%.

Investment review continued

Unquoted pool

The Unquoted pool contains both significant minority and majority holdings in private companies. Our focus is on established businesses, led by sound management teams, where our target investment size of £20m to £50m provides a meaningful presence and growth capital supporting double-digit operating margins.

+17.7%

return over the year
39% of NAV at 31 March 2014

	£m
Opening value	384.5
Investments	166.7
Realisations	(37.1)
Revaluation	54.2
Closing value	568.3
Investment income	22.4

The Unquoted pool has grown substantially over the year, increasing from £384.5m at the start of the year to £568.3m at the end, after £129.6m of net investment. Including £22.4m of income, the Unquoted pool achieved a return over the year of 17.7%, building on a return of 16.1% last year.

The Unquoted pool had an active year, making two significant new investments, five follow-on investments and two material disposals.

In August 2013, we acquired a controlling stake in Choice Care Group for £49.5m. Based in the south of England, Choice Care owns and operates a portfolio of 49 residential learning disability homes, as well as providing supported living services in the same areas. The estate is well invested and represents a solid platform for future developments. Our strategy is to develop new homes as well as extend Choice Care's supported living business, building incremental value. Since the buy-out, we have invested an additional £0.7m to support the development of two additional homes.

In November 2013, we acquired 100% of Park Holidays for an equity commitment of £88.1m. Based in the south of England, Park Holidays owns and operates a portfolio of 23 caravan parks. Our strategy is to continue to grow the parks' profits through selective capital expenditure as well as operational improvement. In addition, we will look to support Park Holidays' management team in making targeted acquisitions.

Belgium-based Cobehold, our largest investment, had a solid year. It is an investment company with holdings in companies with long term growth prospects throughout Europe. Its portfolio of unquoted investments weathered the European downturn admirably, maintaining capital values and increasing the dividend paid to shareholders. During the year, we participated in Cobehold's €400m first fundraising since its buy-out in 2004, committing €19.8m, of which €9.9m (£8.4m) has been paid to date, enabling the business to develop further across Europe.

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	8.7	43.7	100.2	17.6	1.9	0.3
Park Holidays	Caravan parks operator	UK	2013	100.0	88.1	88.1	15.5	–	–
Oval	Insurance broking	UK	2003	23.2	42.5	70.0	12.3	1.2	35.3
Choice Care Group	Care homes provider	UK	2013	97.7	50.2	50.2	8.8	–	–
The Sloane Club	Residential club	UK	1991	100.0	38.5	43.8	7.7	5.6	0.8
TGE Marine	LNG engineering	Germany	2006	67.9	19.2	39.3	6.9	1.1	12.9
Sterling Industries	Engineering	UK	1989	100.0	5.3	36.4	6.4	3.5	5.7
Latshaw Group	Manufacturing	US	2012	n/a	27.2	33.0	5.8	3.6	5.5
Bowers & Wilkins	Audio equipment	UK	2011	20.0	24.1	24.1	4.2	0.9	0.1
Satellite Information Services	Broadcasting services	UK	2005	22.5	16.7	20.6	3.6	–	(7.9)
Buckingham Gate	Property investment	UK	2000	100.0	20.5	18.5	3.3	0.5	–
Brookshire Capital	Property investment	UK	2010	80.0	11.1	14.8	2.6	0.6	2.7

The table above shows pool holdings of over 1% of net assets at 31 March 2014.

Oval, a leading provider of insurance broking and financial services in the UK, maintained its recent track record of increasing earnings and, following a re-financing of its senior debt facilities in June 2013, re-commenced interest payments to Caledonia. On 1 April 2014, we sold our 23.2% holding to Arthur J Gallagher of the US for £70.0m, as part of its acquisition of the entire Oval group. We revalued Oval to the sale value at the year end, which was a 65% increase on the previous carrying value.

The Sloane Club, a premium residential club situated in central London, had a good year, with improved occupancy leading to increased revenue and earnings. As a result of this improvement and a review of its five year business plan, consulting valuers marked-up the value of the property.

TGE Marine, the Germany-based designer and supplier of cargo handling systems for liquid gas carrying ships and offshore units, improved its revenue and earnings. Over the year, we acquired additional ordinary shares in TGE Marine for €10.6m (£8.9m), increasing our stake from 49.9% to 67.9%.

We saw particularly strong revenue and earnings growth at Sterling Industries and Latshaw Group this year, resulting in an increase in our valuations of both these businesses. Sterling Industries is a UK-based international engineering business, specialising in the global supply of combustion and heat transfer technology and services, and Latshaw Group comprises five US engineering businesses in sectors including plastic injection moulding, custom wire and cable products and gauging tools. Both these companies paid significant dividends during the year.

Bowers & Wilkins, a premium audio manufacturer headquartered in the UK, had a good year and paid a welcome dividend.

Satellite Information Services, the UK media group, took the decision to exit its outside broadcasting business following the announcement of the loss of its BBC contract to other media providers. As a result, we have marked down the value of our holding in this company.

Buckingham Gate is a property investment company, which owns an office building in central London, partly used as our head office and partly let out to third parties. Due to the continuing development work in Victoria, external advisers have held the value of this property to last year's level.

Over the year, we also increased our investment in Brookshire Capital, a property investment company in which we have an 80% interest, as it continued to invest in light industrial units located in the south of England. The portfolio of 11 properties has benefited from valuations rising in the sector over the year and now generates a geared yield at property level of 14.5%.

Easybox, our Italian self-storage business, has had a disappointing year, with challenges to the market coupled with significant management change. Consequently, we have written down the value of our investment in this company by some 46%.

Following earlier loan repayments of £1.6m, on 31 March 2014 we sold our holding in Amber Chemicals, the global speciality silicones business, to ICM Corporation of the US for £22.9m (net of costs), an uplift of over 60% on its carrying value. We invested in Amber Chemicals over 50 years ago and have benefited from its ability to grow and sell chemicals businesses over the years and latterly the development of its market leading silicones business.

Investment review continued

Funds pool

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

Our fund investments provide broad exposure to areas of the world where it is more difficult for us to invest directly.

+11.8%

return over the year
14% of NAV at 31 March 2014

	£m
Opening value	166.8
Investments	35.1
Realisations	(17.4)
Revaluation	19.9
Closing value	204.4
Investment income	1.7

The Funds pool had a good year, with a total return of 11.8%. The principal component of the valuation movement was a 53% increase in the value of the Capital Today China fund, principally due to the continued success of JD.com (formerly Jingdong), the Chinese online retailer. The Funds pool started the year at £166.8m and ended at £204.4m, after net investment of £17.7m.

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 and ensures exposure to areas of the world where we are less willing to invest directly.

The nature of the longer term investment process within the Funds pool requires the continuous origination and investment in new funds, to ensure both effective vintage management and a balance between maturing funds and those at the initial stages, where returns are naturally phased to later years.

During the year, we committed to three new limited partnership funds: $50m (£30.0m) to FLAG Private Equity V, managed by FLAG Capital, £10m to the ISIS Growth I fund, managed by ISIS Equity Partners, and $10m (£6.0m) to AVM Ranger, managed by Arlington Value Capital. A total of £14.0m was drawn down by these funds in the year.

FLAG Private Equity V is a private equity fund of funds, investing in buy-out managers operating in the US lower-mid market. FLAG Capital has a strong track record and has achieved top quartile performance with its previous funds.

ISIS is one of the most active and successful lower mid-market private equity houses in the UK and has supported over 100 entrepreneurial businesses since its inception in 1995. The ISIS Growth I fund continues this tradition.

AVM Ranger is a US public equity fund, with a value oriented, sector and size agnostic style. Arlington Value Capital has been active since 2008, with excellent returns to investors.

We also invested £10.0m in the Polar Capital Global Financials Trust, a UK investment trust managed by Polar Capital. This is an actively managed trust, designed to take advantage of growth opportunities and potential for significant yield recovery in the global financials sector.

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
Capital Today China	Private equity fund	China	2006	n/a	1.8	44.8	21.9	0.3	15.5
Perlus Microcap	Public equity fund	US	2010	n/a	16.5	24.3	11.9	–	2.1
Nova Springboard	Private equity fund	UK	2006	n/a	3.2	14.9	7.3	–	2.0

The table above shows pool holdings of over 1% of net assets at 31 March 2014.

Realisations of £17.4m comprised the sale of part of our holding in Eredene Capital, the India infrastructure investor, and a number of fund distributions.

The Capital Today China Growth Fund is managed by Capital Today and provides growth capital to medium-sized Chinese companies, focusing on the consumer, retail and internet sectors. The particular success of JD.com has led to a significant increase in the valuation of this fund, resulting in a return to Caledonia of 54.4% over the year.

Perlus Microcap is a long only equity fund investing in small public companies in North America, managed by UK-based Perlus Investment Management. Perlus Microcap has an excellent track record, being 45.9% ahead of Russell 2000K Value since its August 2008 inception, with low volatility. Our investment in this fund returned 9.3% over the year.

Nova Springboard is a fund managed by Nova Capital Management. Springboard was an AIM listed investment company that Nova took private in 2006, with financing from Caledonia. This fund continues to perform well and returned 15.1% over the year.

On 1 April 2014, we invested $10.0m (£6.0m) in the NTAsian Discovery Fund and added a further $10.0m (£6.0m) on 1 May. The NTAsian Discovery Fund is a $600m public equity fund managed by Bangkok-based NTAsset Management, investing in Asian (ex Japan) companies. The fund specialises in ‘undiscovered small cap companies’ and aims to generate absolute returns by investing for the long term in companies trading at deep discounts to their intrinsic values.

In April 2014, we committed $15m to the Vision Knight Capital (China) Fund II. VKCII is a Shanghai-based private equity fund focusing on investments in internet, e-commerce and B2B services empowered by IT and internet technologies in China. The fund was founded by the ex-CEO of Alibaba.

At the year end, our fund commitments amounted to £76.7m (2013 – £60.2m). The following chart shows the geographical spread of our fund investments and outstanding commitments, including the post year end Asian investments and commitment noted above of £21.0m.

Fund investments and commitments

	2014	2013
North America	33%	32%
Asia	32%	31%
United Kingdom	25%	29%
Continental Europe	6%	8%
Global	4%	–

The chart shows a shift away from the UK and Europe and into North America, Asia and global funds, in line with our strategy of investing in funds in areas of the world where it is more difficult for us to invest directly.

Investment review continued

Income & Growth pool

The Income & Growth pool comprises a geographical and sector balanced portfolio of investments in up to 45 international blue chip businesses, targeting yields for the pool as a whole of 5% gross.

The Income & Growth pool comprises a geographical and sector balanced portfolio of currently 40 investments in mainly global blue chip companies with strong balance sheets, above average returns and demonstrable histories of creating shareholder value. All investments are carefully researched, visited locally and have strong organic growth potential in tandem with a high dividend yield.

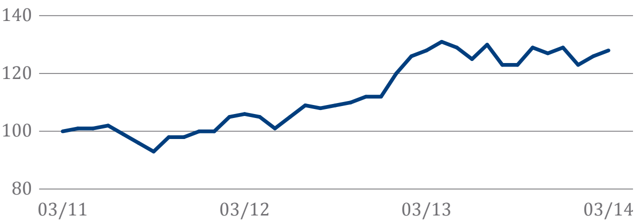
Over the year, the Income & Growth pool invested £103.7m, of which £20.0m was new funding, and realised £69.2m, as we rebalanced the portfolio as noted below. Net dividend income during the year was £7.0m, representing a gross yield of 4.3% on the average invested capital. Overall, the value of the pool grew over the year from £162.0m to £189.6m, representing 13% of Caledonia's net assets.

The Income & Growth pool was created in March 2011, with £156.0m of investment to date, and, over the three years of its existence produced a return of 28.5%, giving an annualised rate of 8.7%.

+0.1%

return over the year
13% of NAV at 31 March 2014

Cumulative pool return



	£m
Opening value	162.0
Investments	103.7
Realisations	(69.3)
Revaluation	(6.8)
Closing value	189.6
Investment income	7.0

Top investments

The top ten investments in the pool at 31 March 2014 were as follows:

Name	Business	Country	Value £m	Pool %	Income £m
SES	Satellite communications	Luxembourg	7.5	3.9	–
Zurich Insurance	Multi-line insurance	Switzerland	7.2	3.8	0.3
Swedbank	Banking	Sweden	7.1	3.8	0.4
HSBC Holdings	Banking	UK	6.9	3.6	0.3
General Electric	Conglomerate	US	6.7	3.5	0.1
Pfizer	Pharmaceuticals	US	6.6	3.5	0.2
GlaxoSmithKline	Pharmaceuticals	UK	6.3	3.3	0.3
Standard Life	Life insurance	UK	6.0	3.2	0.4
Novartis	Pharmaceuticals	Switzerland	5.9	3.1	0.1
Intel Corporation	Semiconductors	US	5.7	3.0	0.2

The table above shows pool holdings of over 1% of net assets at 31 March 2014.

After two strong years of capital returns, the valuations of higher yielding stocks did not continue their rise. This subdued performance resulted in a return to the pool over the year of just 0.1%. In the first half of the year, the Federal Reserve Bank introduced tapering to wind down quantitative easing, which had an adverse effect on higher yielding stocks globally. However, this effect diminished in the second half of the year, as economic growth picked up and the pool returns improved, gaining 4.7% since October.

Solid performance came from developed markets, with US, UK and European equities all contributing to returns. Europe in particular came back strongly and the pool added a number of European holdings, including Daimler, the German maker of Mercedes cars and trucks, SES, the Luxembourg-based global satellite company, RTL Group, the German television group, and Novartis, the Swiss pharmaceutical giant, which have all gained in value. Asian and emerging market investments had a more difficult year, as Chinese growth slowed and Brazil experienced higher inflation. However, there were still some good returns from Asia, with Giant Manufacturing in Taiwan, the world's largest manufacturer of bicycles, providing the best gains.

Over the year, we rebalanced the pool investments away from the UK and Asia and towards Europe and, to a more limited extent, North America, with the purchase of General Electric. Whilst the portfolio is a collection of research driven investments, focusing on the sustainable organic growth and dividend potential of each company, over the longer term, regional allocations are important. From that perspective, Asian and emerging markets are now exhibiting relatively good value and the Australian economy is showing signs of a recovery. Australia has above average dividend yields, particularly in the sustainable type of companies that suit the pool. Reassessing the potential and valuations of investments in Australia, Asia and Brazil is important to maintaining dividend yields and keeping good value in the pool.

Sectors

	2014	2013
Oil and gas	5%	6%
Basic materials	3%	3%
Industrials	6%	7%
Consumer goods	24%	25%
Health care	13%	11%
Consumer services	8%	3%
Telecommunications	3%	7%
Utilities	5%	7%
Financials	30%	28%
Technology	3%	3%

Regions

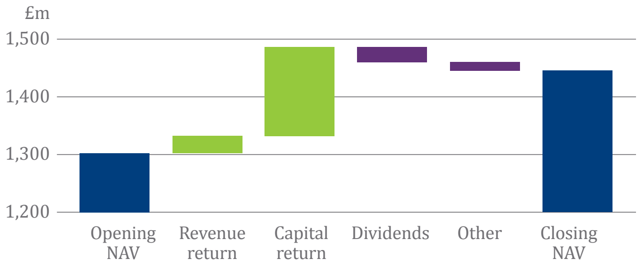
	2014	2013
United Kingdom	18%	25%
Continental Europe	37%	21%
North America	28%	26%
Asia Pacific	12%	22%
Latin America	5%	6%

Financial review

The company has early-adopted the IASB *Investment Entities* amendments, consolidating the company and its service subsidiaries, as we believe that this will make the annual report more understandable to the reader.

Caledonia's net asset value increased over the year to £1,445.6m at 31 March 2014, from £1,302.4m at the start of the year. The following chart analyses this increase:

Movement in net asset value



Total return

The company seeks to generate total return from investment income, net of expenses, and capital growth. For the year ended 31 March 2014, the total return was £184.2m (2013 – £207.6m), of which £29.8m (2013 – £29.8m) derived from income and £154.4m (2013 – £177.8m) from capital.

Revenue performance

Investment income in the year of £41.7m was marginally higher than last year's £41.4m. The Income & Growth pool contributed £2.0m more than in 2013, reflecting the increased cash allocation to this pool, and the Unquoted pool benefited from substantial dividends from the Latshaw Group, The Sloane Club and Sterling Industries. These increases were substantially offset by a reduction in income from Close Brothers and other Quoted pool investments, as we reduced overweight holdings.

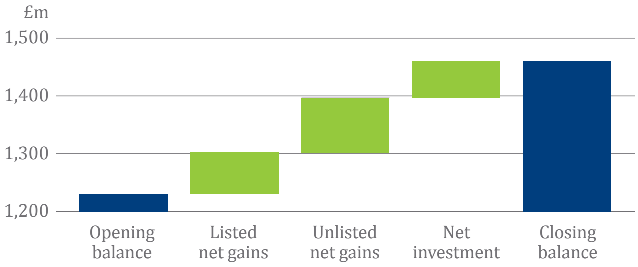
The investment income represented a net yield on the monthly average portfolio of 3.2%, compared with 3.3% last year.

Capital performance

Net gains on investments totalled £151.4m (2013 – £178.1m, including derivatives). The principal gains were £35.3m from Oval, £21.2m from Close Brothers, £18.0m from Quintain Estates and £15.5m from the Capital Today China fund. These gains more than offset investment losses, the most significant of which was £7.9m from Satellite Information Services.

Listed investments contributed £72.1m to the valuation gains, and unlisted investments contributed £79.3m. Unlisted investments increased in value at a greater rate than listed investments over the year. This was evidenced principally by transactions in the year or soon after. In general, we would normally expect to see the valuation changes of unlisted companies lagging those of our listed portfolio, reflecting our 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 International Private Equity and Venture Capital Valuation Guidelines. Adjustments are normally made to earnings benchmark multiples – generally of around 30% – to account for points of difference between the comparators and the company being valued, including relative liquidity and scale. Most unlisted property and fund investments are based on external valuations.

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

Portfolio by valuation source

Expenses

Caledonia allocates all expenses, other than transaction costs, to revenue. Our ongoing charges ratio for the year was 1.03% (2013 – 1.13%), compared with the Investment Trust Global sector average of 0.85% (2013 – 1.02%). We calculate our ongoing charges ratio on an industry standard basis, comprising published management expenses over the monthly average NAV.

Overall, the company's revenue column management expenses were slightly higher than last year at £13.6m (2013 – £13.3m).

Dividend

We recognise that a reliable source of growing dividends is an important part of shareholder total return and have extended to 47 years our record of growing annual dividends.

We paid an interim dividend of 13.4p per share on 9 January 2014 and have proposed a final dividend of 35.7p per share. The total dividend for the year of 49.1p is an increase of 4.0% on last year.

Including the proposed final dividend, the dividends to be paid out of revenue earnings for the year ended 31 March 2014 totalled £27.1m, which was covered by that year's revenue earnings of £29.8m.

If approved, the final dividend will be payable on 7 August 2014 to holders of shares on the register on 11 July 2014. The ex-dividend date will be 9 July 2014.

Investment entities accounting

In October 2013, the IASB issued the Investment Entities amendments to IFRS 10, 12 and IAS 27, for accounting periods beginning 1 January 2014. The EU adopted these IFRS amendments in November 2013. The company has early-adopted these amendments for its 31 March 2014 year end.

For a number of years, Caledonia's financial presentation had focused on the supplemental results of the company, which were considered to be the most appropriate measure of performance, as they enabled majority-owned investments to be measured at fair value. The company results were thus directly comparable with the results of other investment trusts, which typically do not hold majority stakes.

Applying the Investment Entities amendments enables Caledonia to present group accounts broadly consistent with the supplemental company results. That is, under Investment Entities, all investments (except service subsidiaries) are measured at fair value. As it would no longer be beneficial to include the additional company information, Investment Entities has enabled us to simplify the financial statements, making them more understandable.

The principal differences between Investment Entities accounting and the company results is the grossing up of certain investments for £30.7m of debt lent by Caledonia Treasury, a wholly-owned subsidiary of Caledonia. Caledonia Treasury's finance is principally from a Royal Bank of Scotland term loan.

In addition, the Investment Entities consolidation includes accounting for the pension schemes funded by Caledonia Group Services and the head office property in Buckingham Gate, London.

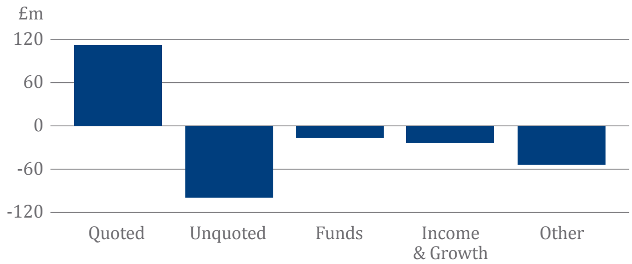
The comparatives quoted in the strategic review reflect the restated Investment Entities accounting comparatives, which may differ from information published previously.

Financial review continued

Cash flows, liquidity and facilities
During the year, we moved from opening net cash of £73.9m to net debt of £7.1m, principally due to net portfolio investment settlements of £71.4m. However, we moved into a net cash position again of £62.9m on 1 April 2014, with the receipt of £67.2m from the sale of Oval.

The total cash movement over the year of £81.0m was analysed by pool as follows:

Net cash movement by pool



At the year end, the company had borrowings of £20.0m against its committed facilities of £125m, expiring in April 2018. In addition, Caledonia Treasury had drawn £20.0m in term loans to fund loans to subsidiaries and had undrawn revolving facilities of £30m.

During the year, the company increased its committed facilities from £75m to £125m, to increase its flexibility to take advantage of opportunities as they arise.

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.

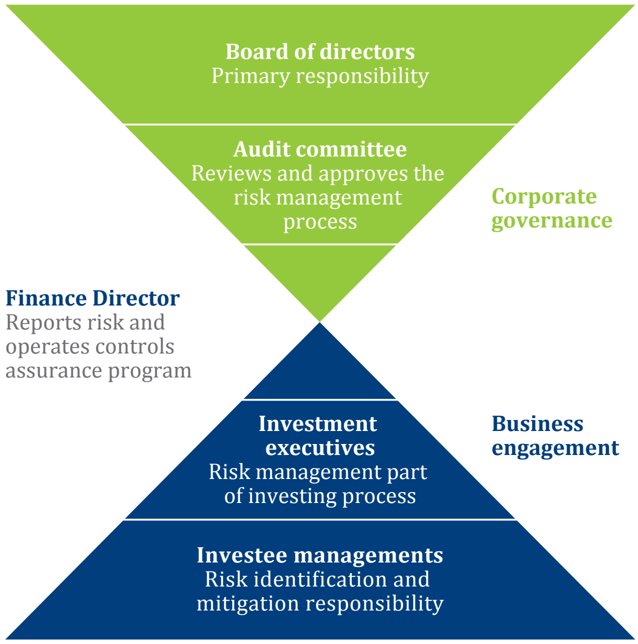
Stephen King
Finance Director

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 strategic risk parameters. The board has overall responsibility for setting and monitoring the company's risk appetite.

Caledonia risk governance and structure
Risk management and its governance is the responsibility of the board, with the executive given the task of ensuring an effective and transparent process to ensure risks are identified, documented, assessed and, where appropriate, mitigated. The board sets the risk appetite within the business model and this is communicated through the executive to all those with managerial responsibilities. Risks emanate from all parts of the business and are considered by all executives as part of their work, from origination of investments to ongoing monitoring and portfolio management.

The Audit Committee assesses and approves the risk management processes and structure and specifically reviews the controls assurance programme. This programme identifies key mitigating controls, tests their operation and reports on compliance and effective operation. This, together with reports arising from the external audit, provides input to the board as a whole on the status of the risk management process.



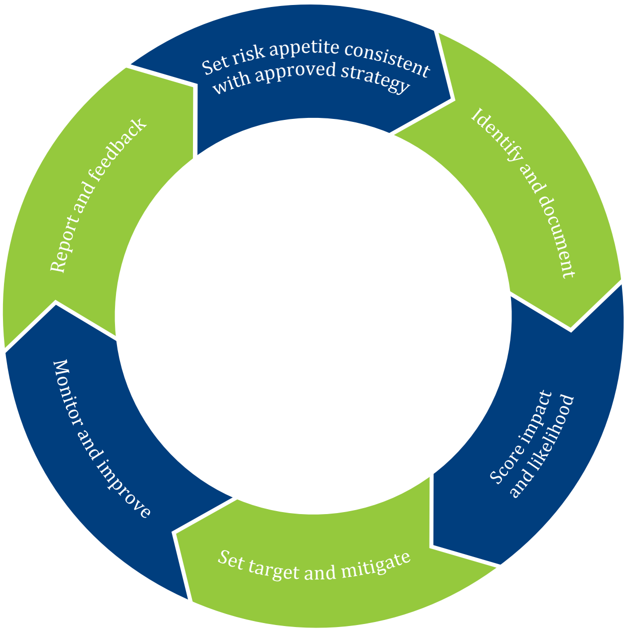
Risk management reporting
Caledonia manages and reports risk through two primary areas of focus: an overall business risk report and a portfolio investment risk report.

The business risk report considers the wider business environment of the group, including business continuity planning, IT and cyber security risks, regulatory risks and financial control risks.

Caledonia manages business risk through a number of integrated processes and procedures operating throughout the year to provide risk visibility to both the executive team and the wider board.

Risk management continued

Caledonia risk management process



Risks are identified and assessed through a risk dashboard, capturing the most significant business risks facing Caledonia and documenting the actions required to achieve an acceptable level of risk.

The business risk dashboard is reported to the board half yearly.

The portfolio investment risk report specifically focuses on the more technical areas of investment portfolio risk in relation to Caledonia's investment strategy. This includes such areas as investment volatility, value at risk, diversification, liquidity and concentration risks.

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 both new investments and realisations for optimal shareholder value.

Market

Risk of losses in value of 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 23 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, developing and retaining staff, appropriate systems and procedures, business disruption and an IT framework that provides flexible and resilient support.

Regulatory and legal

Risk arising from exposure to litigation or fraud and adherence to the tax and regulatory environment, as Caledonia operates across a number of jurisdictions and in an industry that has been subject to increasing regulatory oversight.

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.	• Caledonia has established and communicated a clear investment strategy, focusing on longer term value investing. A clear strategic capital allocation to a range of investment types, risk profiles and returns has been established and communicated, enabling the board and shareholders to evaluate targeted performance. Remuneration and rewards are aligned to strategic targeted 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.	• An increased breadth of investment management skills and expertise over the last two years has facilitated increased deal flow and quality of research across the portfolio.
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.	• Risk weighted performance reporting and portfolio risk analysis has been developed for management and the board, giving a regular insight into the characteristics and performance of Caledonia's portfolio.
Detailed cash forecasting for six months ahead 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.	• Average liquidity levels of our quoted portfolio have increased over the last year. • The successful exit of two recent significant unquoted investments generated £93m net proceeds. • Revolving borrowing facilities were renegotiated for a further five years, and committed facilities increased to £175m from the previous level of £125m.
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.	• An IT risk dashboard has been developed to document significant IT risks facing Caledonia. • A cyber security review was completed during the year looking at how equipment, information and services are protected from unintended or unauthorised access, change or destruction.
Caledonia has internal resource which considers all regulatory and tax matters as they arise. Use is made of advisers and the Association of Investment Companies, of which Caledonia is a member and on whose self-managed investment company committee it is represented. Regular training is undertaken.	• Caledonia is satisfied that it is not an Alternative Investment Fund ('AIF'), as defined in the EU's Alternative Investment Fund Managers Directive, and therefore is not required to be authorised by the Financial Conduct Authority to perform the regulated activity of managing an AIF under the Financial Services and Markets Act 2000, as amended.

Sustainability

We are committed to building our business for the long term. To this end, we consider the impact of our business on the marketplace, workplace and environment.

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.

Equality and diversity

We believe that a diverse workforce will create the optimum environment in which our business will thrive and grow.

We are committed to creating an inclusive environment where our employees can develop and contribute fully.

In formulating and implementing our employment and recruitment policies, we ensure that they are at all times compliant with all relevant legislation. Recruitment, development and promotion are based solely on suitability for the job to be done. We will not discriminate on the basis of gender, sexual orientation, age, race, nationality, disability or political or religious belief.

The table below provides the gender split at different levels within the business.

	Male		Female	
	Number	%	Number	%
Board	10	100	–	–
Senior managers	8	80	2	20
Total workforce	23	51	22	49

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.

Greenhouse gas emissions

Caledonia's carbon footprint has been estimated in line with the WRI/WBCSD Greenhouse Gas Corporate Accounting and Reporting Standard (GHG Protocol) and Defra guidelines.

The sources of greenhouse gas emissions shown in the table below are from the companies included in the consolidated financial statements. We do not have responsibility for any emission sources from companies that are not included in our consolidated financial statements.

Operational scope	Source of GHG emissions	GHG emissions in year	Unit
Scope 1 (direct emissions)	• Combustion of fuel and operation of facilities • Air conditioning refrigerant loss • Company car use	61	Tonnes CO_2e
Scope 2 (indirect emissions)	• Electricity purchased for own use	176	Tonnes CO_2e
Scope 3 (indirect emissions)	• Business travel	238	Tonnes CO_2e
Total		475	Tonnes CO_2e
Key performance indicator	Scope 1 and 2 normalised to full time employee equivalent	9.9	Tonnes CO_2e per FTE

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 Chairman of the Trustees of Calthorpe Estates.

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 Vice-Chairman of the supervisory board of TGE Marine and a non-executive director of Avanti Communications Group, Cobehold and Real Estate Investors.

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.

4 Jamie Cayzer-Colvin
Executive Director
He joined the Caledonia group in 1995, initially working at its Amber speciality 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 Polar Capital Holdings.

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.

6 Stuart Bridges
Non-Executive Director
Appointed a non-executive director of Caledonia in January 2013, he is Chairman 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.

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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.

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.

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 non-executive Chairman of ICAP.

10 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.

Corporate governance report

Caledonia recognises the importance of good corporate governance, which requires the board to consider the processes, controls and limits within which the company should operate and define a working framework that is clear and understandable to everyone involved in the management of the company.

Membership and attendance

The board held eight scheduled meetings during the year. Attendance of the directors was as follows:

Director	Meetings attended	Meetings eligible to attend
R D Kent	8	8
W P Wyatt	8	8
S A King	8	8
J M B Cayzer-Colvin	7	8
C M Allen-Jones	8	8
S J Bridges	7	8
Hon C W Cayzer	7	8
R Goblet d'Alviella	7	8
C H Gregson	7	8
R B Woods	6	8
D G F Thompson[1]	3	3

1. Mr Thompson retired from the board at the annual general meeting on 24 July 2013.

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 September 2012.

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/Codes-Standards/Corporate-governance/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 directors' remuneration and terms of appointment
- 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 to ensure that it carries out its role effectively and for succession planning. The Chief Executive is responsible 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 pool managers and other senior executives are regularly given to the board, as well as occasionally by senior executives of investee companies.

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, if necessary, these can be reviewed by the Chairman with the directors concerned. 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 30 and 31.

The board currently comprises ten directors. Excluding the Chairman, three of the directors are executive and six 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 the fact that he has served as a non-executive director for nine years and also of his position as Executive Chairman of Sofina SA, whose wholly-owned subsidiary, Rebelco SA, 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 has also served as a non-executive director for more than nine years. The board has specifically considered both his and Mr Goblet d'Alviella's length of tenure in the context of The UK Corporate Governance Code and does not believe that their independent 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.

The company has announced that Harold Boël will be joining the board from 25 June 2014. Mr Boël is Chief Executive Officer of Sofina SA and the board has determined that he will be an independent director, based on the same consideration of his role at Sofina as for Mr Goblet d'Alviella.

Board committees

The board has delegated certain specific areas of responsibility to the following standing committees: the Nomination Committee, the Audit Committee, the Governance Committee and the Remuneration Committee. Further details of the work of each of these committees and their membership during the year are set out on pages 35, 36, 38 and 40 respectively.

The terms of reference of each committee are reviewed annually and are available on the company's website.

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:

- 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 to the board, but for which board approval has already been given in principle. The Administrative Committee meets when required and is comprised of any two directors.
- 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.
- 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.
- 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.
- The Compliance Committee meets weekly to monitor the company's ongoing 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 Heads of Tax, Treasury and Finance, the Group Financial Controller and the Deputy Company Secretary.
- The Challenge Committee formally reviews valuations of all of the company's 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 LLP.

Corporate governance report continued

Board performance evaluation

The board conducts an annual evaluation of its performance and that of its committees and, in accordance with best practice, involves an independent third party to assist in this process every three years. For the year ended 31 March 2014, Law Debenture Governance Services ('Law Debenture') acted as the external facilitator. Law Debenture invited each director and the Company Secretary to complete an online questionnaire regarding the operation and effectiveness of the board, conducted one to one interviews with each of them and observed a board meeting. Law Debenture then discussed its findings at a separate session of the board.

The evaluation of the performance of the Chairman was led by the Senior Independent Non-Executive Director and involved individual discussions with other members of the board, the results of which were then considered by the non-executive directors without the Chairman present. The Chairman considered the performance of the non-executive directors and that of the executive directors was reviewed by the Chairman and the non-executive directors, with the Chief Executive also present for the discussion on the other executive directors.

Law Debenture's review of the effectiveness of Caledonia's board concluded that shareholders can be confident that the board is well led and administered and that governance requirements are well covered. A number of minor process improvements were put forward for the board's consideration, the principal being that a clearer specification of the skills and experience required amongst board members might assist in achieving the optimum mix around the board table.

Law Debenture has no other connection with the company.

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 new director on appointment is required to declare any potential conflict situations, which may relate to him or her, or his or her connected persons. These are reviewed by the board and, if necessary, also by the Governance Committee, which then considers whether these situations should be authorised and, if so, whether any conditions to such authority should be attached.

Each board meeting includes a standing agenda item on conflicts of interest to ensure that all directors disclose any new potential conflict situations. These are then reviewed, again 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 is reviewed annually by the Governance Committee.

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 the 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.

Rod Kent
Chairman of the board
28 May 2014

Nomination Committee report

The Nomination Committee is focused on evaluating the directors and examining the skills and characteristics needed in board candidates. It is also responsible for identifying suitable candidates for various director positions.

Membership and attendance

The membership and attendance record of the Nomination Committee during the year was as follows:

	Meetings attended	Meetings eligible to attend
R D Kent (Chairman)	1	1
C M Allen-Jones	1	1
R Goblet d'Alviella	1	1
C H Gregson	1	1
R B Woods	1	1
D G F Thompson[1]	1	1

1. Mr Thompson retired as a member of the committee on 24 July 2013.

The Nomination Committee 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.

Diversity

The board's policy on diversity is, as it has been in the past, to seek to appoint the best qualified person to a particular role regardless of gender or other diversity criteria and therefore it has not adopted any measurable objectives in relation thereto.

Work of the Nomination Committee

The Nomination Committee met once during the year to review the size and composition of the board following the 2013 annual board performance evaluation and to consider the contributions of the non-executive directors seeking election or re-election at the 2013 annual general meeting, prior to giving recommendations for their elections or re-elections.

Rod Kent
Chairman of the Nomination Committee
28 May 2014

Audit Committee report

The Audit Committee plays a significant role in ensuring that the company's financial statements are properly prepared and that the system of controls that is in place is effective and appropriate.

Membership and attendance

The membership and attendance record of the Audit Committee during the year was as follows:

	Meetings attended	Meetings eligible to attend
S J Bridges (Chairman)[1]	3	3
C M Allen-Jones	3	3
R Goblet d'Alviella	2	3
C H Gregson	3	3
D G F Thompson[2]	1	1

1. Mr Bridges replaced Mr Thompson as chairman of the committee on 24 July 2013.
2. Mr Thompson retired as a member of the committee on 24 July 2013.

The Audit Committee is responsible for monitoring the integrity of the financial statements of the company and any announcements relating thereto and for reviewing any significant financial reporting judgements contained therein. In addition, it oversees the relationship with the external auditor, KPMG LLP ('KPMG'). 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, comprised exclusively of independent non-executives directors, met three times in the year ended 31 March 2014, in May and November 2013 and in March 2014. Subsequent to the year end, it met in May 2014 to consider the significant issues in relation to the 2014 annual report.

The external auditor, KPMG, the Finance Director, the Company Secretary and various members of the finance team attend the meetings of the Audit Committee. Other board members and/or senior executives may also attend meetings at the invitation of the Chairman. At the end of each meeting, the Audit Committee has a separate discussion with the external auditor without executive management present.

Work of the Audit Committee

The Audit Committee undertook the following activities in the discharge of its responsibilities.

Financial statements

The main focus of the meetings in May and November 2013 was the 2013 annual report and financial statements and the 2013 half-year results respectively, including evaluation of the going concern statements therein.

The March 2014 meeting considered principally the audit planning for the 2014 annual report, including in particular the new requirements of the revised UK Corporate Governance Code, other new disclose requirements and investment entities accounting.

In its May 2014 meeting, the Audit Committee reviewed the form and content of the 2014 annual report and financial statements. In conducting its review, the Audit Committee considered reports prepared by management and the external auditor. These reports provided an analytical review of the financial statements, comparing the current to prior year financial position and results, and detailed the judgements and sources of estimation uncertainty involved in applying the accounting policies to the financial statements. The Audit Committee also considered the going concern statement. The Audit Committee recommended the 2014 annual report to the board.

The significant issues the Audit Committee considered in relation to the 2014 financial statements were the valuation of unlisted and listed investments. In relation to these financial statements, the Audit Committee also considered material balance sheet provisions, the going concern statement (and related liquidity issues), compliance with the annual report 'fair, balanced and understandable' provisions of the revised UK Corporate Governance Code and the proposed early adoption of the IASB *Investment Entities* amendments.

Unlisted valuations

The Audit Committee recognises that unlisted investments are a significant component of the financial statements and that their valuation is subject to considerable judgement and uncertainty. The Chairman of the Audit Committee attended an internal valuation review meeting (along with the external auditor) and reported to the Audit Committee on the quality of the review, adherence to the company's valuation policy and consistency of valuation methodologies over time.

In the case of one unlisted investment (representing 4.9% of net assets), the valuation at 31 March 2014 was based on the expected proceeds from a pending sale, a change in methodology from previous years. The Audit Committee heard that the sale was completed on 1 April 2014 and, therefore, concurred that a year end valuation based on pending proceeds was appropriate.

Listed valuations
Listed investments are a significant component of the financial statements. The internal valuation review meeting referred to above also considered the listed securities, to ensure that the exchange bid prices used in the valuation were from an actively traded market. Although a number of investments traded in relatively illiquid markets, there had been at least one trade in the previous month. Therefore, the Audit Committee concurred that it was appropriate to use the exchange bid price in all cases.

Balance sheet provisions
The company holds a provision of £8.3m against a guarantee given for potential liabilities of a subsidiary. The subsidiary's potential liabilities relate to an HMRC claim that losses deducted on the derecognition of FTSE index options in 2009 should not be allowed. The company and its advisors have presented its case to HMRC, who are dealing with the issue as a joint case, along with a number of other parties. During the year, there had been no significant change to the circumstances of the case. Therefore, the Audit Committee agreed that it was appropriate to hold a provision equivalent to full cover for the potential loss of the case.

Going concern
The Audit Committee considered the trading needs of the company and its financial capacity, including available bank credit and liquid funds, to be wholly sufficient to confirm the going concern of the business.

Fair, balanced and understandable statement
The Audit Committee reviewed the draft annual report and, taken as a whole, considered it to be fair, balanced and understandable. The Audit Committee recommended to the board that the statement of directors' responsibilities in respect of the annual report and the financial statements, set out on page 57, should be signed accordingly.

Investment entities
In October 2013, the IASB issued the Investment Entities amendments to IFRS 10 and 12 and IAS 27, for accounting periods beginning 1 January 2014. The EU adopted these IFRS amendments in November 2013. Management proposed that Caledonia should adopt Investment Entities early, for the 31 March 2014 year end, and the Audit Committee examined management's arguments. Management noted that, for a number of years, Caledonia's financial presentations had focused on the supplemental results of the company, which were considered to be the most appropriate measure of performance, as they enabled investments in subsidiaries to be measured at fair value. The company results were thus directly comparable with the results of other investment trusts, which typically do not hold majority stakes.

Management submitted that Investment Entities would enable Caledonia to present group accounts broadly consistent with the existing supplemental company results. That is, under Investment Entities, all investments (except service subsidiaries) would be measured at fair value. This would significantly simplify the financial statements, making them more understandable.

The Audit Committee discussed management's submission and sought the views of the company's auditor, who agreed that early adoption of Investment Entities would be beneficial to the clarity of the company's financial reporting. The Audit Committee decided that it would recommend early adoption of Investment Entities to the board.

Internal control
In the May and November meetings, a report on the internal control reviews performed during the previous six months was presented, together with an update on the controls assurance programme given at the March 2014 meeting. The Audit Committee reviewed the effectiveness of the internal control environment and the structure in place to resolve identified weaknesses. The control reviews included treasury segregation, computer security and anti-bribery policy compliance. No significant areas of weakness were identified. The Audit Committee agreed the control review work plan for 2015.

Internal audit
As the company does not have an internal audit function, the Audit Committee considers annually whether there is a need for one. The company is an investment trust and manages its non-consolidated subsidiaries as other private company investments, expecting them to operate their own risk management processes. The company closely monitors the control environment of its private company investments. Additionally, for majority-owned investments, the company's auditor is engaged to extend the annual audit to include the control environment. The Audit Committee recommended to the board that an internal audit function was not required.

Auditor
The Audit Committee last conducted an audit tender process in mid-2011. The main outcomes of the process were the replacement of Deloitte (who had been the company's auditor since 2006) with KPMG Audit Plc and a plan for the development of the external audit approach. The principal planned changes were to increase the depth of the audit by reducing the materiality level and to provide risk assurance reports to complement the internal reviews. At its request and for internal reasons, KPMG Audit Plc resigned as the company's auditor with effect from the conclusion of the annual general meeting on 24 July 2013 and was replaced by its immediate parent entity, KPMG LLP.

Audit Committee report continued

Audit effectiveness

Audit quality is reviewed continuously throughout the year by both the Finance Director and Audit Committee. The focus is centred on the following:

- the quality and seniority of the auditor's staff
- the appropriateness of the planned audit methodology as applied to Caledonia's business activity
- the level and challenge and quality of reporting to the Audit Committee.

The effectiveness of the audit is also monitored throughout the year using a number of measures, including but not limited to:

- a review and approval of the scope of the planned audit
- the planned implementation of improvements following appropriate post audit reviews
- the monitoring of the independence of the external auditor
- a review of any Financial Reporting Council's Audit Quality Review Report for KPMG's audit of the company
- discussion with the firm's independent senior partner.

Non-audit work

In order to safeguard the auditor's independence and objectivity, the Audit Committee maintains 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.

Pre-approval of non-audit fees is required for non-audit fees exceeding pre-determined thresholds.

Re-appointment of KPMG as auditor

KPMG Audit Plc was appointed auditor in 2011 and was replaced by KPMG LLP in 2013. The lead audit partner is required to rotate every five years and other key audit partners every seven years. No contractual obligations restrict the Audit Committee's choice of external auditor. The Audit Committee concluded that KPMG provides an effective audit and the Audit Committee recommended to the board the re-appointment of KPMG LLP.

Resolutions to re-appoint KPMG LLP as auditor and to authorise the directors to determine the auditor's remuneration, will be proposed at the annual general meeting on 17 July 2014.

Private meetings

During the year, the Chairman of the Audit Committee met separately and privately with the Finance Director and KPMG.

Stuart Bridges
Chairman of the Audit Committee
28 May 2014

Governance Committee report

The Governance Committee monitors and reviews the ability of each director to act in the interests of shareholders as a whole and to exercise independence of judgement.

Membership and attendance

The membership and attendance record of the Governance Committee during the year was as follows:

	Meetings attended	Meetings eligible to attend
C M Allen-Jones (Chairman)	2	2
C H Gregson	2	2
R B Woods	2	2
D G F Thompson[1]	1	1

1. Mr Thompson retired as a member of the committee on 24 July 2013.

The Governance Committee 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 or her 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 or her 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.

Work of the Governance Committee

The Governance Committee met twice 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 2013
- approval of final terms of the sale of certain artefacts and memorabilia owned by Caledonia to the Cayzer Family Archive, a charitable foundation established to preserve an historical archive of the Cayzer family and its heritage in shipping, for £0.3m
- 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
- the company's ongoing ability to continue to buy back its own shares whilst ensuring that the Cayzer Concert Party holding remains below the 49.9% limit required by the waiver of Rule 9 of the City Code on Takeovers and Mergers approved by non-Concert Party shareholders and the considerations for the company as share buy-backs bring such holding nearer to this limit.

Charles Allen-Jones
Chairman of the Governance Committee
28 May 2014

Directors’ remuneration report

Annual statement by the Chairman of the Remuneration Committee

The Remuneration Committee ensures that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives of the calibre needed to manage and grow the company successfully.

Membership and attendance

The membership and attendance record of the Remuneration Committee during the year was as follows:

	Meetings attended	Meetings eligible to attend
C H Gregson (Chairman)	5	5
C M Allen-Jones	5	5
R B Woods	4	5
D G F Thompson[1]	3	3

1. Mr Thompson retired as a member of the committee on 24 July 2013.

On behalf of the board, I am pleased to introduce Caledonia’s Directors’ remuneration report for the year ended 31 March 2014.

New basis of remuneration disclosure and shareholder voting

As heralded in last year’s report, new remuneration reporting regulations put forward by the Department for Business Innovation and Skills became law with effect from 1 October 2013. This year’s Directors’ remuneration report is therefore presented in a new format designed to comply with these regulations – the Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) Regulations 2013 (‘Regulations’) – and is also prepared in accordance with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

The report now comprises three sections as follows:

- an annual statement by the Chairman of the Remuneration Committee, which summarises and explains the major decisions taken and changes made in relation to directors’ remuneration during the year
- a forward looking remuneration policy, which describes the company’s remuneration framework and how it is aligned with its business strategy, summarises the key elements of directors’ pay and illustrates levels of total remuneration that may be paid to the executive directors in different scenarios
- an annual report on directors’ remuneration, which sets out the amounts actually paid to directors in respect of the year under review and the value of long term incentive awards that vested in that period.

Shareholders will be asked to approve the remuneration policy and the annual report on directors’ remuneration for the year ended 31 March 2014 separately by simple majority votes at the company’s annual general meeting on 17 July 2014, the vote on the remuneration policy being binding on the company, whereas the vote on the annual report on directors’ remuneration will (as was the case with previous directors’ remuneration reports) be advisory in nature only. The Regulations require that the remuneration policy be approved by shareholders at least every three years, although an earlier vote will be required if the Remuneration Committee wishes to implement any policy changes or if an advisory vote on an annual report on directors’ remuneration is not passed. A resolution to approve the annual report on directors’ remuneration must be put to shareholders every year.

The Companies Act 2006 requires the company’s auditor to report to the shareholders on certain parts of the directors’ remuneration report and to state whether, in its opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on directors’ remuneration that have been audited are indicated in that report. The annual statement by the Chairman of the Remuneration Committee and the policy on directors’ remuneration are not subject to audit.

Remuneration for the 2014 financial year

Turning to the year under review, as described in the Chairman's and Chief Executive's report, Caledonia has delivered strong performance in the year to 31 March 2014. NAV per share on a total return basis ('NAVTR') increased by 14.9%, compared with an increase of 2.5% in the Retail Prices Index ('RPI'), which the Remuneration Committee introduced as a measure of the company's performance for annual bonuses this year in order to reward executives only when positive real returns are generated for shareholders. On the basis of the company's relative performance against RPI over the year and after assessing the performance of the individual directors against the personal objectives set for them at the start of the year and, where relevant, pool performance and objectives, the Remuneration Committee decided that it was appropriate to award the maximum potential bonus of 100% of basic salary to each of the executive directors.

The year to 31 March 2014 also represented the end of the three year performance measurement period for awards granted in 2011 under the company's performance share scheme and matching shares under the deferred bonus plan. For the 2011 matching awards under the deferred bonus plan, the targets were that, for 50% of the shares comprised in an award to vest, Caledonia's undiluted net asset value per share ('NAV') would have to outperform RPI by at least 9% over the measurement period, and for the other 50%, Caledonia's NAV would have to outperform the FTSE All-Share index by at least 3% over the measurement period. Both targets were met and therefore all of the 2011 deferred bonus matching shares have vested.

For the 2011 performance share scheme awards, the performance targets were that, for two-thirds of the shares comprised in an award, Caledonia's NAVTR had to outperform the FTSE All-Share Total Return index ('FTSE index') and, for the other third, the FTSE Actuaries UK Index-linked Gilts (all-stocks) Total Return index ('Gilts index') over the three year measurement period, in each case with shares vesting on a graduated basis between 0.5% and 3.5% outperformance. Whilst Caledonia's NAVTR has outperformed both of these benchmark indices over the past two financial years, underperformance in the 2012 financial year prior to the implementation of the company's revised strategy meant that neither performance target was met and accordingly the 2011 awards lapsed in their entirety. For this year's performance share scheme awards, the Remuneration Committee commenced a phased move towards a longer performance period for a significant proportion of the shares comprised therein, in order better to align them with the company's long term investment horizon. Half of the shares comprised in an award will be measured over three years by reference to the Gilts index and half over five years by reference to the FTSE index. This balance will be repeated for any awards made in the 2015 financial year, but thereafter one-third will be measured over three years and two-thirds over five years by reference to the aforementioned indices.

In line with good practice, the Remuneration Committee has also introduced provisions into Caledonia's performance share scheme and deferred bonus plan, which will give the Remuneration Committee the right to cancel or reduce unvested awards in the event of a material misstatement of the company's financial results, a miscalculation of a participant's entitlement, misconduct on the part of the participant or an event resulting in material loss or reputational damage to the company or a member of the group. These are commonly known as 'malus' provisions and will apply to share based awards granted after 1 April 2014.

Remuneration for the 2015 financial year

Looking ahead to the 2015 financial year, basic salaries of executive directors have been increased with effect from 1 April 2014 by 2.5%, which was the same as the standard increase given to the company's staff generally and mirrored the rise in the cost of living as measured by RPI of 2.5%. The Chairman's and the non-executive directors' fees were last reviewed in April 2011 and these have therefore also been increased by 10%, in line with inflation since that date.

As explained in the Chairman's and Chief Executive's report, the board has recently decided to adopt RPI as the basis of measurement of Caledonia's performance over the medium, as well as the shorter, term in place of the FTSE index. In the light of this, the Remuneration Committee will be considering whether RPI should also be adopted as the benchmark index for the company's share incentive plans, in place of the FTSE index and Gilts index currently used. Other than this, no changes in the basis of directors' remuneration are anticipated for the 2015 financial year.

Shareholder consultation

The remuneration policy that we are now asking shareholders to approve embodies the fundamental principles that have guided our Remuneration Committee for many years, namely that we aim to attract and retain talented individuals needed to manage and grow our business successfully and to motivate them with packages that are closely linked to the company's long term performance and strategy. We endeavour to ensure that the quantum of our pay is competitive, but not excessive, and that we reward success when earned, but not failure. Most importantly, we seek to align the interests of those who manage our company with the shareholders who own it.

We have taken the opportunity to consult with some of our larger shareholders and certain institutional shareholder representative bodies on this policy and are very grateful for their constructive feedback. We hope therefore that both the policy and the annual report will receive your support at the annual general meeting in July.

Charles Gregson
Chairman of the Remuneration Committee
28 May 2014

Directors' remuneration report continued

Remuneration policy

Implementation of the policy

The remuneration policy set out below embodies the policies and practices previously operated by the company, as described in the Remuneration Committee's Directors' remuneration report for the year ended 31 March 2013, included in the 2013 annual report. If approved by shareholders at the annual general meeting to be held on 17 July 2014, this policy will take effect from that date and will then apply until a revised remuneration policy is approved by shareholders. The company does not expect to seek shareholder approval for a revised policy until the annual general meeting in 2017.

Under the new statutory regime, a company may only make a remuneration payment to a director or a payment for loss of office if it is either consistent with the most recently approved remuneration policy or, if not, is separately approved by shareholders. The Remuneration Committee considers that an effective remuneration policy needs to be sufficiently flexible to take account of future changes in the company's business environment and in remuneration practice generally. In framing its policy, the Remuneration Committee has therefore sought to combine a level of breadth and flexibility to enable it to react to changed circumstances without the need for a specific shareholder approval, whilst at the same time incorporating sufficient detail and transparency to enable shareholders to understand how it will operate in different scenarios and feel comfortable that payments made under it are justified. Components of remuneration where the Remuneration Committee wishes to retain a level of discretion are identified in the relevant sections of the policy.

Legacy arrangements

The policy is essentially forward looking in nature. In view of the long term nature of the company's remuneration structures – including obligations under service contracts, pension arrangements and incentive schemes – a substantial number of pre-existing obligations will remain outstanding at the time that the new policy is approved, including obligations that are 'grandfathered' by virtue of being in force at 27 June 2012. It is the company's policy to honour in full any pre-existing obligations that have been entered into prior to the effective date of this policy.

Objectives

The key objectives of the Remuneration Committee in setting the company's remuneration policy are as follows:

- remuneration of executive directors should be linked to the company's long term performance and its business strategy
- performance related remuneration should seek to align the interests of executive directors with those of the shareholders
- a significant proportion of executive directors' remuneration should be linked to the performance of the company and only receivable if demanding performance targets are achieved
- remuneration packages for 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.

Remuneration structure

Executive directors

The table below sets out Caledonia's policy in relation to each component of executive director remuneration, with further explanations in the notes that follow.

Salary (fixed pay)

Purpose and link to strategic objectives	To support the recruitment and retention of executive directors of the calibre required to manage and grow the company successfully.
Operation	Reviewed annually. The basic salaries of the executive directors on implementation of the policy will be as follows: W P Wyatt £506,480 S A King £359,380 J M B Cayzer-Colvin £303,890
Opportunity and recovery or withholding provisions	Salary increases are normally awarded by reference to any increase in the cost of living, but may take into account other factors such as external market positioning, change in the scope of the individual's responsibilities or level of experience, development in the role and levels of pay elsewhere in the company. Other than in exceptional circumstances or where there is a change in role or responsibilities, year on year increases in basic salaries will not exceed inflation by more than 5%. No recovery or withholding provisions.
Performance measurement framework[1]	Not applicable.

Benefits (fixed pay)

Purpose and link to strategic objectives	To provide a range of benefits alongside basic salary to recruit and retain high calibre executive directors.
Operation	Executive directors are provided with family private medical insurance cover, death-in-service insurance, permanent health insurance and, in the case of Mr Wyatt and Mr Cayzer-Colvin, a cash allowance in lieu of a company car. They are also entitled to receive minor benefits that are available to other Caledonia staff. The executive directors are also covered by the company's directors' and officers' liability insurance policy and have the benefit of an indemnity under the company's articles of association.

	Where there is a valid business reason for doing so, the company may pay for the cost of spouses accompanying directors on business trips and reimburse directors for hotel accommodation and travel expenses (including payment of any tax thereon). Executive directors are also eligible to receive other minor benefits and expenses payments (again including payment of any tax thereon).
Opportunity and recovery or withholding provisions	A taxable benefits package that is competitive with the marketplace. The value of taxable benefits provided, other than ad hoc items incurred in connection with Caledonia's business that may be deemed taxable benefits such as travel and other expenses, will not in aggregate exceed 10% of basic salary. No recovery or withholding provisions.
Performance measurement framework[1]	Not applicable.
Short term incentives (variable pay)	
Purpose and link to strategic objectives	To reward performance on an annual basis against key financial, operational and individual objectives.
Operation	Discretionary annual bonus scheme and deferred bonus plan under which a proportion of bonus may be compulsorily or voluntarily deferred into shares. Bonus is not pensionable.
Opportunity and recovery or withholding provisions	The maximum potential bonus is 100% of basic salary. Any bonus over 50% of basic salary is compulsorily deferred into shares and up to half of any remaining cash bonus may be voluntarily deferred, each for a period of three years. Shares derived from compulsory or voluntary deferral of bonus are matched on a one for one basis, subject to performance conditions (as described under long term incentives below). All bonus payments are subject to the overriding discretion of the Remuneration Committee, which also retains discretion to amend the proportions of bonus subject to compulsory or voluntary deferral or not to require or offer any deferral. In order to be entitled to an annual bonus, an executive director must normally be in the group's employment and not under notice of termination (either given or received) at the time the bonus is paid. The Remuneration Committee has the right to cancel or reduce any bonus compulsorily or voluntarily deferred into shares which have not yet vested in the circumstances described under long term incentives below.
Performance measurement framework[1]	By reference to a combination of company performance against external benchmarks and individual performance against personal objectives. Executive directors with responsibility for pools of capital will have a proportion of bonus determined by reference to pool performance and objectives.
Long term incentives (variable pay)	
Purpose and link to strategic objectives	To motivate executive directors to deliver long term shareholder value, thereby aligning the interests of management with those of shareholders. To encourage long term retention of key executives.
Operation	Caledonia operates a performance share scheme under which participants are awarded nil-cost options over the company's shares. The performance share scheme replaced an executive share option scheme under which market value options were awarded to senior executives. The last awards under the executive share option scheme were made in 2010, although Mr Wyatt and Mr Cayzer-Colvin retain options under this scheme which have yet to be exercised. Under the company's deferred bonus plan, matching share awards are granted in respect of compulsory and voluntary deferral of pre-tax bonus. The current deferred bonus plan replaced an earlier plan introduced in 2005 under which matching share awards were granted in 2011. Mr Wyatt, Mr King and Mr Cayzer-Colvin all retain matching share awards granted under the earlier scheme, the vesting conditions for which have been met.
Opportunity and recovery or withholding provisions	The maximum value of nil-cost options that may be granted in any year under the performance share scheme rules is 200% of basic salary, although the company's policy is to grant annual awards of no more than 125% of basic salary. Matching shares are granted on a one for one basis for shares derived from bonus deferral. On exercise of nil-cost options or calling of matching share awards, participants will also receive an amount equivalent to the dividends and any associated tax credits that would have accrued on the shares during the relevant performance measurement period.

Directors' remuneration report continued

Remuneration policy

	The Remuneration Committee has the right, in respect of awards granted after 1 April 2014, to cancel or reduce long term incentive awards which have not yet vested, in the event of a material misstatement of the company's financial results, miscalculation of a participant's entitlement, individual misconduct or an event resulting in material loss or reputational damage to the company or any member of the group. In the event of a change of control before the expiry of the performance measurement period of a long term incentive award, the vesting level of the award will be determined by the Remuneration Committee based on the extent to which the performance targets have been achieved and vested shares will then be scaled down to reflect the shortened measurement period. The Remuneration Committee may modify such vesting levels if it considers that the performance target would be met to a greater or lesser degree at the testing date and/or if the application of time pro rating would be inappropriate in the circumstances.
Performance measurement framework[1]	Nil-cost options awarded under the 2011 performance share scheme and matching share awards granted under the deferred bonus plan are subject to performance targets related to the company's diluted net asset value per share on a total return basis ('NAVTR') measured against two benchmark indices, the FTSE All-Share Total Return index ('FTSE index') and the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index ('Gilts index'), measured over three or five years. The rules of each scheme provide discretion to the Remuneration Committee to amend the performance targets or impose different performance targets. The performance targets for all outstanding options granted under the company's executive share option schemes and matching share awards granted under the 2005 deferred bonus plan have been met.
Pension related benefits (fixed pay)	
Purpose and link to strategic objectives	To provide a means of retirement saving as part of a range of benefits alongside basic salary to recruit and retain high calibre executive directors.
Operation	Executive directors are offered defined contribution funding, based on a percentage of salary, to a personal pension scheme or a cash salary supplement (or a combination of both) at their choice.
Opportunity and recovery or withholding provisions	The percentage of basic salary for the Chief Executive is 22.5% and for other executive directors 17.5%. If a director chooses to take a cash supplement in lieu of some or all of his or her pension entitlement, the payment is reduced by such amount as is necessary to make the cash supplement cost neutral for the company after taking into account National Insurance contributions. The Remuneration Committee will retain the discretion to increase the percentage of salary relating to pension benefits from time to time in line with market conditions, up to a maximum of 30% of basic salary. No recovery or withholding provisions.
Performance measurement framework[1]	Not applicable.

1. **Performance measures and targets**
   Annual bonus
   For the Chief Executive and the Finance Director, a maximum of 50% of bonus is determined by reference to company performance and 50% by reference to individual performance objectives. For executive directors responsible for a specific pool of capital, 25% of bonus is determined by reference to the company's performance, 25% to pool performance, 35% to pool objectives and 15% to individual performance objectives. In all cases, the company performance element is determined by reference to the relative performance of the company's NAVTR against RPI. Bonus payments for this element commence with a 10% pay-out if NAVTR matches RPI, increasing incrementally to the maximum entitlement payable if outperformance of 7% or more is achieved. Pool performance is judged by the Remuneration Committee by reference to the return achieved by the pool over the year against RPI and an annualised target return set for the pool and by objectives such as deal flow and delivery of portfolio strategy. Individual performance is assessed by reference to personal objectives set at the start of the year, including non-financial measures such as risk management, marketing of the company, team leadership, management skills and promotion of Caledonia's corporate culture and image both internally and externally.

   The Remuneration Committee retains discretion to amend or adopt alternative annual bonus targets in order to achieve better alignment with the company's strategic objectives.

   Compulsory and voluntary deferral of bonus
   Shares comprised in a compulsory deferral will normally only vest 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.

   Shares comprised in a voluntary deferral are not subject to any conditions and will normally vest at the earlier of three years from the first day of the financial year in which the award is made or the date that the director ceases to be an employee of the Caledonia group for any reason.

   Long term incentive plans
   Performance share scheme
   For nil-cost options granted prior to the 2014 financial year under the performance share scheme, one-third of the shares comprised in an award are subject to a performance condition which compares the performance of NAVTR against the Gilts index over three years. For the other two-thirds, Caledonia's NAVTR is measured against the FTSE index, also over three years. 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. There is no re-testing of either performance target and, to the extent a performance target is not met, the relevant award will lapse. For the purpose of calculating the performance measures, averages of the company's NAVTR and the two benchmark indices over the three months prior to the start and end of the performance period are used to reduce volatility. To the extent that the performance targets are 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 exercised after three years, with the remaining one-third normally becoming exercisable after five years.

   For nil-cost options granted in the 2014 financial year, the performance criteria are as above, except that one-half of the shares comprised in an award will be measured against the Gilts index over three years and the other half against the FTSE index over five years, with shares that vest in each case becoming exercisable immediately.

   Under transitional arrangements previously put in place by the Remuneration Committee, nil-cost options to be granted in the 2015 financial year are to be on the same performance measures as those granted in the 2014 financial year and then, for the 2016 financial year onwards, one-third of the shares comprised in an award are to be measured against the Gilts index over three years and two-thirds against the FTSE index over five years, with shares that vest in each case becoming exercisable immediately.

   Deferred bonus plan matching awards
   The performance targets for matching shares awarded under the deferred bonus plan are the same as those described above for the nil-cost options granted under the performance share scheme prior to the 2014 financial year, except that shares that vest can be called immediately following the end of the measurement period and will lapse if not called within the twelve months thereafter.

Rationale for choice of performance measures for the short and long term incentive plans
The Remuneration Committee has chosen NAVTR as the basis of performance measurement for the company for both its short term and long term incentive arrangements as it regards this as the best indicator of the success or failure of management decisions in terms of the value of the portfolio.

For the company performance element of the annual bonus scheme, the board has taken the view that benchmarking against a stock market index or indices over a short period is not relevant given Caledonia's long term investment horizon and the nature of its portfolio. The Remuneration Committee has therefore instead chosen RPI as the comparator, as on this basis executives will only be rewarded to the extent that they are able to deliver positive real returns for shareholders. The Remuneration Committee will review the rate of increase in RPI at the start of each financial year and may adjust the level of outperformance required for the incremental and maximum bonus payments in order to ensure that they remain a fair measure of performance.

For awards under the performance share scheme and matching shares under the deferred bonus plan, the Remuneration Committee has chosen the FTSE index as the measure for a substantial proportion of the shares comprised in such awards as it believes that this is the best way to incentivise executives to deliver continued strong NAVTR performance against the market, which in turn should underpin Caledonia's stated objective of delivering long term growth in shareholder capital and income. The Gilts index has been chosen as a second measure for the 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 targets for each component of the long term incentive plans have been set by the Remuneration Committee with the aim of delivering increasing reward for greater outperformance. The Remuneration Committee keeps these measures and the levels at which incremental and maximum entitlements are earned under review in order to ensure that they remain sufficiently challenging and aligned with the company's strategy and key performance indicators.

2. **New components introduced into the new remuneration policy**
There are no new components included in the above policy table which were not a part of the remuneration framework previously operated for executive directors by the company.
3. **Changes to components included in the previous remuneration policy**
The only changes to the remuneration policy operated for the year to 31 March 2013 were the adoption of RPI as the measure of the company performance element of the annual bonus scheme, the phased adoption of a five year performance measurement period for a significant proportion of awards under the company's performance share scheme and the introduction of malus provisions for long term incentive awards and bonus deferral.
4. **How the remuneration policy for executive directors relates to remuneration of Caledonia group employees generally**
Caledonia's executive directors' remuneration packages tend to be higher than those of other group employees, but also include a higher proportion of variable pay.

Chairman and non-executive directors

The table below sets out each component of the Chairman's and the non-executive directors' remuneration and the approach taken by the company in relation thereto.

Component	Approach	
Chairman's and non-executive directors' fees	The Chairman's fee is determined by the Remuneration Committee and the non-executive directors' fees are set by the board. These are reviewed periodically taking into account the responsibilities and time commitments required and non-executive director fee levels generally.	
	The Chairman receives an annual fee, which includes his basic non-executive director's fee, but does not receive any other remuneration.	
	Non-executive directors receive basic fees, which are subject to an annual limit for non-executive directors' ordinary remuneration contained in the articles of association, currently £350,000. In addition, special fees are paid for the chairmanship and membership of the Audit and Remuneration Committees and also for the role of Senior Independent Non-Executive Director and chairman of the Governance Committee.	
	The fees of the Chairman and the non-executive directors on implementation of the policy will be as follows:	
	Chairman	£184,500
	Basic non-executive director's fee	£39,900
	Audit Committee chairman	£5,600
	Audit Committee member	£2,300
	Remuneration Committee chairman	£4,900
	Remuneration Committee member	£1,600
	Senior Independent Director/Governance Committee chairman	£5,100
Additional fees payable for services to other group companies	Exceptionally, non-executive directors may receive fees from group companies for services provided to them. The Hon C W Cayzer receives such a fee, currently £60,000, for his chairmanship of the Sloane Club, a position which he held as an executive director of Caledonia prior to becoming non-executive.	
	Fees for services provided to subsidiary companies are set and reviewed by the boards of those companies, but will not exceed £100,000 per annum in aggregate for any non-executive director.	
Other benefits	The Chairman and the non-executive directors are all covered under the company's directors' and officers' liability insurance policy and have the benefit of an indemnity under the company's articles of association. The Chairman is also provided with an office and some secretarial support.	
	The company may, where appropriate, pay for the cost of spouses accompanying non-executive directors on trips where there is a business reason for doing so and reimburse non-executive directors for hotel accommodation and travel expenses (in each case including payment of any tax thereon).	

Remuneration policy for new appointments

Executive directors

In the case of the appointment of a new executive director, the Remuneration Committee would typically seek to align the remuneration package with the above remuneration policy. The Remuneration Committee however retains the discretion to make special remuneration commitments on the appointment of a new executive director, including the use of awards made under Rule 9.4.2 of the Listing Rules, if such were absolutely necessary to ensure the recruitment of an exceptional candidate. In doing so, the Remuneration Committee would take into consideration all relevant factors, including, but not limited to, overall quantum, type of remuneration offered and comparability with the packages of other Caledonia senior executives and the total variable pay would not exceed the maxima stated in the policy table for executive director remuneration above.

Directors' remuneration report continued

Remuneration policy

The Remuneration Committee may in addition make bonus commitments or share awards on the appointment of an external candidate to compensate for remuneration arrangements forfeited on leaving a previous employer, taking into account factors such as any performance conditions attached to these awards, the form in which they were granted, for example cash or shares, and the time over which they would have vested. The aim would be to ensure that replacement awards would be made on no greater than a comparable basis.

In order to attract and retain suitable executives, the Remuneration Committee retains discretion, in exceptional circumstances, to offer service contracts with up to an initial 24 month notice period, which then reduces to 12 months at the end of this initial period. If it considers it appropriate, the Remuneration Committee may also offer a lower salary initially, but with a series of increases to achieve the desired salary positioning over a period of time, as the individual develops into the role.

If a new appointment is the result of an internal promotion, the Remuneration Committee would expect to honour any pre-existing contractual arrangements or benefits package agreed with the relevant individual. In the event that a new director resides overseas, the Remuneration Committee may agree a reasonable relocation package and tax equalisation arrangements.

In recruiting any new executive director, the Remuneration Committee would apply the overall policy objective that executive directors' remuneration should be competitive, but not excessive. In the event that the Remuneration Committee agreed that it was necessary for special commitments or sign-on arrangements to be offered to secure the recruitment of a new executive director, an explanation of why these were required and details thereof would be announced at the time of appointment.

Chairman and non-executive directors

Terms for the appointment of any new Chairman or non-executive director would also be determined by the Remuneration Committee or the board within the above remuneration policy.

Executive directors' service contracts and the Chairman's and non-executive directors' letters of appointment

Executive directors

Executive directors have service contracts with Caledonia Group Services Ltd, a wholly-owned subsidiary of the company, details of which are summarised below:

	Date of contract	Notice period for the company and the director	Unexpired term
W P Wyatt	2 June 2005	12 months	12 months
S A King	19 November 2009	12 months	12 months
J M B Cayzer-Colvin	19 April 2005	12 months	12 months

If notice is served by either party, the director can continue to receive basic salary, benefits and pension payments for the duration of the notice period, during which time the company may require the individual to continue to fulfil his current duties or may assign a period of gardening leave. Alternatively, the company may, in its discretion, terminate the contract without notice and make a lump sum payment in lieu of notice. This lump sum would include an amount equivalent to the basic salary and benefits (based on a fixed percentage of salary specified in the service contract) for the unexpired period of notice to which the payment relates. Mr Wyatt's and Mr Cayzer-Colvin's service contracts provide that an amount equivalent to 80% of the average of the annual bonuses paid for the previous three financial years would also be included in the payment in lieu of notice. Mr Wyatt's and Mr Cayzer-Colvin's service contracts also include provisions whereby a liquidated sum is payable in the event of termination within one year following a change of control. The payment would be calculated on the same basis as a payment in lieu of notice, except that an amount equivalent to 100% of the average of the annual bonuses paid for the previous three financial years would be included.

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.

Executive directors' service contracts may be terminated without notice and without any further payment (other than in respect of amounts due at the date of termination) on the occurrence of certain events such as gross misconduct.

Chairman and non-executive directors

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.

Inspection

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.

Policy on external non-executive directorships held by executive directors

It is the company's policy to allow executive directors to hold non-executive directorships unrelated to the company's business to broaden their commercial experience, provided that the time 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 on a case by case basis.

Details of any fees from external non-executive directorships retained by executive directors are disclosed in the annual report on directors' remuneration.

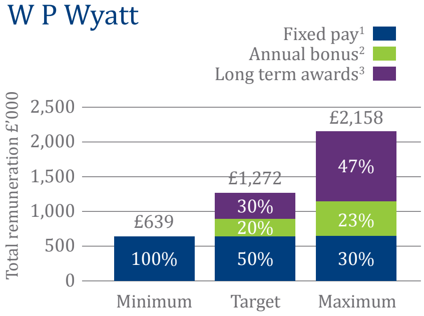
Illustration of the application of the remuneration policy for executive directors

The charts below provide an indication of the total pay of the executive directors in the first year of operation of the remuneration policy under three assumed performance scenarios:

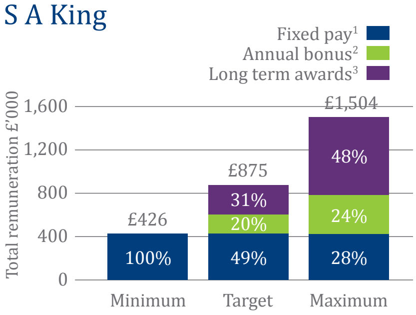
- minimum receivable – this assumes that the director receives fixed components of pay only and nothing in respect of annual bonus or long term incentives
- receivable for target performance – this assumes that, in addition to fixed pay, there is a pay-out of 50% of basic salary for annual bonus and 50% vesting of performance share scheme awards and deferred bonus plan matching shares
- maximum receivable – this assumes that, in addition to fixed pay, there is a maximum bonus of 100% of basic salary and 100% vesting of performance share scheme awards and deferred bonus plan matching shares.

Total remuneration

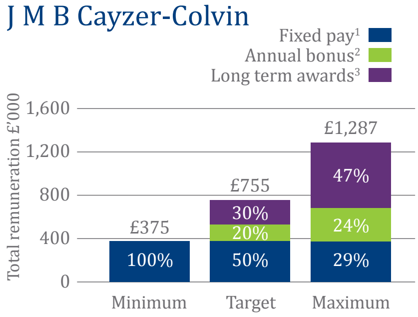
W P Wyatt



S A King



J M B Cayzer-Colvin



1. Fixed pay – comprises basic salary and pension related benefits, based on basic salary for the financial year ending 31 March 2015 and other taxable benefits taken from the table of total emoluments paid to directors for the 2014 financial year included in the annual report on directors' remuneration.
2. Annual bonus – based on basic salary for the year ending 31 March 2015.
3. Long term awards – for target performance and maximum receivable, it is assumed that the director will voluntarily defer into shares the maximum amount of annual bonus permissible under the deferred bonus plan rules and therefore receives an entitlement to matching shares on a one for one basis. An initial grant of 125% of basic salary for the year to 31 March 2015 under the performance share scheme is assumed, as this is the policy maximum set by the Remuneration Committee, notwithstanding that the maximum permitted under the scheme rules is 200%. No share price growth is assumed for shares vesting under either scheme, nor are any dividend equivalents that might accrue on share awards included.

Policy on payments for loss of office

Executive directors

It is the policy of the company that, other than in exceptional circumstances on recruitment as stated above, no executive director should be offered a service contract that requires more than one year's notice of termination or which contains provision for predetermined compensation in excess of one year's total emoluments. In the event of a termination, the Remuneration Committee will consider a director's past performance and the circumstances of the departure in exercising any discretions relating to the arrangements for loss of office, including contractual obligations, prevailing best practice, the reason for the departure and any transition or handover required.

The termination provisions in executive directors' current service contracts are described above in the section on executive directors' service contracts. 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. However, if a new director is appointed internally, the Remuneration Committee would expect to honour any existing contractual arrangements agreed with the relevant individual before he or she becomes a director.

In applying the company's right to make a lump sum payment in lieu of notice, the Remuneration Committee would normally expect to pro rate the lump sum for the unexpired period of notice to which the payment relates. In appropriate circumstances, the Remuneration Committee may make a payment in respect of the full twelve months' notice period, even if the director works under notice for part of it.

The company's annual bonus scheme provides that an employee must be in the group's employment and not under notice of termination (either given or received) in order to be entitled to receive a bonus for the relevant financial year. The Remuneration Committee would expect to apply this principle to executive director terminations, but retains discretion to make bonus payments on termination if it believes it appropriate to do so.

Executive directors would also be entitled under their service contracts to be paid on termination for any accrued, but untaken, holiday entitlement. The Remuneration Committee may, where it considers it appropriate in the circumstances, make payments for loss of statutory rights or waiver thereof and a contribution towards legal and outplacement fees. The Remuneration Committee may also make a payment to ensure that any restrictive covenants remain enforceable.

Where the director holds unvested awards under the company's long term incentive schemes, the Remuneration Committee would exercise its discretions as to vesting in accordance with the relevant scheme rules. In good leaver circumstances, for example where cessation of employment is by reason of death, retirement, injury, disability, ill-health, redundancy, or such other reason as the Remuneration Committee may decide, the Remuneration Committee will normally determine the level of vesting based on the attainment of the performance targets, either at the time of cessation or at the normal test date if permitted by the scheme rules, but in the case of the former may decrease or increase the level of vesting if the Remuneration Committee considers that the targets would have been met to a lesser or greater extent at the end of the performance period. The number of shares that vest will normally be reduced to reflect the proportion of the performance period that the director was in employment, although the Remuneration Committee has discretion not to scale down the number of shares if it believes it appropriate in the circumstances.

Following termination, the Remuneration Committee may agree to pay a director consultancy fees and continue insurance related benefits until the end of the policy period. The company's directors' and officers' liability insurance policy also provides for a six year period of run-off cover for former directors. In limited circumstances, the company may permit a director to remain in employment after ceasing to be a director for a limited period to allow time for an effective handover or for a successor to be appointed.

Chairman and non-executive directors

The Chairman and the non-executive directors have no entitlement to any compensation on termination of their appointments, although they would have the benefit of run-off cover under the directors' and officers' liability insurance policy as described above.

Directors' remuneration report continued
Remuneration policy

Statement of consideration of employment conditions elsewhere in the group

In setting the policy for directors' remuneration, the Remuneration Committee considered pay and employment conditions of other employees within the group. The Remuneration Committee does not however seek to apply any metrics between pay levels of different roles within the group as this would restrict flexibility in aligning reward and performance and potentially could hinder the recruitment and retention of high calibre individuals. Executive directors' remuneration packages are however benchmarked with other senior investment executives, who participate in the same annual bonus and long term incentive plans. Given the parity of these remuneration arrangements, the Remuneration Committee did not feel it necessary to conduct any formal consultation with employees, although views expressed by senior executives are shared with Remuneration Committee members.

Statement of consideration of shareholder views

The Remuneration Committee last undertook a major review of the remuneration arrangements for executive directors in 2011, which principally resulted in the adoption of the performance share scheme in place of an earlier executive share option scheme and an updated deferred bonus plan. A consultation with the company's larger shareholders and various shareholder representative bodies was undertaken through written correspondence as part of this review. Other than changes to the performance measures for the annual bonus scheme and the performance share scheme and the introduction of malus provisions for long term incentive awards, which are described in this report, the remuneration structures adopted in 2011 remain the same. Notwithstanding, the Remuneration Committee felt it appropriate to consult a number of the company's larger shareholders and certain institutional shareholder representative bodies again through written correspondence in formulating the above remuneration policy. No changes to the remuneration policy were made as a result of the consultation.

More generally, the Remuneration Committee receives copies of correspondence from shareholders relating to remuneration matters and the company's annual general meeting provides shareholders with the opportunity to ask questions about directors' remuneration.

Annual report on directors' remuneration

The following report sets out details and explanations of remuneration paid to directors over the financial year to 31 March 2014 and describes how Caledonia's remuneration policy will be implemented for the 2015 financial year.

Single total figure of remuneration for each director (audited)

Executive directors

The table below provides an analysis of total remuneration of each executive director for the financial year ended 31 March 2014 and a comparison with the previous financial year.

	Salary		Taxable benefits[1]		Short term incentives[2]		Long term incentives[3]		Pension related benefits		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
W P Wyatt	494	480	18	18	494	480	88	–	102	99	1,196	1,077
S A King	351	340	4	4	351	340	66	–	54	52	826	736
J M B Cayzer-Colvin	296	288	18	18	296	288	48	–	51	49	709	643

1. **Taxable benefits**
Taxable benefits comprised family private medical insurance cover and a small Christmas supplement paid to all Caledonia staff. Mr Wyatt's and Mr Cayzer-Colvin's taxable benefits also included a cash allowance of £15,024 in lieu of a company car.
In addition to taxable benefits, other non-taxable benefits were provided to executive directors including death-in-service insurance (4x basic salary), permanent health insurance, directors' and officers' liability insurance and certain other benefits of minor value provided to all of Caledonia's head office staff.
2. **Short term incentives**
In accordance with the rules of the company's deferred bonus plan, the following amounts included in the total of short term incentives were compulsorily deferred, satisfied by share awards made shortly after the announcement of the company's final results for the relevant year:

	2014			2013		
	Compul-sorily deferred £'000	Cash £'000	Total £'000	Compul-sorily deferred £'000	Cash £'000	Total £'000
W P Wyatt	247	247	494	240	240	480
S A King	175	176	351	170	170	340
J M B Cayzer-Colvin	148	148	296	144	144	288

For Mr Wyatt and Mr King, a maximum of 50% of bonus was determined by reference to company performance and 50% by reference to individual performance objectives. For Mr Cayzer-Colvin, who has specific responsibility for the Funds pool of capital, 25% of his bonus was determined by reference to the company's performance, 25% to his pool's performance, 35% to his pool's objectives and 15% to individual performance objectives. For the 2014 financial year, the company performance element was determined by reference to the relative performance of the company's NAV per share on a total return basis ('NAVTR') against the Retail Prices Index ('RPI'), with bonus payments for this element commencing with a 10% pay-out if the company's NAVTR matched that of RPI, increasing incrementally to the maximum entitlement payable if outperformance of 7% or more was achieved. Mr Cayzer-Colvin's pool performance was assessed by reference to the return achieved by the Funds pool over the year against RPI and an annualised target return set for that pool of 12.5% and by pool objectives such as deal flow and delivery of portfolio strategy. Individual performance for each executive director was assessed by reference to personal objectives set at the start of the year, including non-financial measures such as risk management, marketing of the company, team leadership, management skills and promotion of Caledonia's corporate culture and image both internally and externally.

The company's NAVTR increased by 14.9% over the year compared with an increase of 2.5% in RPI, resulting in a maximum bonus entitlement for the company performance element. The Funds pool's return over the year was 11.8%, which outperformed RPI by 9.3% and was 0.7% below the annualised target return, notwithstanding that the pool is still in a period of transition from legacy holdings to a strategic portfolio. On this basis, the Remuneration Committee judged that the maximum of 25% of salary was appropriate for this element and also that the progress made in transitioning merited a maximum bonus for the Funds pool objectives. Based on an assessment of their individual performance objectives over the year, the Remuneration Committee also awarded Mr Wyatt, Mr Cayzer-Colvin and Mr King maximum bonuses for that component.

The total bonuses awarded to Mr Wyatt, Mr King and Mr Cayzer-Colvin for the year were therefore determined as follows:

	W P Wyatt		S A King		J M B Cayzer-Colvin	
	Award %	Max %	Award %	Max %	Award %	Max %
Performance						
Company	50	50	50	50	25	25
Pool	n/a	n/a	n/a	n/a	25	25
Objectives						
Pool	n/a	n/a	n/a	n/a	35	35
Individual	50	50	50	50	15	15
Total	100	100	100	100	100	100

3. **Long term incentives**
The long term incentive awards whose performance measurement period ended during the year were awards granted in 2011 under the company's performance share scheme and matching share awards under the deferred bonus plan. The vesting of awards under the performance share scheme was dependent on the performance of the company's NAVTR over the three financial years ending on 31 March 2014 measured against two separate performance benchmarks. For two-thirds of the shares comprised in an award, Caledonia's NAVTR was measured against the FTSE All-Share Total Return index ('FTSE index') and for the remaining one-third against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index ('Gilts index'). In each case, vesting was on a graduated basis, with 10% vesting on achievement of 0.5% outperformance of the relevant benchmark index, rising on a straight line basis to 100% vesting on 3.5% outperformance of the relevant index. For the purpose of calculating the performance measures, averages of the figures for the company's NAVTR and the two benchmark indices published over the three months prior to the start and end of the performance period were used to reduce volatility.
The company's NAVTR increased by 21.1% over the performance period, compared with increases of 29.2% in the FTSE index and 24.8% in the Gilts index. Accordingly, neither of the performance targets was met and the performance share awards granted in 2011 therefore lapsed in their entirety.
The vesting of matching share awards under the deferred bonus plan was dependent, for 50% of the shares comprised in the award, on the company's undiluted net asset value per share ('NAV') outperforming RPI by at least 9% over the three financial years to 31 March 2014, and for the other 50%, on the company's NAV outperforming the FTSE All-Share index by at least 3% over such period. The company's NAV increased by 19.9% over the performance measurement period, compared with increases of 9.6% for RPI and 15.9% for the FTSE All-Share index. Accordingly, the deferred bonus matching awards granted in 2011 vested in full.
The amounts shown in the table above under long term incentives therefore comprised the value of the vested bonus matching share awards granted in 2011 based on the company's share price at 31 March 2014 of 1923p, together with the value of dividends and associated tax credits that would have accrued on the matching shares during the performance measurement period as follows:

	2014		
	Value of matching bonus shares £'000	Value of dividend equivalents £'000	Total £'000
W P Wyatt	82	6	88
S A King	62	4	66
J M B Cayzer-Colvin	45	3	48

Directors' remuneration report continued

Annual report on directors' remuneration

Chairman and non-executive directors

Fees and other remuneration paid to the Chairman and the non-executive directors during the year ended 31 March 2014 and the previous year were as follows:

	Fees		Taxable benefits		Pension related benefits		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
R D Kent[1]	168	126	–	–	–	–	168	126
C M Allen-Jones	44	44	–	–	–	–	44	44
S J Bridges[2]	40	10	–	–	–	–	40	10
Hon C W Cayzer[3]	96	225	–	14	–	48	96	287
R Goblet d'Alviella	38	38	–	–	–	–	38	38
C H Gregson	43	41	–	–	–	–	43	41
R B Woods	38	38	–	–	–	–	38	38
D G F Thompson[4]	13	43	–	–	–	–	13	43

1. Mr Kent was appointed Chairman of the company on 25 July 2012 and his fees for 2013 therefore comprised his basic non-executive director's fee up to that date and his Chairman's fee thereafter.
2. Mr Bridges was appointed a director on 1 January 2013 and therefore his fees for 2013 were in respect of part of that year only. His non-executive director's fees are paid to Hiscox Group Underwriting Services Ltd.
3. The remuneration shown for The Hon C W Cayzer in 2013 included his salary, benefits and pension as an executive director until 3 December 2012 and thereafter his fee as a non-executive director. His salary and fees for 2013 also included £19,762 paid by a subsidiary in respect of his services as Chairman of the Sloane Club from 4 December 2012. The Hon C W Cayzer received no short term or long term incentive payments in 2013. His salary and fees for 2014 included £60,000 paid by the subsidiary in respect of his services as Chairman of the Sloane Club for the year.
   The Hon C W Cayzer's pension related benefits for 2013 represented the increase in his pension entitlement whilst an executive director during the period using the HMRC calculation method (with a valuation factor of 20).
4. Mr Thompson retired from the board on 24 July 2013.

Total pension entitlements (audited)

Defined contribution

Pension benefits paid to executive directors during the year either as contributions to personal pension arrangements or as cash supplements were as follows:

	Pension contribution		Cash supplement		Total	
	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £
W P Wyatt	37,059	35,979	65,130	63,233	102,189	99,212
S A King	–	–	53,916	52,345	53,916	52,345
J M B Cayzer-Colvin	38,912	37,778	11,398	11,066	50,310	48,844

Defined benefit

The Hon C W Cayzer has deferred pension entitlements under the Caledonia Pension Scheme, a defined benefit pension scheme. He ceased to be an active member of the scheme on 3 December 2012 and therefore did not accrue any further pensionable service during the year, nor were any contributions made on his behalf into the scheme. The Hon C W Cayzer's normal retirement age is 60, however early retirement can be taken from age 55 with the company's consent. In such circumstances, the accrued pension would be reduced to take account of its early payment.

Details of The Hon C W Cayzer's accrued pension benefits were as follows:

	Row ref	£
Accrued pension at 31 March 2014	a	177,642
Accrued pension at 31 March 2013	b	170,417
Increase in accrued pension during the year	c	7,225
Transfer value of accrued pension at 31 March 2014	d	3,250,539
Transfer value of accrued pension at 31 March 2013	e	2,980,793
Change in transfer value over the year	f	269,746

1. The accrued pensions shown in rows (a) and (b) represented the deferred pension that would be paid at normal retirement age, ignoring any revaluation. The increase in accrued pension during the year shown in row (c) represented the increase in deferred pension in accordance with the revaluation of pension provisions of the Caledonia Pension Scheme applicable to all deferred members.
2. The transfer values shown in rows (d) and (e) were the present values of the accrued pension revalued to normal retirement age 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 at the relevant date.
3. The change in transfer value over the year shown in row (f)(calculated as row (d) less row (e)), also reflected the impact on transfer values of factors beyond the control of the company and the directors, such as movements in financial markets. These can cause transfer values at different points in time to fluctuate significantly. Disclosed changes in transfer values 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.

Scheme interests awarded during the financial year (audited)

The table below sets out the awards made to each executive director during the year under the company's performance share scheme and matching share awards made under the deferred bonus plan.

Scheme	Type of award	Basis of award	Face value of award £'000	Share price at grant p	Shares comprised in award[1] Number	Receivable if minimum performance achieved[2] %	End of performance period
W P Wyatt							
Performance Share Scheme	Nil-cost option	125% of salary	618	1802	34,275	10	31.03.18
Deferred Bonus Plan	Compulsory award	% of bonus in excess of 50%	240	1802	13,310	100	31.03.16
Deferred Bonus Plan	Matching award	1:1	240	1802	13,310	10	31.03.16
Total scheme interests awarded			1,098		60,895		
S A King							
Performance Share Scheme	Nil-cost option	125% of salary	438	1802	24,320	10	31.03.18
Deferred Bonus Plan	Compulsory award	% of bonus in excess of 50%	170	1802	9,444	100	31.03.16
Deferred Bonus Plan	Matching award	1:1	170	1802	9,444	10	31.03.16
Total scheme interests awarded			778		43,208		
J M B Cayzer-Colvin							
Performance Share Scheme	Nil-cost option	125% of salary	371	1802	20,565	10	31.03.18
Deferred Bonus Plan	Compulsory award	% of bonus in excess of 50%	144	1802	7,986	100	31.03.16
Deferred Bonus Plan	Matching award	1:1	144	1802	7,986	10	31.03.16
Total scheme interests awarded			659		36,537		

1. The number of shares comprised in the awards under the performance share scheme and the deferred bonus plan was determined by reference to the company's share price at the time that the awards were made.
2. The performance targets for awards under the performance share scheme and matching shares under the deferred bonus plan are set out under the statement of directors' share scheme interests below.

External directorships

The table below sets out details of external directorships held by executive directors where it had been agreed that they could retain the fees arising therefrom.

Name	Position	Fees 2014 £'000	Fees 2013 £'000
S A King	Non-executive director, TT Electronics plc	47	45
	Non-executive director, The Weir Group plc	–	6
J M B Cayzer-Colvin	Non-executive chairman, The Henderson Smaller Companies Investment Trust plc	28	28

Payments to past directors (audited)

At the time of his retirement in July 2010, the Remuneration Committee determined that options granted in 2009 to Mr T C W Ingram, formerly Chief Executive of Caledonia, over 53,250 shares should continue until their normal performance test date, being 31 March 2012 and, to the extent that the performance conditions were met, would become exercisable within the 12 months following notification to Mr Ingram of the test results. One-half of the shares under option failed to meet their performance target and therefore lapsed. The other half met their target and were exercised by Mr Ingram during the year, realising a pre-tax gain of £119,413.

Payments for loss of office (audited)

There were no payments for loss of office made during the year to any director or former director.

Statement of directors' shareholdings and scheme interests (audited)

Executive directors' minimum shareholding guidelines

In order to align the interests of executive directors with those of shareholders, the Remuneration Committee has adopted guidelines for minimum shareholdings, which executive directors will be expected to attain through the retention of all post-tax share awards vesting under the company's long term incentive plans until the minimum shareholding is met. For these purposes, shareholdings include those of connected persons and also the value, net of any exercise costs, income tax and National Insurance contributions, of unexercised options granted under the company's executive share option schemes and awards granted under its performance share plan for which the performance targets have been met. Also included are bonuses deferred, compulsorily or voluntarily, under the company's deferred bonus plans and any uncalled bonus matching shares for which the performance targets have been met.

For the Chief Executive, the minimum guideline shareholding has been set at 200% of basic salary and for other executive directors 150% of basic salary. Mr Wyatt and Mr Cayzer-Colvin both significantly exceed their minimum guideline shareholdings, although Mr King has yet to achieve his as he has not received sufficient vested share awards since he joined the company in December 2009. The values of the relevant shareholdings of each executive director as at 31 March 2014, calculated by reference to Caledonia's closing share price on that date of 1923p, were as follows:

	Value of shareholding £m	Minimum shareholding achievement %
W P Wyatt	20.2	1,992
S A King	0.2	32
J M B Cayzer-Colvin	8.0	1,764

Directors' shareholdings

The interests of the directors who served during the year and their connected persons in the ordinary share capital of the company as at 31 March 2014, or date of leaving if earlier, were as follows:

	Beneficial		Non-beneficial	
	2014 No	2013 No	2014 No	2013 No
R D Kent	10,000	–	–	–
W P Wyatt[1]	1,034,420	1,015,920	23,293	19,093
S A King	650	650	–	–
J M B Cayzer-Colvin[1]	355,298	408,498	64,453	7,053
C M Allen-Jones	15,273	15,273	–	–
S J Bridges	–	–	–	–
Hon C W Cayzer[1]	45,092	40,892	18,985	18,985
R Goblet d'Alviella	–	–	–	–
C H Gregson	610	610	–	–
R B Woods	2,000	2,000	–	–
D G F Thompson[2]	3,000	3,000	3,000	3,000

1. Mr Wyatt's beneficial interests included 6,485 shares (2013 – 6,485 shares) in which The Hon C W Cayzer had a non-beneficial interest and 934,125 shares (2013 – 920,000 shares) 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 beneficial interests included 4,200 shares (2013 – nil) in which Mr Wyatt and Mr Cayzer-Colvin had non-beneficial interests and his non-beneficial interests included 12,500 shares (2013 – 12,500 shares) in which Mr Wyatt also had a non-beneficial interest.
2. Mr Thompson retired from the board on 24 July 2013.

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

Directors' share scheme interests

The interests of directors as at 31 March 2014 in the share-based incentive schemes operated by the company are set out in the following table.

		Share price at date of award	Unvested with performance conditions[1]	Unvested without performance conditions[2]	Vested but unexercised[3]	Total
W P Wyatt	*Executive share options*					
	Granted 19.08.05 (exercise price: 1580p)	1580p	–	–	13,290	13,290
	Granted 01.06.06 (exercise price: 1878p)	1878p	–	–	6,789	6,789
	Granted 29.05.09 (exercise price: 1446p)	1446p	–	8,471	4,236	12,707
			–	8,471	24,315	32,786
	Performance share scheme awards					
	Granted 28.05.12 (nil-cost)	1267p	47,329	–	–	47,329
	Granted 12.06.13 (nil-cost)	1802p	34,275	–	–	34,275
			81,604	–	–	81,604
	Deferred bonus plan – compulsory awards					
	Granted 26.05.11 (nil-cost)	1734p	–	–	4,235	4,235
	Granted 12.06.13 (nil-cost)	1802p	–	13,310	–	13,310
			–	13,310	4,235	17,545

Directors' remuneration report continued

Annual report on directors' remuneration

		Share price at date of award	Unvested with performance conditions[1]	Unvested without performance conditions[2]	Vested but unexercised[3]	Total
	Deferred bonus plan – matching awards					
	Granted 26.05.11 (nil-cost)	1734p	–	–	4,235	4,235
	Granted 12.06.13 (nil-cost)	1802p	13,310	–	–	13,310
			13,310	–	4,235	17,545
	Total share scheme interests		94,914	21,781	32,785	149,480

During the year, Mr Wyatt exercised executive share options over 18,500 shares at a pre-tax gain over exercise cost of £149,113.

S A King	*Performance share scheme awards*					
	Granted 28.05.12 (nil-cost)	1267p	33,583	–	–	33,583
	Granted 12.06.13 (nil-cost)	1802p	24,320	–	–	24,320
			57,903	–	–	57,903
	Deferred bonus plan – compulsory awards					
	Granted 26.05.11 (nil-cost)	1734p	–	–	3,222	3,222
	Granted 12.06.13 (nil-cost)	1802p	–	9,444	–	9,444
			–	9,444	3,222	12,666
	Deferred bonus plan – matching awards					
	Granted 26.05.11 (nil-cost)	1734p	–	–	3,222	3,222
	Granted 12.06.13 (nil-cost)	1802p	9,444	–	–	9,444
			9,444	–	3,222	12,666
	Total share scheme interests		67,347	9,444	6,444	83,235

Mr King did not exercise any share scheme interests during the year.

Mr J M B Cayzer-Colvin	*Executive share options*					
	Granted 19.08.05 (exercise price: 1580p)	1580p	–	–	13,290	13,290
	Granted 01.06.06 (exercise price: 1878p)	1878p	–	–	6,789	6,789
	Granted 29.05.09 (exercise price: 1446p)	1446p	–	8,471	4,236	12,707
			–	8,471	24,315	32,786
	Performance share scheme awards					
	Granted 28.05.12 (nil-cost)	1267p	28,397	–	–	28,397
	Granted 12.06.13 (nil-cost)	1802p	20,565	–	–	20,565
			48,962	–	–	48,962
	Deferred bonus plan – compulsory awards					
	Granted 26.05.11 (nil-cost)	1734p	–	–	2,335	2,335
	Granted 12.06.13 (nil-cost)	1802p	–	7,986	–	7,986
			–	7,986	2,335	10,321
	Deferred bonus plan – matching awards					
	Granted 26.05.11 (nil-cost)	1734p	–	–	2,335	2,335
	Granted 12.06.13 (nil-cost)	1802p	7,986	–	–	7,986
			7,986	–	2,335	10,321
	Total share scheme interests		56,948	16,457	28,985	102,390

Mr Cayzer-Colvin did not exercise any share scheme interests during the year

1. **Performance conditions**
   Executive share option scheme
   Options outstanding under the executive share option scheme have all met their performance targets.

   Performance share scheme
   Nil-cost options awarded under the performance share scheme are subject to targets related to the company's NAVTR performance against two benchmark indices, the FTSE index and the Gilts index. Awards vest on a graduated basis, with 10% vesting on 0.5% outperformance of the relevant benchmark, rising to maximum vesting on 3.5% outperformance. 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 purpose of calculating the performance measures, averages of the company's NAVTR and the two benchmark indices over the three months prior to the start and end of the performance period is used to reduce volatility. To the extent that the performance targets are met, vested awards may be exercised between the date of vesting and the tenth anniversary of the date of grant.

   For nil-cost options granted on 28 May 2012, two-thirds of the shares comprised in an award are tested against the FTSE index and one-third against the Gilts index. In each case the performance period is a period of three years commencing with the financial year in which the awards are granted. For the nil-cost options awarded on 12 June 2013, one-half of the shares comprised in an award are measured against the Gilts index over three years and the other half against the FTSE index over five years.

   Deferred bonus plan matching awards
   The performance targets for matching share awards granted on 26 May 2011 have all been met. The performance targets for matching awards granted on 12 June 2013 are the same as those for nil-cost options granted under the performance share scheme on 28 May 2012.
2. **Other exercise conditions**
   Executive share option scheme
   Once the performance conditions have been met, options granted under the executive share option scheme may normally be exercised between three and ten years from the date of grant, although only one-third of the shares comprised in an option may be exercised three years after grant, with the remaining two-thirds becoming exercisable six years after grant.

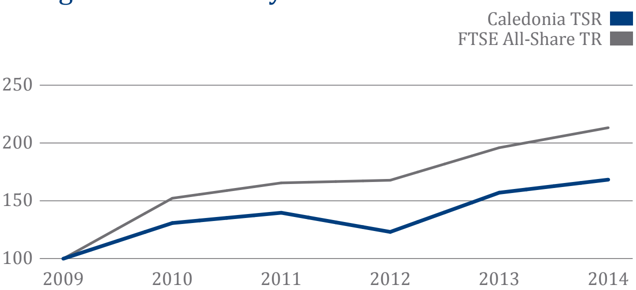
   Performance share scheme
   For nil-cost options granted under the performance share scheme on 28 May 2012, to the extent that a performance target is met, two-thirds of the shares that vest may normally be exercised three years after grant, with the remaining one-third normally becoming exercisable five years after grant. For nil-cost options granted on 12 June 2013, shares that vest following performance testing become immediately exercisable.
3. **Vested but unexercised**
   Shares vested but unexercised represent those awards that are immediately exercisable without any conditions.

During the year and in accordance with the terms previously agreed by the Remuneration Committee in relation to the termination of his executive service agreement, The Hon C W Cayzer exercised executive share options over 39,129 shares at a pre-tax gain over exercise cost of £102,547. He also called a compulsory deferred bonus award over 1,557 shares, crystallising a pre-tax gain of £28,805, in addition to which he received an amount equivalent to the dividends that would have been paid on these shares, together with the associated tax credits, of £1,192.

Performance graph of total shareholder return and table of Chief Executive's total remuneration

The graph below shows the company's total shareholder return ('TSR') against that of the FTSE All-Share Total Return index for the five financial years ending on 31 March 2014. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend dates. The FTSE All-Share Total Return index has been chosen as it is the benchmark by which the company measures its delivery of value over the longer term. For comparison, the table below the graph shows the total remuneration received by the Chief Executive in each of the five years to 31 March 2014, prepared on the same basis as in the single total figure in the table on page 49, and the percentage of the maximum potential short and long term incentives received in those years.

TSR growth over five years



	Years ended 31 March					
	2010	2011[1]	2011[1]	2012	2013	2014
Chief Executive	T C W Ingram	T C W Ingram	W P Wyatt	W P Wyatt	W P Wyatt	W P Wyatt
Total remuneration (£'000)	926	215	669	585	1,077	1,196
Short term incentives vested as a percentage of maximum (%)	47.5	–	67.5	–	100.0	100.0
Long term incentives vested as a percentage of maximum (%)	–	1.5	–	50.0	–	10.1

1. Mr Ingram served as Chief Executive until his retirement on 21 July 2010, at which time Mr Wyatt was appointed as his successor. The remuneration shown for 2011 represents the amounts paid to each in the period that they served as Chief Executive in that financial year. The long term incentives held by Mr Ingram which vested in 2011 were HMRC approved executive share options granted in 2008, which the Remuneration Committee determined should vest based on the measurement of the performance targets up to the date of his retirement. The percentage of short term incentives shown as vesting for Mr Wyatt in 2011 relates to his annual bonus for that year, the total amount of which has been included in the corresponding single figure for total remuneration.

Subsequent to his retirement, Mr Ingram exercised further share options as set out in the section on payments to past directors above.

Percentage change in remuneration of Chief Executive

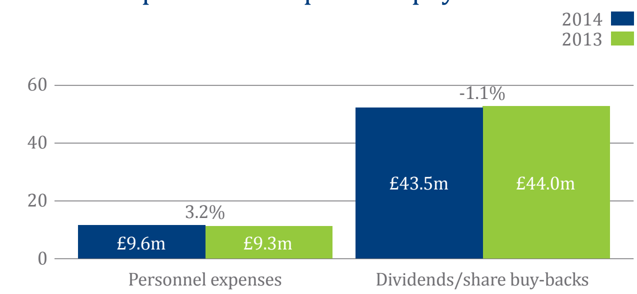
The following table shows the percentage change in the basic salary, value of taxable benefits and short term incentives paid to the Chief Executive in the year to 31 March 2014 against the previous financial year, compared with the average percentage changes in those components of pay of Caledonia's other staff on a per capita basis. Caledonia's staff received a standard increase in basic salary of 3.0% and the standard bonus was the maximum entitlement, the same as the Chief Executive. However, the average per capita percentage changes shown below were higher due to the effect of non-standard increases or bonus awards for a number of staff reflecting promotion, increased responsibilities or other such adjustments.

	Chief Executive % change	Staff average per capita % change
Basic salary	3.0	5.3
Taxable benefits	0.9	16.0
Short term incentives	3.0	20.5

Relative importance of spend on pay

The graph below shows the personnel expenses for the year of group companies consolidated under IFRS 10, compared with amounts distributed to Caledonia's shareholders by way of dividends and share buy-backs.

Relative importance of spend on pay



Statement of implementation of remuneration policy in the 2015 financial year

The company expects to operate the remuneration policy set out above without any significant changes in the financial year ending 31 March 2015, other than potentially in relation to the performance measures for the performance share scheme and deferred bonus plan as described below.

Basic salaries of executive directors

In respect of the 2015 financial year, the Remuneration Committee has already awarded the executive directors inflation-based increases in basic salary of 2.5% as follows.

	Salary for year to 31 March	
	2015 £	2014 £
W P Wyatt	506,480	494,120
S A King	359,380	350,610
J M B Cayzer-Colvin	303,890	296,475

Directors' remuneration report continued

Annual report on directors' remuneration

Chairman's and non-executive directors' fees

The Chairman's and the non-executive directors' fees are reviewed triennially. The last review was in April 2011 and therefore their fees have been increased in line with inflation since that date, as follows:

	Fees for year to 31 March	
	2015 £	2014 £
Chairman	184,500	167,670
Non-executive director basic fee	39,900	36,250
Chairman of the Audit Committee	5,600	5,100
Member of the Audit Committee	2,300	2,100
Chairman of the Remuneration Committee	4,900	4,450
Member of the Remuneration Committee	1,600	1,450
Senior Independent Director/ Chairman of the Governance Committee	5,100	4,650

Annual bonus scheme

The Remuneration Committee has reviewed the performance target for the company performance element of the annual bonus scheme and decided that, for the financial year ending 31 March 2015, the current target, whereby payments commence with a 10% pay-out if the performance of the company's NAVTR matches that of RPI, increasing incrementally to the maximum entitlement payable if outperformance of 7% or more is achieved, remains appropriate given the level of RPI prevailing at the start of the financial year.

Long term incentive schemes

In view of the board's recent decision to adopt RPI as the basis of measurement of Caledonia's performance over the medium, as well as the shorter, term in place of the FTSE index, the Remuneration Committee will be considering whether the benchmark indices currently used for the company's share incentive plans, as described above, should similarly be changed. Other than this, no changes in the basis of directors' remuneration are anticipated for the 2015 financial year.

Approach

The Remuneration Committee will keep the implementation of the remuneration policy under review in order to take account of any changes in the company's business environment and remuneration practice generally, but with the overall aim of ensuring that Caledonia's remuneration arrangements continue to attract and retain talent and reward executives appropriately in the light of the company's performance.

Consideration by the directors of matters relating to directors' remuneration

The current members of the Remuneration Committee are Charles Gregson (Chairman), Charles Allen-Jones and Robert Woods, all of whom served throughout the year. David Thompson also served as a member of the committee until his retirement from the board on 24 July 2013.

During the year, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer LLP, the company's main legal advisers, in relation to the new remuneration reporting regulations, the introduction of malus provisions for the long term incentive plans and the formalisation of the guidelines for minimum shareholdings of executive directors. 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.

Statement of voting at general meetings

At the annual general meeting of the company held on 24 July 2013, the proxy votes lodged for the resolution relating to directors' remuneration were as follows:

	Number	%
To approve the 2013 directors' remuneration report		
Votes in favour	37,532,549	97.1
Votes against	1,129,790	2.9
Total votes cast	38,662,339	
Votes withheld	117,880	

This directors' remuneration report was approved by the board on 28 May 2014 and signed on its behalf by:

Charles Gregson
Chairman of the Remuneration Committee

Other governance matters

Dividends
An interim dividend of 13.4p per share (2013 – 12.9p) was paid on 9 January 2014 and the board has proposed that a final dividend of 35.7p per share (2013 – 34.3p) be paid on 7 August 2014. This will result in total dividends for the year of 49.1p per share (2013 – 47.2p).

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 2014, 55,411,017 ordinary shares and 8,000,000 deferred ordinary shares were in issue. The ordinary shares therefore represented approximately 87%, and the deferred ordinary shares approximately 13%, of the total issued share capital by nominal value. Of the ordinary shares in issue at 31 March 2014, 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 811,011 ordinary shares at a total cost of £15.0m. The company's issued share capital after these transactions, as at 27 May 2014, being the latest practicable date prior to signature of these accounts, was 55,411,017 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 2014, 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	35.4%
Rebelco SA[1]	2,847,344	5.1%

1. Rebelco SA is a wholly-owned subsidiary of Sofina SA.

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 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 2014, the trust held 320,713 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.

Authority to allot and purchase shares
At the annual general meeting of the company held on 24 July 2013, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £931,850, 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 £931,850, representing approximately a further one-third of the 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 £139,775 other than pro rata to existing ordinary shareholders. These authorities last until 24 October 2014 or, if earlier, the conclusion of the next annual general meeting.

Other governance matters continued

At the annual general meeting held on 24 July 2013, shareholders also granted authority for the company to make market purchases of up to 5,591,100 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 24 October 2014 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 24 October 2014 or, if earlier, the conclusion of the next annual general meeting.

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 and 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.

Further details of these change of control rights are set out in the Directors' remuneration report.

Investment trust status

Her Majesty's Revenue and Customs has confirmed that Caledonia has investment trust status for all financial periods from 1 April 2012.

Annual general meeting

The eighty-fifth annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Thursday, 17 July 2014 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

The directors of the company are shown on pages 30 and 31. All of the directors served throughout the year. In addition, Mr D G F Thompson served as a director until his retirement from the board on 24 July 2013.

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.

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.

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.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's and Chief Executive's report on pages 2 to 5 and the Investment review on pages 10 to 21. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 22 to 24. In addition, note 23 to the financial statements includes the 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 group has cash resources and committed bank facilities available to meet existing and new investment commitments. As a consequence, the directors believe that the group is well placed to manage business risks successfully.

The directors have a reasonable expectation that the group has 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

Resolutions will be proposed at the annual general meeting to re-appoint KPMG LLP as auditor of the company 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 38 within the Audit Committee report.

Responsibility statements

Statement of directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. 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 the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union has been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant information of which the company's auditor is unaware; and
2. the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Responsibility statements under the Disclosure and Transparency Rules and the UK Corporate Governance Code

Each of the directors, whose names and functions are listed on pages 30 and 31 confirm that, to the best of their knowledge:

1. the group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
2. the Strategic report contained on pages 1 to 29 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the board by:

Will Wyatt	Stephen King
Chief Executive	Finance Director
28 May 2014	28 May 2014

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

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Caledonia Investments plc for the year ended 31 March 2014 set out on pages 60 to 81. 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 2014 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; 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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of unlisted investments (£748.7m)
Refer to page 36 (Audit Committee Report), page 66 (accounting policy) and pages 69 to 70 (financial disclosures)

The risk

49.3% of the company's total assets (by value) is held in investments where no quoted market price is available. The unquoted investments are measured at fair value, which is established in accordance with International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments and this is one of the key judgmental areas that our audit focused on.

Our response

Our procedures included, among others:

- enquiry with management to document and assess the design and implementation of the investment valuation processes and controls in place. We attended the biannual Challenge Committee meetings and quarterly Audit Committee meetings where we assessed the effectiveness of the Committees' challenge and approval of unlisted investment valuations.
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and consideration of whether they are indicative of bias or error in the company's approach to valuations.
- challenging the investment manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we focused on the appropriateness of the valuation basis selected as well as the underlying assumptions, such as discount factors, and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources and investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or refinancing may be required. Where a recent transaction is used to value any holding, we obtained an understanding of the circumstances surrounding the transactions and whether it was considered to be on an arms-length basis and suitable as an input into a valuation. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report.
- We compared the investment property valuations of the directors to valuations performed by the external valuer and evaluated the competence, capabilities and objectivity of the valuer. With the assistance of our own valuation specialist, we considered the appropriateness of the external and internal valuations and inherent assumptions by comparing the group's assumptions to externally derived data.
- For the valuation of fund interests we reviewed the latest reported net asset values from the fund managers. Our procedures also included obtaining the audited financial statements of the funds and considering the historical accuracy of the net asset values.

Our procedures also included consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in Note 23 in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Carrying value of quoted equity investments (£703.2m)
Refer to page 36 (Audit Committee Report), page 66 (accounting policy) and pages 69 to 70 (financial disclosures)

The risk

The group's portfolio of listed investments makes up 46.3% of the total assets of the group and is considered to be a key driver of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgment because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response

Our procedures over the existence and valuation of the group's quoted equity investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- agreeing the valuation of investments to externally quoted prices; and
- agreeing investment holdings to independently received third party confirmations.

3. Our application of materiality and an overview of the scope of our audit

The materiality of the financial statements as a whole was set at £22.7m comprising 1.5% of total assets. This has been calculated with reference to a benchmark of total assets. Total assets, which is primarily composed of the company's investment portfolio, is considered the key driver of the company's capital and revenue performance and, as such, we believe that it is one of the principal considerations for members of the company in assessing its financial performance.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £1.1m in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the Caledonia Investments plc office in London.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- information given in the Corporate governance statement set out on pages 32 to 34 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.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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; or
- a Corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 56, in relation to going concern; and
- the part of the Corporate governance statement on pages 32 to 34 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Jonathan Mills (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

28 May 2014

Group statement of comprehensive income
for the year ended 31 March 2014

	Note	2014 Revenue £m	2014 Capital £m	2014 Total £m	Restated[1] 2013 Revenue £m	Restated[1] 2013 Capital £m	Restated[1] 2013 Total £m
Revenue							
Investment income	1	41.7	–	41.7	41.4	–	41.4
Fair value property gains	9	–	–	–	–	1.0	1.0
Gains and losses on fair value investments	8	–	151.4	151.4	–	181.2	181.2
Gains and losses on derivatives		–	–	–	–	(3.1)	(3.1)
Total revenue		41.7	151.4	193.1	41.4	179.1	220.5
Management expenses	2	(13.6)	(0.5)	(14.1)	(13.3)	(0.7)	(14.0)
Guarantee obligation provided	16	–	(0.8)	(0.8)	–	(2.1)	(2.1)
Warranty provision released	16	–	3.5	3.5	–	–	–
Profit before finance costs		28.1	153.6	181.7	28.1	176.3	204.4
Treasury interest receivable	3	1.1	–	1.1	3.0	–	3.0
Finance costs	4	(1.7)	–	(1.7)	(2.4)	–	(2.4)
Exchange movements		(0.3)	–	(0.3)	(0.4)	–	(0.4)
Profit before tax		27.2	153.6	180.8	28.3	176.3	204.6
Taxation	5	1.5	0.8	2.3	3.3	1.5	4.8
Profit for the year		28.7	154.4	183.1	31.6	177.8	209.4
Other comprehensive income items never to be reclassified to profit or loss							
Actuarial gain/(loss) on defined benefit pension schemes	25	1.4	–	1.4	(2.6)	–	(2.6)
Tax on other comprehensive income	5	(0.3)	–	(0.3)	0.8	–	0.8
Total comprehensive income		29.8	154.4	184.2	29.8	177.8	207.6
Basic earnings per share	7	51.9p	279.2p	331.1p	55.9p	314.4p	370.3p
Diluted earnings per share	7	51.3p	276.1p	327.4p	55.3p	311.2p	366.5p

1. Restated for the adoption of IFRS 10 *Consolidated Financial Statements* and amendments to IAS 19 (Revised) *Employee Benefits*, as described in note 28.

The total column of the above statement represents the group'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 group's statement of comprehensive income and are prepared under guidance published by the Association of Investment Companies.

The profit for the year and total comprehensive income for the year is attributable to equity holders of the parent.

The accounting policies and notes to the financial statements on pages 64 to 81 are an integral part of these financial statements.

Statement of financial position
at 31 March 2014

		Group			Company	
	Note	2014 £m	Restated[1] 2013 £m	Restated[1] 2012 £m	2014 £m	2013 £m
Non-current assets						
Investments held at fair value through profit or loss	8	1,451.9	1,222.9	1,204.0	1,435.9	1,204.8
Investments in subsidiaries held at cost	8	–	–	–	0.8	0.8
Property held at fair value	9	18.5	18.5	17.5	–	–
Plant and equipment at held at cost	10	0.1	0.1	0.2	–	–
Deferred tax assets	11	1.0	1.4	1.0	–	–
Employee benefits	25	3.2	2.3	–	–	–
Non-current assets		1,474.7	1,245.2	1,222.7	1,436.7	1,205.6
Current assets						
Trade and other receivables	12	7.3	13.8	12.6	5.6	11.9
Current tax assets	5	–	1.7	0.6	0.1	2.1
Cash and cash equivalents	13	35.5	96.5	8.4	35.5	96.5
Current assets		42.8	112.0	21.6	41.2	110.5
Total assets		1,517.5	1,357.2	1,244.3	1,477.9	1,316.1
Current liabilities						
Bank overdrafts	13	(2.6)	(2.7)	(5.7)	–	–
Interest-bearing loans and borrowings	14	(20.0)	–	–	–	–
Trade and other payables	15	(15.0)	(14.6)	(7.5)	(6.8)	(4.4)
Employee benefits	25	(2.1)	(1.8)	(1.2)	–	–
Current tax liabilities		(0.2)	–	–	–	–
Provisions	16	(8.3)	(11.0)	(8.9)	(10.9)	(12.9)
Current liabilities		(48.2)	(30.1)	(23.3)	(17.7)	(17.3)
Non-current liabilities						
Interest-bearing loans and borrowings	14	(20.0)	(19.9)	(80.9)	(20.0)	–
Employee benefits	25	(3.4)	(4.6)	(3.1)	–	–
Deferred tax liabilities	11	(0.3)	(0.2)	(0.2)	–	–
Non-current liabilities		(23.7)	(24.7)	(84.2)	(20.0)	–
Total liabilities		(71.9)	(54.8)	(107.5)	(37.7)	(17.3)
Net assets		1,445.6	1,302.4	1,136.8	1,440.2	1,298.8
Equity						
Share capital	17	3.2	3.2	3.2	3.2	3.2
Share premium		1.3	1.3	1.3	1.3	1.3
Capital redemption reserve		1.3	1.3	1.3	1.3	1.3
Capital reserve		1,151.5	1,012.1	852.2	1,154.5	1,015.1
Retained earnings		305.5	301.5	295.5	297.1	294.9
Own shares		(17.2)	(17.0)	(16.7)	(17.2)	(17.0)
Total equity		1,445.6	1,302.4	1,136.8	1,440.2	1,298.8
Undiluted net asset value per share	18	2624p	2331p	1994p		
Diluted net asset value per share	18	2593p	2305p	1982p		

1. Restated for the adoption of IFRS 10 *Consolidated Financial Statements* and amendments to IAS 19 (Revised) *Employee Benefits*, as described in note 28.

The financial statements on pages 60 to 81 were approved by the board and authorised for issue on 28 May 2014 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 64 to 81 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2014

	Share capital £m	Share premium £m	Capital redemption reserve £m	Capital Reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Group (restated[1])							
Balance at 31 March 2012	3.2	1.3	1.3	852.2	295.5	(16.7)	1,136.8
Total comprehensive income							
Profit for the year	–	–	–	177.8	31.6	–	209.4
Other comprehensive income	–	–	–	–	(1.8)	–	(1.8)
Total comprehensive income	–	–	–	177.8	29.8	–	207.6
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	1,012.1	301.5	(17.0)	1,302.4
Total comprehensive income							
Profit for the year	–	–	–	154.4	28.7	–	183.1
Other comprehensive income	–	–	–	–	1.1	–	1.1
Total comprehensive income	–	–	–	154.4	29.8	–	184.2
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	1.7	1.7
Share-based payments	–	–	–	–	0.7	–	0.7
Own shares purchased	–	–	–	–	–	(1.9)	(1.9)
Own shares cancelled	–	–	–	(15.0)	–	–	(15.0)
Dividends paid	–	–	–	–	(26.5)	–	(26.5)
Total transactions with owners	–	–	–	(15.0)	(25.8)	(0.2)	(41.0)
Balance at 31 March 2014	3.2	1.3	1.3	1,151.5	305.5	(17.2)	1,445.6
Company							
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
Profit and total comprehensive income	–	–	–	154.4	28.0	–	182.4
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	1.7	1.7
Share-based payments	–	–	–	–	0.7	–	0.7
Own shares purchased	–	–	–	–	–	(1.9)	(1.9)
Own shares cancelled	–	–	–	(15.0)	–	–	(15.0)
Dividends paid	–	–	–	–	(26.5)	–	(26.5)
Total transactions with owners	–	–	–	(15.0)	(25.8)	(0.2)	(41.0)
Balance at 31 March 2014	3.2	1.3	1.3	1,154.5	297.1	(17.2)	1,440.2

1. Restated for the adoption of IFRS 10 *Consolidated Financial Statements* and amendments to IAS 19 (Revised) *Employee Benefits*, as described in note 28.

The accounting policies and notes to the financial statements on pages 64 to 81 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 March 2014

		Group		Company	
	Note	2014 £m	Restated[1] 2013 £m	2014 £m	2013 £m
Operating activities					
Dividends received		38.7	38.9	39.7	38.9
Interest received		5.9	2.2	4.4	0.8
Cash received from customers		1.5	2.5	–	–
Cash paid to suppliers and employees		(15.6)	(15.0)	(14.0)	(12.7)
Taxes received		1.3	0.4	1.3	0.4
Group tax relief received		3.1	3.4	3.4	3.8
Net cash flow from operating activities		34.9	32.4	34.8	31.2
Investing activities					
Purchases of investments		(327.1)	(167.3)	(318.7)	(141.8)
Proceeds from disposal of investments		255.7	323.9	246.6	290.8
Net payments for derivative financial instruments		–	(0.6)	–	(0.6)
Purchases of plant and equipment		(0.1)	–	–	–
Proceeds from disposal of plant and equipment		0.3	–	–	–
Net cash flow from/(used in) investing activities		(71.2)	156.0	(72.1)	148.4
Financing activities					
Interest paid		(2.5)	(1.2)	(2.0)	(0.5)
Dividends paid to owners of the company		(26.5)	(25.1)	(26.5)	(25.1)
Proceeds from new borrowings		35.0	–	35.0	–
Repayment of borrowings		(14.9)	(61.5)	(14.9)	(45.1)
Loans received from/(repaid to) subsidiaries		(0.4)	8.8	–	(2.5)
Exercise of share options		1.7	0.6	1.7	0.6
Purchase of own shares		(17.0)	(18.9)	(17.0)	(18.9)
Net cash flow used in financing activities		(24.6)	(97.3)	(23.7)	(91.5)
Net increase/(decrease) in cash and cash equivalents		(60.9)	91.1	(61.0)	88.1
Cash and cash equivalents at year start		93.8	2.7	96.5	8.4
Cash and cash equivalents at year end	13	32.9	93.8	35.5	96.5

1. Restated for the adoption of IFRS 10 *Consolidated Financial Statements* and amendments to IAS 19 (Revised) *Employee Benefits*, as described in note 28.

Financial statements

The accounting policies and notes to the financial statements on pages 64 to 81 are an integral part of these financial statements.

Significant 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 premium listed on the London Stock Exchange.

These financial statements were authorised for issue by the directors on 28 May 2014.

These financial statements are presented in pound sterling, as this is the currency of the primary economic environment in which Caledonia operates.

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.

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.

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 statement of comprehensive income of the company has been omitted from these financial statements in accordance with section 408 of the Companies Act 2006.

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 on page 56. Accordingly, they continue to adopt the going concern basis of preparing the financial statements.

Adopted IFRSs

In the current year, the group has adopted the following standards and amendments:

- IFRS 10 *Consolidated Financial Statements*
- IFRS 12 *Disclosures of Interests in Other Entities*
- IAS 27 *Separate Financial Statements*
- IAS 19 *Employee Benefits (revised 2011)*
- IFRS 11 *Joint Arrangements*
- IFRS 13 *Fair Value Measurement*
- IAS 28 *Investments in Associates and Joint Ventures.*

IFRS 10 provides that an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead IFRS 10 requires that an investment entity shall measure an investment in a subsidiary at fair value through profit or loss. Subsidiaries that provide investment related services or activities either to the entity or a third party remain consolidated.

In addition, IFRS 10 redefines the term 'control' for the purpose of identifying if an investor controls an investee. If one entity controls another entity, the parent company shall include the subsidiary in full in its consolidated financial statements. Under the new definition, control is established if the potential parent entity has power over the potential subsidiary (investee) as a result of voting rights or other rights and actual circumstances, is exposed or has rights to positive or negative variable returns from its involvement with the investee, and above all has the ability to use its power over the investee to affect significantly the amount of its returns.

IFRS 12 sets out the disclosure requirements for interests in other entities. This standard requires a much wider range of disclosures than previously required by the rules set out in IAS 27, IAS 28 and IAS 31.

IFRS 13 sets out in a single IFRS a unified framework for measuring fair value in financial statements prepared in accordance with International Financial Reporting Standards and enhances quantitative disclosures.

IAS 19R relates to accounting for defined benefit pension obligations and requires a net interest amount to be calculated by applying the discount rate to the net defined benefit liability or assets, in place of the interest cost on scheme liabilities and the expected return on scheme assets. There was no overall change in the net assets of the group.

IFRS 10 and 12 and IAS 19R were applied retrospectively and the prior period impact of adopting these new standards and amendments is shown in note 28.

IFRS 13 is applied prospectively and the remaining standards have no significant impact on the net assets, financial position or reported results of the group.

IFRSs not yet applied
At the date of approval of these financial statements, the following standard, which has not been applied in these financial statements, was in issue but not yet effective.

- IFRS 9 *Financial Instruments*

The directors anticipate that the adoption of this standard in future periods will have no material impact on the financial statements.

Basis of consolidation
The consolidated financial statements include the financial statements of the company and service entities controlled by the company made up to the reporting date. Control is achieved where the company has the power over the potential investee as a result of voting rights or other rights, has rights to positive or negative variable returns from its involvement with the investee and has the ability to use its power over the investee to affect significantly the amount of its returns.

Foreign currencies
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. 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 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.

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.

Rental income is recognised on a straight-line basis over the lease term.

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 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.

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

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.

Significant accounting policies continued

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 the number 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 IFRS 10, 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.

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.

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.

Investments designated as held at fair value through profit or loss 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.

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 Valuation 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 82.

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.

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.

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 is held at fair value. Gains arising from changes in the fair value of property are included in other comprehensive income for the period in which they arise. To the extent gains represent reversal of cumulative losses previously recognised they are included in profit or loss.

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:

Plant	10-15 years
Equipment	3-8 years

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.

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.

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 in 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.

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

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

Where the Caledonia Investments plc Employee Share Trust purchases the company's equity share capital, 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 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.

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

Notes to the financial statements

1. Investment income

	2014 £m	Restated 2013 £m
Dividends from equity shares		
Listed UK	17.7	20.9
Unlisted	20.9	16.6
Interest on debt investments		
Unlisted	2.6	3.4
Property income		
Rental income	0.5	0.5
	41.7	41.4

2. Expenses

Management expenses

	2014 £m	Restated 2013 £m
Income statement revenue column		
Personnel expenses	9.6	9.7
Depreciation	0.1	0.1
Auditor's remuneration	0.2	0.2
Other administrative expenses	4.9	4.1
Director fees and disbursements recharged	(0.6)	(0.5)
Management fees and recharges	(0.3)	(0.3)
Gain on disposal of plant and equipment	(0.3)	–
	13.6	13.3
Income statement capital column		
Transaction costs	0.5	0.7
	14.1	14.0

Further information

Auditor's remuneration

Fees payable to KPMG LLP (2013 – KPMG Audit Plc) were as follows:

	2014 £m	Restated 2013 £m
Audit services		
Annual report	0.1	0.1
Other services		
Other assurance and tax compliance	0.1	0.1
	0.2	0.2

Personnel expenses

	2014 £m	Restated 2013 £m
Wages and salaries	7.1	6.3
Compulsory social security contributions	1.0	0.9
Contributions to defined contribution plans	0.4	0.3
Defined benefit pension plans expense (note 25)	0.3	0.5
Equity-settled share-based payments (note 24)	0.7	1.3
National Insurance on share awards	0.1	0.4
	9.6	9.7

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

	2014 No	2013 No
Average number of employees	45	44

3. Treasury interest receivable

	2014 £m	Restated 2013 £m
Interest on bank deposits	0.3	0.3
Loan impairment reversal	0.8	–
Other interest receivable	–	0.2
Gain on acquisition of defined benefit pension scheme	–	2.5
	1.1	3.0

4. Finance costs

	2014 £m	Restated 2013 £m
Interest on bank loans and overdrafts	1.6	1.1
Interest to subsidiaries	0.1	0.1
Loan impairment	–	1.2
	1.7	2.4

5. Taxation

Recognised in comprehensive income

	2014 £m	Restated 2013 £m
Current tax income		
Current year	0.8	1.3
Adjustments for prior years	1.7	3.2
	2.5	4.5
Deferred tax income/(expense)		
Origination and reversal of timing differences	(0.2)	0.3
Total tax income	2.3	4.8

Reconciliation of effective tax expense

	2014 £m	Restated 2013 £m
Profit before tax	180.8	204.6
Tax expense at the domestic rate of 23% (2013 – 24%)	(41.6)	(49.1)
Non-deductible expenses	0.1	0.4
Losses for the year unrelieved	(1.4)	(1.3)
Non-taxable gains on investments	35.4	42.3
Non-taxable UK dividend income	6.0	5.4
Tax exempt revenues	2.2	3.6
Other timing differences	(0.1)	0.3
Over-provided in prior years	1.7	3.2
Tax income	2.3	4.8

Recognised in other comprehensive income

	2014 £m	Restated 2013 £m
Deferred tax income/(expense)		
On actuarial losses/(gains) on defined benefit pension schemes	(0.3)	0.6
On share options and awards	–	0.2
	(0.3)	0.8

Current tax assets

Current tax assets of £0.1m in the company represented tax loss relief surrender for settlement (2013 – company £2.1m, restated group £1.7m).

6. Dividends

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

	2014		2013	
	p/share	£m	p/share	£m
Final dividend for the year ended 31 March 2013 (2012)	34.3	19.1	31.2	17.8
Interim dividend for the year ended 31 March 2014 (2013)	13.4	7.4	12.9	7.3
	47.7	26.5	44.1	25.1
Proposed final dividend for the year ended 31 March 2014 (2013)	35.7	19.7	34.3	19.1

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 17 July 2014, will be payable on 7 August 2014 to holders of shares on the register on 11 July 2014. The ex-dividend date will be 9 July 2014.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2014 are the interim and final dividends for that year, amounting to £27.1m (2013 – £26.4m).

7. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share of the group was based on the profit 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 group earnings were as follows:

	Revenue		Capital	
	2014 £m	Restated 2013 £m	2014 £m	Restated 2013 £m
Profit for the year	28.7	31.6	154.4	177.8

The profit attributable to shareholders was as follows:

	2014 £m	Restated 2013 £m
Profit attributable to shareholders (basic and diluted)	183.1	209.4

The weighted average number of shares was as follows:

	2014 000's	Restated 2013 000's
Issued shares at year start	56,222	57,359
Effect of shares cancelled	(589)	(463)
Effect of shares held by the employee share trust	(327)	(346)
Basic weighted average number of shares during the year	55,306	56,550
Effect of performance shares, share options and deferred bonus awards	628	589
Diluted weighted average number of shares during the year	55,934	57,139

8. Investments

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Investments held at fair value through profit or loss				
Investments listed on recognised stock exchanges	703.2	691.9	703.2	691.9
Unlisted investments	748.7	531.0	732.7	512.9
	1,451.9	1,222.9	1,435.9	1,204.8
Investments held at cost				
Service subsidiaries	–	–	0.8	0.8
	1,451.9	1,222.9	1,436.7	1,205.6

Notes to the financial statements continued

The movements in non-current investments were as follows:

	Listed equity £m	Unlisted equity[1] £m	Unlisted debt £m	Total £m
Restated group				
Balance at 31 March 2012	716.7	387.6	99.7	1,204.0
Reclassifications	14.8	(14.8)	–	–
Purchases at cost	81.1	60.5	25.5	167.1
Disposal proceeds	(244.0)	(42.7)	(45.0)	(331.7)
Gains on investments	123.3	49.5	8.4	181.2
Foreign exchange movement	–	–	0.5	0.5
Rolled-up interest	–	–	1.8	1.8
Balance at 31 March 2013	691.9	440.1	90.9	1,222.9
Reclassifications	–	12.6	(12.6)	–
Purchases at cost	140.6	182.7	9.1	332.4
Disposal proceeds	(201.4)	(36.8)	(13.4)	(251.6)
Gains on investments	72.1	78.3	1.0	151.4
Rolled-up interest	–	–	(3.2)	(3.2)
Balance at 31 March 2014	703.2	676.9	71.8	1,451.9
Company				
Balance at 31 March 2012	716.7	401.1	63.7	1,181.5
Reclassifications	14.8	(14.8)	–	–
Purchases at cost	81.1	61.8	–	142.9
Disposal proceeds	(244.0)	(44.0)	(10.6)	(298.6)
Gains on investments	123.3	51.4	3.3	178.0
Rolled-up interest	–	–	1.8	1.8
Balance at 31 March 2013	691.9	455.5	58.2	1,205.6
Reclassifications	–	12.6	(12.6)	–
Purchases at cost	140.6	183.4	0.7	324.7
Disposal proceeds	(201.4)	(37.5)	(3.6)	(242.5)
Gains on investments	72.1	78.3	1.7	152.1
Rolled-up interest	–	–	(3.2)	(3.2)
Balance at 31 March 2014	703.2	692.3	41.2	1,436.7

1. Unlisted equity includes limited partnership and open ended fund investments.

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

9. Property

Group

	2014 £m	Restated 2013 £m
Cost		
Balance at year start and year end	20.0	20.0
Revaluation		
Balance at year start	(1.5)	(2.5)
Revaluation in the year	–	1.0
Balance at year end	(1.5)	(1.5)
Carrying amounts		
At year start	18.5	17.5
At year end	18.5	18.5

Property comprised freehold land and building partly occupied by Caledonia service companies and partly let out to third parties.

10. Plant and equipment

Group

	2014 £m	Restated 2013 £m
Cost		
Balance at year start	1.4	1.4
Acquisitions	0.1	–
Disposals	(0.5)	–
Balance at year end	1.0	1.4
Depreciation		
Balance at year start	(1.3)	(1.2)
Depreciation charge	(0.1)	(0.1)
Disposals	0.5	–
Balance at year end	(0.9)	(1.3)
Carrying amounts		
At year start	0.1	0.2
At year end	0.1	0.1

11. Deferred tax

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2014			
Employee benefits	1.0	(0.1)	0.9
Other items	–	(0.2)	(0.2)
	1.0	(0.3)	0.7
Restated 2013			
Employee benefits	1.4	–	1.4
Other items	–	(0.2)	(0.2)
	1.4	(0.2)	1.2

Movement in temporary differences during the year

	Balance at year start £m	Compre-hensive income £m	Other compre-hensive income £m	Acquired in the year £m	Balance at year end £m
2014					
Employee benefits	1.4	(0.2)	(0.3)	–	0.9
Other items	(0.2)	–	–	–	(0.2)
	1.2	(0.2)	(0.3)	–	0.7
Restated 2013					
Employee benefits	1.0	0.3	0.8	(0.7)	1.4
Other items	(0.2)	–	–	–	(0.2)
	0.8	0.3	0.8	(0.7)	1.2

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

	2014 £m	Restated 2013 £m
Tax losses	2.2	2.2

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.

12. Trade and other receivables

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Trade receivables	5.5	9.6	4.7	8.8
Non-trade receivables and prepayments	1.8	1.1	0.9	–
Other receivables	–	3.1	–	3.1
	7.3	13.8	5.6	11.9

13. Net cash and cash equivalents

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Bank balances	33.3	0.2	33.3	0.2
Short term deposits	2.2	96.3	2.2	96.3
Cash and cash equivalents	35.5	96.5	35.5	96.5
Bank overdrafts	(2.6)	(2.7)	–	–
	32.9	93.8	35.5	96.5

Bank overdrafts were included in current liabilities in the balance sheet.

14. Interest-bearing loans and borrowings

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Non-current liabilities				
Unsecured bank loans	20.0	19.9	20.0	–
Current liabilities				
Unsecured bank loans	20.0	–	–	–
	40.0	19.9	20.0	–

15. Trade and other payables

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Trade payables	2.7	1.7	6.1	3.5
Non-trade payables and accrued expenses	1.4	1.6	0.7	0.9
Other payables	10.9	11.3	–	–
	15.0	14.6	6.8	4.4

Other payables include short term, subsidiary lending to Caledonia Treasury Ltd.

16. Provisions

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Balance at the year start	11.0	8.9	12.9	15.9
Bank guarantee provisions				
Released during the year	–	–	0.7	(5.1)
Other guarantee provision				
Increased during the year	0.8	2.1	0.8	2.1
Warranty provision				
Released during the year	(3.5)	–	(3.5)	–
Balance at the year end	8.3	11.0	10.9	12.9
Current liabilities	8.3	11.0	10.9	12.9

During the year, the group and company recognised a £0.8m guarantee provision (2013 – £2.1m) and released a £3.5m provision related to the disposal of an investment in 2006. The company also recognised a bank guarantee provision of £0.7m (2013 – £5.1m release), recognised as fair value loss on investments in the group statement of comprehensive income.

These provisions were allocated to the capital reserve. 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.

17. Share capital

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2012, 2013 and 2014	2.8	0.4	1.3	4.5

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

	Ordinary shares		Deferred ordinary shares	
	2014 000's	2013 000's	2014 000's	2013 000's
Balance at the year start	56,222	57,359	8,000	8,000
Shares cancelled	(811)	(1,137)	–	–
Balance at the year end	55,411	56,222	8,000	8,000

The company had outstanding share options and performance share scheme and deferred bonus awards (note 24).

As at 31 March 2014, the issued share capital of the company comprised 55,411,017 ordinary shares (2013 – 56,222,028) and 8,000,000 deferred ordinary shares (2013 – 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.

Notes to the financial statements continued

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.

18. Net asset value per share

The group's undiluted net asset value per share is based on the net assets of the group 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. The group'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.

	2014			Restated 2013		
	Net assets £m	Number of shares 000's	NAV p/share	Net assets £m	Number of shares 000's	NAV p/share
Undiluted	1,445.6	55,090	2624	1,302.4	55,880	2331
Adjustments	2.3	748	(31)	3.2	764	(26)
Diluted	1,447.9	55,838	2593	1,305.6	56,644	2305

19. 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 group 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 groups's net asset value. Cash and cash equivalents and other items are not identifiable operating segments.

'Other investments' comprise subsidiaries not managed as part of the investment portfolio.

	Profit before tax		Assets	
	2014 £m	Restated 2013 £m	2014 £m	Restated 2013 £m
Quoted pool	92.1	120.9	497.8	517.2
Unquoted pool	80.1	59.0	568.3	384.5
Funds pool	21.3	12.9	204.4	166.8
Income & Growth pool	0.2	27.5	189.6	162.0
Investment portfolio	193.7	220.3	1,460.1	1,230.5
Other investments	(0.6)	0.2	10.3	10.9
Total revenue/investments[1]	193.1	220.5	1,470.4	1,241.4
Cash and cash equivalents	1.1	3.0	32.9	93.8
Other items	(13.4)	(18.9)	14.2	22.0
Reportable total	180.8	204.6	1,517.5	1,357.2

1. Total investments comprised investments and property held at fair value.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the currency of primary listing for listed securities, or country of residence for unquoted investments, and segment assets are based on the geographical location of the assets.

	UK £m	US £m	Other £m	Total £m
2014				
Revenue	141.3	27.6	24.2	193.1
Non-current assets	18.6	–	–	18.6
Restated 2013				
Revenue	162.8	58.4	(0.7)	220.5
Non-current assets	18.6	–	–	18.6

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

Major clients

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

20. Related parties

Identity of related parties

The group and company had a related party relationship with its subsidiaries (note 26) and associates (note 27) 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 35.4% of the voting shares of the company as at 31 March 2014 (2013 – 34.9%).

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 50 in the Directors' remuneration report.

The key management personnel compensation was as follows:

	Group	
	2014 £m	2013 £m
Short term employee benefits	2.4	2.5
Post-employment benefits	0.1	0.2
Termination benefits	–	0.2
Equity compensation benefits	0.5	0.6
	3.0	3.5

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

During the year, the group invoiced and received £0.1m (2013 – £0.1m) in rent and administration fees from The Cayzer Trust Company Ltd.

Other related party transactions

Investees

Transactions between the company and its subsidiaries were as follows:

	2014		2013	
	Amount of trans–actions £m	Balance at year end £m	Amount of trans–actions £m	Balance at year end £m
Comprehensive income items				
Guarantee fees receivable	0.1	–	0.1	–
Dividends receivable on equity shares	13.6	–	7.7	–
Capital distributions receivable	0.7	–	1.3	–
Management fees payable	(13.8)	(3.5)	(12.3)	(2.3)
Taxation	3.0	–	2.5	–
Financial position items				
Investments purchased	–	–	0.3	–
Equity subscribed	144.5	–	15.0	–
Capital contributions	15.7	–	3.8	–
Loans advanced	(14.5)	4.5	(1.3)	19.0
Loans repaid	–	–	2.5	–
Guarantees	0.5	(77.2)	(6.9)	(77.7)

Associates and joint ventures

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

	2014		2013	
	Amount of trans–actions £m	Balance at year end £m	Amount of trans–actions £m	Balance at year end £m
Company				
Dividends receivable on equity shares	1.2	–	5.6	–
Interest receivable on loan securities	1.3	–	1.9	–
Loans advanced	(2.8)	39.5	(8.4)	42.3
Other group companies				
Directors' fees receivable	0.3	0.1	0.3	0.1

Cayzer Family Archive

During the year, certain artworks and memorabilia relating to the Cayzer family and its historic shipping interests were sold by the group for £0.3m to The Cayzer Family Archive, a charitable foundation established to preserve an historical archive of the Cayzer family and its heritage in shipping. The sale price was based on valuations by three independent valuers and the items sold represented only part of a larger collection of artefacts (not all relating to shipping) originally acquired from British & Commonwealth Holdings plc, which had been valued at some £0.5m. The Cayzer Family Archive has granted a licence to the group to continue to display the items sold at its premises at no cost other than maintenance and insurance obligations.

21. Capital commitments

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

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Investments				
Contracted but not called	88.5	59.2	88.5	59.2
Conditionally contracted	19.0	19.7	19.0	19.7
	107.5	78.9	107.5	78.9

22. Contingencies

The group and 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.

At 31 March 2014, there was a litigation claim outstanding for which any settlement liability is considered remote.

23. 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 rolling ten year periods. 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 10 to 21.

Notes to the financial statements continued

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:

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Investments held at fair value through profit or loss	1,380.1	1,132.0	1,395.5	1,147.4

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.

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Increase in prices	138.0	113.2	139.5	114.7
Decrease in prices	(138.0)	(113.2)	(139.5)	(114.7)

The sensitivity to equity and fund investments has increased during the year due to investment portfolio gains and net investment 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 within the overall asset allocation strategies and risk.

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

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Cash and cash equivalents	2.0	0.2	1.9	0.2
Other receivables	–	3.1	–	3.1

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.

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Sterling depreciates (weakens)	0.2	0.3	0.2	0.3
Sterling appreciates (strengthens)	(0.1)	(0.2)	(0.1)	(0.2)

The exposure to foreign currency has decreased during the year due to the reduction in foreign denominated 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:

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Fixed rate				
Investments in debt instruments	9.0	11.4	9.0	11.4
Interest-bearing loans to subsidiaries	9.1	6.6	–	–
Floating rate				
Investments in debt instruments	32.2	46.8	32.2	46.8
Interest-bearing loans to subsidiaries	21.5	26.1	–	–
Cash and cash equivalents	32.9	93.8	35.5	96.5
Interest-bearing loans and borrowings	(40.0)	(19.9)	(20.0)	–

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.

	Group 2014 £m	Group Restated 2013 £m	Company 2014 £m	Company 2013 £m
Decrease in interest rates	0.6	0.2	0.4	0.2
Increase in interest rates	(0.6)	(0.2)	(0.4)	(0.2)

The group's and company's sensitivity to interest rates has increased in the year due to a reduction in net cash and an increase in variable rate borrowings.

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 2014, the financial assets exposed to credit risk were as follows:

	Group 2014 £m	Group Restated 2013 £m	Company 2014 £m	Company 2013 £m
Investments in debt instruments	71.8	92.0	41.2	59.3
Operating and other receivables	7.3	13.8	5.6	11.9
Cash and cash equivalents	32.9	93.8	35.5	96.5
	112.0	199.6	82.3	167.7

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 rating 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 2014 (2013 – £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 82.

Liquidity risk

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

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	Discount £m	Net total £m
2014				
Unsecured loans				
Company	1.4	24.3	(5.7)	20.0
Subsidiaries	20.3	–	(0.3)	20.0
Group	21.7	24.3	(6.0)	40.0
Restated 2013				
Unsecured loans				
Subsidiaries	0.5	20.2	(0.8)	19.9
Group	0.5	20.2	(0.8)	19.9

Capital management policies and procedures

The group's capital management objectives are:

- to ensure that the group and company will be able to continue as a going concern
- to maximise the income and capital return to the company's shareholders, principally through the use of equity capital, although the group will maintain appropriate borrowing facilities, to be used for short term working capital or bridging finance, currently £175m (restated 2013 – £125m).

The group's total capital at 31 March 2014 was £1,445.6m (restated 2013 – £1,302.4m) and comprised equity share capital and reserves. The group was 2.8% geared at the year end (restated 2013 – 1.5%).

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

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

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

Notes to the financial statements continued

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

Fair value hierarchy

The group's valuation methodology is disclosed on page 82. 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.

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Investments held at fair value				
Level 1	703.2	691.9	703.2	691.9
Level 2	39.4	36.3	39.4	36.3
Level 3	709.3	494.7	693.3	476.6
	1,451.9	1,229.9	1,435.9	1,204.8

In the prior year, investments with a value of £4.0m were transferred from Level 2 to Level 3 as a result of there no longer being any observable market data.

The directors have used several valuation methodologies as prescribed in the valuation guidelines to arrive at their best estimate of fair value, including discounted cash flow calculations, revenue and earnings multiples and recent market transactions where available.

The multiples applied in valuing our unquoted investments are derived from comparable companies sourced from market data. A key metric in our internal valuation of unquoted investments included within Level 3 is the EBITDA multiple. An increase of 10% in the earnings multiple applied to our internally valued unquoted investments at 31 March 2014, would increase the valuation by £10.9m to £131.2m.

Private equity fund investments, included under Level 3, are valued in accordance with the valuation guidelines and are based on information provided by the general partner. The general partner's policy in valuing unlisted investments is to carry them at fair value. Similarly, externally managed unquoted investment valuations are based on information provided by the manager.

An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (for example, when an entity uses prices from prior transactions or third party pricing information without adjustment).

Movement in Level 3 financial instruments was as follows:

	Group		Company	
	2014 £m	Restated 2013 £m	2014 £m	2013 £m
Balance at the year start	494.7	438.4	476.6	415.1
Reclassifications	–	4.0	–	4.0
Purchases	186.8	83.0	183.4	60.5
Disposal proceeds	(45.2)	(83.8)	(40.5)	(52.4)
Gains and losses on investments sold in the year	7.5	30.2	7.5	24.6
Gains and losses on investments held at the year end	65.5	22.9	66.3	24.8
Balance at the year end	709.3	494.7	693.3	476.6

24. Share-based payments

The company has an executive share option scheme, which entitles 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 scheme, 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 this scheme.

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 granted in 2011 and 2012 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. The Remuneration Committee approved an amendment to the performance share scheme whereby some of the shares comprised in the 2013 awards may be exercised after three years, and the remainder five years, after grant.

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 2014 were as follows, whereby all grants are settled by physical delivery of shares:

Grant date	Entitlement	Vesting conditions	Number of shares
Share options			
19.08.05	Option grant to senior staff	Note 1	46,009
01.06.06	Option grant to senior staff	Note 1	33,992
29.05.09	Option grant to senior staff	Note 1	65,833
			145,834
Performance share scheme awards			
28.05.12	Award grant to senior staff	Note 2	263,235
12.06.13	Award grant to senior staff	Note 3	206,761
			469,996
Deferred bonus awards to senior staff			
21.05.10	Voluntary award	Note 4	2,283
26.05.11	Compulsory award	Note 5	12,555
26.05.11	Voluntary award	Note 4	2,335
26.05.11	Matching shares	Note 6	11,154
28.05.12	Voluntary award	Note 4	680
28.05.12	Matching shares	Note 7	100
12.06.13	Compulsory award	Note 5	51,510
12.06.13	Matching shares	Note 7	51,510
			132,127

Vesting conditions are as follows:

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

	2014		2013	
	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	1487	271	1512	605
Exercised during the year	1387	(118)	1503	(113)
Lapsed during the year	1055	(7)	1547	(221)
Outstanding at the year end	1589	146	1487	271

The options outstanding at 31 March 2014 have an exercise price in the range of 1446p 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:

Years ended 31 March	2014 £m	2013 £m
Share options granted in 2006	–	(0.1)
Share options granted in 2007	–	(0.1)
Share options granted in 2010	0.1	0.1
Share options granted in 2011	–	(0.4)
Performance share awards granted in 2012	(1.4)	0.9
Performance share awards granted in 2013	0.8	0.7
Performance share awards granted in 2014	0.7	–
Deferred bonus awards for 2011	–	0.2
Deferred bonus awards for 2013	0.5	–
	0.7	1.3

Notes to the financial statements continued

25. Employee benefits

	2014 £m	Restated 2013 £m
Non-current assets		
Defined benefit pension asset	3.2	2.3
Current liabilities		
Profit sharing bonus	(2.1)	(1.8)
Non-current liabilities		
Defined benefit pension obligations	(2.8)	(4.1)
National Insurance on share options, performance shares and deferred bonus awards	(0.6)	(0.5)
	(3.4)	(4.6)
Total employee liabilities	(5.5)	(6.4)

Defined benefit pension obligations

The group makes contributions to two (restated 2013 – two) plans in the UK that provide pension benefits for employees.

	2014 £m	Restated 2013 £m
Present value of funded obligations	38.5	39.2
Fair value of plan assets	(38.9)	(37.4)
Present value of net (assets)/obligations	(0.4)	1.8

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

	2014 £m	Restated 2013 £m
Balance at year start	39.2	25.5
Obligations acquired	–	7.8
Service cost	0.3	0.3
Interest cost	1.6	1.3
Actuarial (gain)/ loss	(1.5)	4.9
Actual benefit payments	(1.1)	(0.7)
Special termination benefits	–	0.1
Balance at year end	38.5	39.2

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

	2014 £m	Restated 2013 £m
Balance at year start	37.4	22.5
Assets acquired	–	11.1
Expected return on assets	1.6	1.2
Actuarial gain/(loss)	(0.1)	2.3
Employer contributions	1.1	1.0
Actual benefit payments	(1.1)	(0.7)
Balance at year end	38.9	37.4

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

	2014 £m	Restated 2013 £m
Current service cost	0.3	0.3
Interest on obligations	1.6	1.3
Expected return on plan assets	(1.6)	(1.2)
Special termination benefits	–	0.1
	0.3	0.5

Amounts recognised in other comprehensive income were as follows:

	2014 £m	Restated 2013 £m
Actuarial gains/(losses) arising from financial assumptions	1.1	(5.1)
Actuarial gains from experience adjustments	0.3	2.5
Actuarial gains/(losses) in the year	1.4	(2.6)

An analysis of plan assets at the end of the year was as follows:

	2014 £m	Restated 2013 £m
Equities	26.4	24.7
Bonds	5.6	6.0
Other assets	6.9	6.7
	38.9	37.4

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

	2014 %	Restated 2013 %
Discount rate at year end	4.2	4.2
Future salary increases	5.0	5.0
Future pension increases	3.5	3.2
Price inflation	3.5	3.2

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 2012 in line with the core CMI scale of improvements. Allowance has also been made for further improvements in line with CMI core projections with a long term trend of 1.5%. Life expectancy on retirement in normal health is assumed to be 27.6 years (2013 – 27.5 years) for males and 28.8 years (2013 – 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 2015 were £0.7m (restated 2014 – £1.2m).

In the UK, the funding is set on the basis of a triennial funding valuation by the actuaries for which the assumptions may differ from those above. As a result of these valuations, the group and the scheme trustees agree a Schedule of Contributions, which sets out the required contributions from the employer and employees for current service. Where the scheme is in deficit, the Schedule of Contributions also includes required contributions from the employer to eliminate the deficit. The most recent triennial valuations were completed in 2012.

A summary of the recent funding obligations and weighted average duration of the defined benefit obligation was as follows:

	Obligations at 31 March 2012 £m	Weighted average duration at 31 March 2014 Years
Amber Industrial Holdings pension scheme	12.1	16
Caledonia Pension Scheme	27.4	17

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out on page 78. The following table summarises the estimated increase in defined benefit obligation of a change in an assumption at 31 March 2014, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	£m
Reduction in the discount rate of 0.25%	1.5
Increase in inflation of 0.25%	1.2
Increase in future salary increases of 0.25%	0.2
Increase in life expectancy of one year	1.5

26. Subsidiaries

Significant subsidiaries were as follows:

			Ownership	
Name	Country of domicile	Shares held	2014 %	2013 %
Amber 2010 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 Lion Ltd	UK	Ordinary	100	
Caledonia Choice Ltd	UK	Ordinary	98	
Caledonia Group Services Ltd	UK	Ordinary	100	100
Caledonia Treasury Ltd	UK	Ordinary	100	100
Easybox Sarl	Luxembourg	Ordinary	100	100
		Preferred	100	100
Edinmore Holdings Ltd	UK	Ordinary	100	100
Edinmore Investments Four Ltd	UK	Ordinary	100	100
Sloane Club Management Ltd	UK	Ordinary	100	100
Sloane Club Properties LLP	UK	Capital	100	100
Sterling Industries PLC	UK	Ordinary	100	100
		Preference	80	80
TGE Marine AG	Germany	Ordinary	68	50

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

27. 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:

			Ownership	
Name	Country of domicile	Shares held	2014 %	2013 %
B&W Group Ltd	UK	Preferred	20	20
Empresaria Group plc	UK	Ordinary	22	22
Eredene Capital plc	UK	Ordinary	21	21
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	23	24
Real Estate Investors PLC	UK	Ordinary	28	28
Satellite Information Services Ltd	UK	Ordinary	23	23
Seven Publishing Group Ltd	UK	Ordinary	29	29
TCL Holdings Ltd	UK	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:

	2014 £m	2013 £m
Assets	921.5	991.0
Liabilities	(586.4)	(584.5)
Equity	335.1	406.5
Revenues	775.3	740.8
Profit/(loss)	(5.3)	33.0

28. Group restatement

As described in the accounting policies, the group has adopted IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interests in Other Entities* and IAS 19 *Employee Benefits* (Revised 2011) in the current year, which have retrospective application. Caledonia Investments plc qualifies as an investment entity, being an investment trust with a business purpose of providing its investors with a total return comprising both capital appreciation and investment income. In seeking to meet a long term total return objective, it also measures and evaluates the performance of substantially all of its investments on a fair value basis.

As the retrospective application of IFRS 10, IFRS 12 and IAS 19R had an impact on virtually all the items in the group statement of financial position and in the group statement of profit or loss, the prior year figures disclosed have been adjusted throughout the annual report. On adoption of IFRS 10, the fair value at 1 April 2012 of the subsidiaries ceasing to be consolidated was £103.7m. Included within the subsidiaries' fair value at 31 March 2012 of £117.2m was the sum of £13.5m related to service companies, which remain consolidated under IFRS 10.

Notes to the financial statements continued

The retrospective application of IFRS 10, IFRS 12 and IAS 19R and the reclassification of property as held at fair value instead of impaired cost resulted in the following adjustments being made to the figures for the prior year group periods as illustrated in the following restatements.

Reconciliation of group profit under restatement

The adjusted group statement of comprehensive income for the year ended 31 March 2013 was as follows:

	As reported £m	Effect of restatement £m	Restated £m
Revenue			
Investment income	33.5	7.9	41.4
Gains on fair value property	–	1.0	1.0
Gains and losses on fair value investments	178.2	3.0	181.2
Gains and losses on derivatives	(3.2)	0.1	(3.1)
Revenue from sales of goods and services	117.0	(117.0)	–
Total revenue	325.5	(105.0)	220.5
Guarantee obligation provided	–	(2.1)	(2.1)
Investment management expenses	(13.9)	(0.1)	(14.0)
Trade operating expenses	(106.7)	106.7	–
Gain on investment property	0.4	(0.4)	–
Share of results of joint ventures	(0.6)	0.6	–
Profit before finance costs	204.7	(0.3)	204.4
Treasury interest receivable	0.5	2.5	3.0
Finance costs	(3.2)	0.8	(2.4)
Exchange movements	(0.2)	(0.2)	(0.4)
Profit before tax	201.8	2.8	204.6
Taxation	0.3	4.5	4.8
Profit for the year	202.1	7.3	209.4
Other comprehensive income			
Exchange differences on translation of foreign operations	1.1	(1.1)	–
Actuarial losses on defined benefit pension schemes	(4.2)	1.6	(2.6)
Tax on other comprehensive income	1.4	(0.6)	0.8
Total comprehensive income	200.4	7.2	207.6

Reconciliation of group cash flows under restatement

The adjusted group statement of cash flows for the year ended 31 March 2013 was as follows:

	As reported £m	Effect of restatement £m	Restated £m
Operating activities			
Dividends received	31.2	7.7	38.9
Interest received	0.7	1.5	2.2
Cash received from customers	120.0	(117.5)	2.5
Cash paid to suppliers and employees	(122.7)	107.7	(15.0)
Taxes received	0.5	(0.1)	0.4
Group tax relief received	–	3.4	3.4
Net cash flow from operating activities	29.7	2.7	32.4
Investing activities			
Purchases of investments	(127.6)	(39.7)	(167.3)
Proceeds from disposal of investments	302.2	21.7	323.9
Net payments for derivative financial instruments	(0.6)	–	(0.6)
Purchases of property, plant and equipment	(1.9)	1.9	–
Purchases of intangible assets	(0.1)	0.1	–
Purchases of investment property	(10.2)	10.2	–
Proceeds from disposal of investment property	0.4	(0.4)	–
Purchases of subsidiaries net of cash acquired	(1.2)	1.2	–
Net cash flow from investing activities	161.0	(5.0)	156.0
Financing activities			
Interest paid	(2.3)	1.1	(1.2)
Dividends paid to owners of the company	(25.1)	–	(25.1)
Distributions paid to non-controlling interest	(0.4)	0.4	–
Proceeds from new borrowings	7.2	(7.2)	–
Loans received from subsidiaries	–	8.8	8.8
Repayment of borrowings	(61.5)	–	(61.5)
Exercise of share options	0.6	–	0.6
Purchase of own shares	(18.9)	–	(18.9)
Net cash flow used in financing activities	(100.4)	3.1	(97.3)
Net increase in cash and cash equivalents	90.3	0.8	91.1
Cash and cash equivalents at year start	24.6	(21.9)	2.7
Exchange movements on cash and cash equivalents	1.3	(1.3)	–
Cash and cash equivalents at year end	116.2	(22.4)	93.8

Reconciliation of group equity under restatement

The adjusted group statements of financial position as at 1 April 2012 and 31 March 2013 were as follows:

	1 April 2012			31 March 2013		
	As reported £m	Effect of restatement £m	Restated £m	As reported £m	Effect of restatement £m	Restated £m
Non-current assets						
Investments held at fair value through profit or loss	1,088.5	115.5	1,204.0	1,087.4	135.5	1,222.9
Available for sale investments	0.8	(0.8)	–	0.9	(0.9)	–
Intangible assets	2.6	(2.6)	–	2.8	(2.8)	–
Property held at fair value	–	17.5	17.5	–	18.5	18.5
Property, plant and equipment held at cost	76.8	(76.6)	0.2	73.8	(73.7)	0.1
Investment property	14.8	(14.8)	–	25.0	(25.0)	–
Interests in joint ventures	0.8	(0.8)	–	0.2	(0.2)	–
Deferred tax assets	5.4	(4.4)	1.0	5.0	(3.6)	1.4
Employee benefits	6.9	(6.9)	–	6.9	(4.6)	2.3
Non-current assets	1,196.6	26.1	1,222.7	1,202.0	43.2	1,245.2
Current assets						
Inventories	15.0	(15.0)	–	19.0	(19.0)	–
Derivative financial instruments	2.5	(2.5)	–	–	–	–
Trade and other receivables	35.7	(23.1)	12.6	41.7	(27.9)	13.8
Current tax assets	0.7	(0.1)	0.6	0.9	0.8	1.7
Cash and cash equivalents	24.6	(16.2)	8.4	116.2	(19.7)	96.5
Current assets	78.5	(56.9)	21.6	177.8	(65.8)	112.0
Total assets	1,275.1	(30.8)	1,244.3	1,379.8	(22.6)	1,357.2
Current liabilities						
Bank overdrafts	–	(5.7)	(5.7)	–	(2.7)	(2.7)
Interest-bearing loans and borrowings	(20.8)	20.8	–	(0.2)	0.2	–
Derivative financial instruments	(0.1)	0.1	–	(0.2)	0.2	–
Trade and other payables	(25.3)	17.8	(7.5)	(25.4)	10.8	(14.6)
Employee benefits	(2.3)	1.1	(1.2)	(2.5)	0.7	(1.8)
Current tax liabilities	(1.2)	1.2	–	(0.5)	0.5	–
Provisions	(4.1)	(4.8)	(8.9)	(3.9)	(7.1)	(11.0)
Current liabilities	(53.8)	30.5	(23.3)	(32.7)	2.6	(30.1)
Non-current liabilities						
Interest-bearing loans and borrowings	(84.7)	3.8	(80.9)	(51.6)	31.7	(19.9)
Employee benefits	(15.4)	12.3	(3.1)	(17.5)	12.9	(4.6)
Deferred tax liabilities	(3.1)	2.9	(0.2)	(2.2)	2.0	(0.2)
Non-current liabilities	(103.2)	19.0	(84.2)	(71.3)	46.6	(24.7)
Total liabilities	(157.0)	49.5	(107.5)	(104.0)	49.2	(54.8)
Net assets	1,118.1	18.7	1,136.8	1,275.8	26.6	1,302.4
Equity						
Share capital	3.2	–	3.2	3.2	–	3.2
Share premium	1.3	–	1.3	1.3	–	1.3
Capital redemption reserve	1.3	–	1.3	1.3	–	1.3
Capital reserve	–	852.2	852.2	–	1,012.1	1,012.1
Retained earnings	1,121.7	(826.2)	295.5	1,278.0	(976.5)	301.5
Foreign exchange translation reserve	4.3	(4.3)	–	5.4	(5.4)	–
Own shares	(16.7)	–	(16.7)	(17.0)	–	(17.0)
Equity attributable to owners of the parent	1,115.1	21.7	1,136.8	1,272.2	30.2	1,302.4
Non-controlling interest	3.0	(3.0)	–	3.6	(3.6)	–
Total equity	1,118.1	18.7	1,136.8	1,275.8	26.6	1,302.4

Valuation methodology

Investments are measured at the directors' estimate of fair value at the reporting date, in accordance with IFRS 13 *Fair Value 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.

Company performance record

A ten year record of the company's financial performance is as follows:

	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 annualised: Total share-holder return %	Rolling ten years annualised: FTSE All-Share Total Return %
2005	171.4	260.3	28.2	978	1531	1367	12.7	8.1
2006	349.4	549.2	29.6	1,307	2044	1980	14.9	8.4
2007	136.1	226.9	31.1	1,323	2258	2066	15.0	7.7
2008	(43.9)	(76.0)	32.5	1,252	2155	2050	12.6	3.5
2009	(325.5)	(564.1)	33.8	906	1559	1289	9.4	(0.7)
2010	312.4	539.6	35.3	1,182	2034	1625	11.5	2.6
2011	84.1	145.1	37.1	1,259	2165	1725	10.5	4.7
2012	(93.2)	(161.8)	42.9	1,134	1977	1486	8.1	5.2
2013	209.4	366.5	47.2	1,302	2305	1840	13.6	10.7
2014	183.1	327.4	49.1	1,446	2593	1923	8.9	8.6

1. Profits, earnings and net assets from 2013 were from the group results, prepared in accordance with the IASB *Investment Entities* amendments to IFRS 10 *Consolidated Financial Statements*. Pre-2013, they were from the company results.
2. NAVs per share prior to 2006 were originally prepared on an undiluted basis and have been restated on a diluted basis.
3. Annual dividends are stated in relation to the year's results from which they were paid.

Information for investors

Dividends, change of address and other shareholder services
Shareholders 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 Asset Services. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Capita Asset Services also offer an international payment service whereby overseas shareholders 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 online 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 should notify Capita Asset Services, 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 Asset Services are shown on the opposite page. Capita Asset Services 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 Asset Services 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@capita.com.

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 £11,880 (increased to £15,000 from 1 July 2014 for the tax year ending 5 April 2015). 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 premium 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 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]
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
Stuart A Cox
Graeme P Denison
Charles H Edwards
Sally D Flanagan
Eloise J M Fox
Jonathan R Hale
Duncan E Johnson
Timothy R G Lewis
Mathew S D Masters
Sheena D McNeill
Stephen J Mitchell
Paul M Whiteley

Secretary
Graeme P Denison

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The Association of Investment Companies

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