CALEDONIA INVESTMENTS

# Annual report 2015

Year ended 31 March 2015

# Welcome to Caledonia

We are a self-managed investment trust company with net assets of £1.6bn. 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.

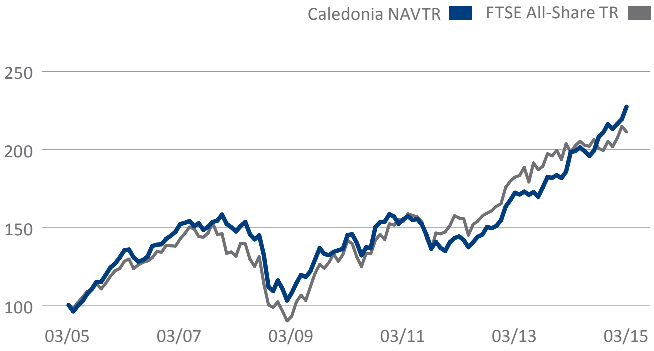
# Company highlights

- Net asset value per share total return of 14.2%
- Ten year outperformance against the FTSE All-Share
- Annual dividend per share up 3.1% to 50.6p

## Results summary

| | 31 March 2015 | 31 March 2014 | Change % |
|---|---|---|---|
| Net asset value | £1,627m | £1,446m | 12.5 |
| NAV per share | 2906p | 2593p | 12.1 |
| Annual dividend per share | 50.6p | 49.1p | 3.1 |

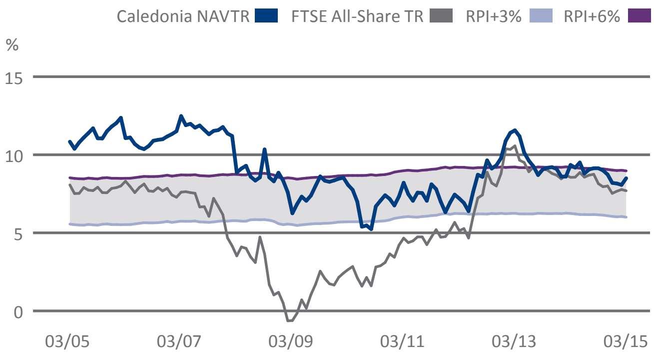
## NAV total return growth over ten years




## Performance

| | 1 year % | 5 years % | 10 years % |
|---|---|---|---|
| NAV total return | 14.2 | 56.3 | 127.3 |
| Total shareholder return | 21.2 | 56.0 | 106.2 |
| Dividend growth | 3.1 | 43.3 | 79.4 |

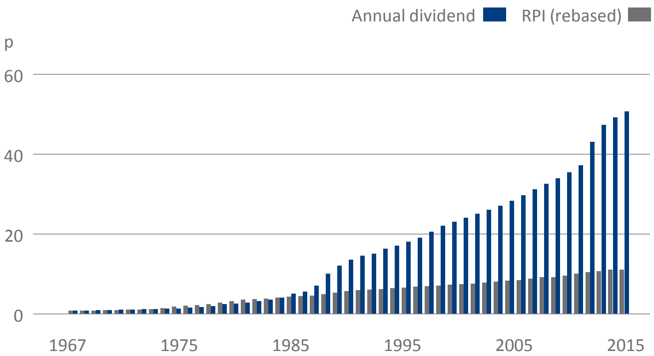
## Annualised ten year rolling performance




## Pools

| | Value £m | Return % |
|---|---|---|
| Quoted | 447.7 | 3.5 |
| Unquoted | 510.3 | 19.2 |
| Funds | 327.7 | 45.2 |
| Income & Growth | 202.1 | 11.4 |
| Portfolio | 1,487.8 | 16.8 |
| Cash and other items | 139.1 | |
| Net assets | 1,626.9 | 14.2 |

## Annual dividends over 48 years




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

# Chairman's and Chief Executive's report

This has been a very strong year for Caledonia, with our portfolio delivering a healthy 14.2% return for shareholders, taking our total NAV to another record high and further extending our ten year market outperformance. This performance was well ahead of our year on year objective and, together with our increasing income generation, has supported our proposed 3.1% rise in the total dividend for the year, the forty-eighth year of consecutive annual increases.

Our portfolio is built on high quality businesses with strong prospects for the medium to long term. Coupled with our conservative cash position, we are well placed to capitalise on future opportunities and to meet our average annual return objectives of RPI+3% to RPI+6% over a ten year period.

## Results

We are pleased to report that Caledonia's portfolio has delivered another year of strong growth. The net asset value per share total return ('NAVTR'), which measures the growth of the balance sheet capital and the income that it produces, was 14.2% for the year. This creditable performance is well ahead of our year on year objective of delivering average annual returns of between RPI+3% and RPI+6% over ten year periods and contributed positively to the ten year annualised NAVTR at 31 March 2015 of 8.6%. Our year-end NAV per share recorded a new high of 2906p and we were pleased to see that this has been reflected in our share price, which increased by just under 19% in the 12 month period. The board is recommending a 3.1% increase in the final dividend, which would result in an overall increase of 3.1% for the year, the forty-eighth consecutive year of growth in our annual dividend.

## Caledonia strategy

Caledonia offers shareholders the opportunity to invest in a portfolio, much of which is not available to investors generally. The portfolio consists of four pools, each with a differing profile, not reflecting any single market or tracking any benchmark. Rather, it is the result of finding businesses that demonstrate attributes that fit our strategy – low gearing, cash generation and a strong position in their market place – and, particularly in the unquoted space, companies that prefer our offering as a long term provider of capital. By consistently delivering average annual returns over rolling ten year periods of between RPI+3% and RPI+6%, we aim to provide to shareholders a return that also exceeds the FTSE All-Share Total Return index over the long run.

The company's ownership structure and the fact that we invest from our own balance sheet, rather than raising external funds, allows us to take a much longer investment time horizon than many institutional investors, often over ten years. The long term commitment of the Cayzer family and our open-ended approach also helps to attract other family-owned businesses and management teams seeking capital to develop their businesses without the pressure of a change of ownership every few years. Our investments in Cobehold and more recently Choice Care Group and Park Holidays are good examples of these.

Our longer term, collaborative approach has several other differentiating advantages. It allows management teams to invest in opportunities for their businesses that take time to bear fruit. It avoids the distraction of frequent corporate action that is the inevitable result where the providers of capital have to return funds to their own investors within a fixed period of time. It also requires less reliance on gearing to achieve the required returns, thereby taking less risk with the balance sheets of the companies we invest in. However, when capital is plentiful and competition is strong, we often find ourselves out-bid by others more willing to use higher gearing and pay prices that we consider too high. We would rather maintain a disciplined approach and preserve our capital than overpay for an investment, however attractive.

We also seek to diversify our assets by allocating capital to different geographies and currencies. We invest in funds, both quoted market and private equity, to gain exposure to economies such as Asia and the US, where we consider it more effective to use local managers than to invest directly ourselves. In addition, we enable shareholders to gain exposure to a carefully picked selection of direct quoted investments. These also reflect our cautious nature with our preference for established companies which have demonstrated the ability to produce compound growth over the long term, such as AG Barr, Bristow Group and Close Brothers – all high quality businesses which we have held for many years.

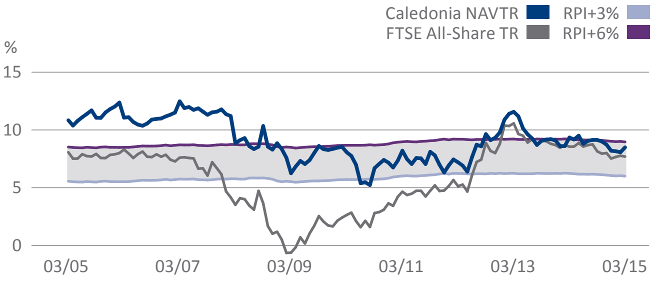
## Investment performance

Our long term investment strategy, together with the high proportion of less liquid unquoted investments in our portfolio, means that performance is most effectively measured over the longer term. The board's aim is therefore for Caledonia's NAVTR to outperform the FTSE All-Share Total Return index over rolling ten year periods. Our ten year investment horizon provides the timeframe for our portfolio to accumulate value, whilst optimising risk/return characteristics. We believe that targeting a performance range of long term RPI+3% to long term RPI+6% will lead to an outperformance of the FTSE All-Share over ten years.

| | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|
| NAVTR | 14.2 | 56.3 | 55.5 | 127.3 |
| NAVTR annualised | 14.2 | 16.1 | 9.2 | 8.6 |
| RPI annualised | 0.9 | 2.2 | 3.1 | 3.0 |
| Caledonia RPI outperformance | 13.3 | 13.9 | 6.1 | 5.6 |
| FTSE All-Share TR annualised | | | | 7.7 |
| Caledonia FTSE outperformance | | | | 0.9 |

The graph below, which shows annualised ten year rolling periods of performance (thereby utilising data from a 20 year timespan) further illustrates that we are have consistently delivered our long term performance objectives.

Annualised ten year rolling performance




## Income and ongoing charges

Investment income for the year rose 15% to £47.2m which, after other income and expenses, fully covers the proposed dividend for the year. Growth in income has been a particular focus for us over the past five years and over this period has increased by 43%, driving the yield from the portfolio from under 2% to 3.3%, despite our NAV increasing by 38%. We believe the prudent way to run the company for our shareholders is to maintain a fully covered dividend without charging any of our management expenses to capital.

Our ongoing charges for the year were 1.22% of NAV against 1.03% for the prior year. The difference resulted largely from an increase in the cost of our share incentive plans, which reflected the recent strong performance of our NAV. Our business model of investing in unquoted companies requires more management resources than a purely quoted portfolio and therefore higher employment costs. We estimate that, based on an analysis of the expenses of other funds with similar investment focus to each of our pools, an equivalent 'sum of the parts' benchmark cost of running a fund with our particular attributes would be approximately 1.7% of NAV. We therefore believe that Caledonia's self-managed model offers shareholders good value for money on a like for like basis.

## Balance sheet and cash

Net cash at the year-end amounted to £131.0m against a small net debt position of £7.1m at the beginning of the year. This movement was the result of the proceeds from the sale of Oval in April 2014, distributions of cash by funds and top-slicing activity within our Quoted pool. Overall, during the course of the year, we invested £199.4m and realised £320.1m, not including investments and divestments made within the Income & Growth pool.

We consider it prudent at this stage of the stock market cycle to have a cushion of cash which, alongside committed bank facilities of £175m, will enable us to take advantage of opportunities as they present themselves. This is especially important in the unquoted arena, where the precise timing of investments is generally more unpredictable. The board's policy is to use modest structural gearing selectively within the individual portfolio companies, rather than borrow within Caledonia.

# Chairman's and Chief Executive's report continued

## Overview of portfolio

The portfolio, before management expenses and other net assets were taken into account, returned 16.8% for the year under review. This bulk of the return came from the Unquoted and Funds pools, the latter returning an exceptional 45.2%, driven by Capital Today China ('CTC') and its investment in JD.com, which during the year listed on NASDAQ. It is important to point out that the performance of just about all of the underlying funds within the Funds pool was strong, although CTC was by far the biggest contributor. The Unquoted pool returned 19.2% over the year, with pleasing performances from two of our newer investments, Park Holidays and Latshaw Group. The Quoted pool produced a more modest return of 3.5%, following two consecutive years of over 20%, and was particularly affected by reductions in value of two of its larger holdings, Bristow Group and Weir, whose share prices were impacted by the falling oil price. The Income & Growth pool made a significant contribution to Caledonia's income account, yielding 4.3% net, as well as being on target for its capital return.

| Pool | Value 2014 £m | Invest-ments £m | Disposals £m | Other move-ments £m | Value 2015 £m | Income £m | Return % |
|---|---|---|---|---|---|---|---|
| Quoted | 497.8 | 80.5 | (136.1) | 5.5 | 447.7 | 11.4 | 3.5 |
| Unquoted | 568.3 | 4.9 | (109.0) | 46.1 | 510.3 | 23.1 | 19.2 |
| Funds | 204.4 | 104.0 | (75.0) | 94.3 | 327.7 | 3.6 | 45.2 |
| Income & Growth | 189.6 | 51.3 | (51.6) | 12.8 | 202.1 | 8.7 | 11.4 |
| Portfolio | 1,460.1 | 240.7 | (371.7) | 158.7 | 1,487.8 | 46.8 | 16.8 |
| Other | (14.5) | | | | 139.1 | | |
| Net assets | 1,445.6 | | | | 1,626.9 | | 14.2 |

The Quoted pool allocation at 28% has reduced to below its strategic range of 35-50% of the portfolio. This is a consequence of both top-slicing and exiting non-core investments to take advantage of high valuations and discipline in waiting for some of our identified new investment opportunities to come with our target price ranges. The Income & Growth pool at 13% also remains slightly below its strategic allocation of 15-20% of net assets. Again, we have resisted the temptation to rush into what has been a popular and hence expensive sector of the market of late. See page 7 for details of portfolio allocation.

## Overview of pool performance

### Quoted (£448m, 28% of net assets)

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

The Quoted pool produced a total return of 3.5% for the year. This followed two years of strong growth (25% and 21% in 2013 and 2014 respectively), during which time the portfolio has continued to evolve in line with the strategy laid out in 2010. The companies within the pool now reflect the characteristics outlined above with only a few exceptions. We have added companies such as Jardine Matheson, Rolls-Royce, Microsoft, Atlas Copco, Oracle and Spirax Sarco, to long established holdings such as Bristow Group, LondonMetric Property, Close Brothers and AG Barr. Post the year end, we halved the holding in Avanti Communications to reflect the additional risk taken onto its balance sheet by a high yield bond issue in 2014. The Quoted pool team has a deeply researched list of target companies that it monitors closely, although we are unwilling to invest at current pricing levels.

Of particular note was the sale of our entire holding in Dewan Housing Finance in India, banking a healthy profit on total sale proceeds of £52m. We top-sliced our holdings in Close Brothers and Quintain Estates, following strong share price performance, and exited our holdings in both Petroceltic International and Urban&Civic following mergers, as these were no longer core to the Quoted pool strategy. We added substantially to our initial holding in Rolls-Royce and established new holdings in Microsoft and Oracle, all of which have strong business models that produce compound investment returns over time. Rolls-Royce, in particular, is a business best viewed over the long term and we took advantage of some short term adverse sentiment in the market to build a position of £23m.

### Unquoted (£510m, 31% of net assets)

*We invest in unlisted businesses requiring capital and where our balance sheet is able to provide a long term perspective. We invest in both majority and minority positions.*

The Unquoted pool returned 19.2% for the year under review, including £23m of income. We are careful to structure deals which allow a good flow of dividends back to shareholders, which necessarily and prudently means that we utilise relatively low levels of bank debt. We have an annual total return target of 14% for the Unquoted pool, and given a yield target of 5%, the capital growth requirement is not overly demanding. This, in turn, means that we do not have to invest in more risky companies to achieve our returns.

We sold our holding in Oval, the insurance broker, on 1 April 2014 to Arthur J Gallagher, receiving £70m, a 2x return on invested capital, although we had already taken the uplift in valuation in the previous year's results. Brookshire sold a portfolio of property assets, profiting from the narrowing of yields in the sector. In addition, Latshaw Group, a group of five US engineering companies in which we invested in 2012, sold one of its businesses and distributed to us almost the entire cost of our original investment. Pleasingly, strong profits growth at Park Holidays, a UK based operator of caravan parks, and TGE Marine, a German LNG engineering business, have pushed their valuations significantly higher.

The Unquoted team pursued several potential transactions that evolved from our deal pipeline during the year, but we were unable to secure any of the businesses at prices with which we were comfortable. The private equity market has plentiful availability of debt at present and is prepared to pay multiples of profit that leave little headroom for the unexpected to happen. We will maintain our discipline and continue to find opportunities where the fit with Caledonia and our values outweighs pure pricing considerations.

### Funds (£328m, 20% of net assets)

*We invest in both private equity and quoted market 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 45.2% was principally attributable to the successful flotation of JD.com, which is a key constituent of Capital Today China, a private equity fund launched in 2006 with Caledonia as a cornerstone investor. As a result, the fund is our largest single investment, being valued at the year end at £103.6m, even after distributing £15.2m of cash during the year. However, strong gains were also made from the rest of Funds pool, in particular from the Asian portfolio of quoted market funds. Excluding the exceptional performance within Capital Today China, the Funds pool return was 15.6% over the year. New investments were made during the year in four funds specialising in Asian listed equities at a cost of £60.9m, taking our overall exposure to £81.6m.

### Income & Growth (£202m, 13% of net assets)

*The pool holds interests in 36 international listed businesses, which provide a reliable and growing dividend. Cash flow returns to shareholders are a priority for the companies in which we invest.*

The Income & Growth pool exceeded its 10% total return requirement, returning 11.4% for the year. The pool invests in global listed companies that have a higher than average dividend yield. This has been a popular area in which to invest over the past few years, as central banks have reduced interest rates. Whilst past returns have been healthy, these sorts of companies are now more highly rated, which makes the task of producing our required level of total return more challenging, although we can counter this by running a more concentrated portfolio without increasing our risk or volatility. We are pleased to welcome Jonathan Greig as the manager of the pool, who joined us in January to succeed Stephen Mitchell who had managed the pool since its inception in 2011. Holdings within the pool include companies such as Pfizer, Novartis, General Electric, Zurich Insurance and Daimler, which fit well with our approach.

## Share buy-backs and discount

The discount of Caledonia's shares to its underlying net asset value has ranged between 12% and 26% during the year. This provided opportunities to buy back shares for cancellation, thereby producing a permanent benefit for all shareholders. During the year, the discount has mostly been toward the lower end of the range and we bought back £0.6m of shares. We will ask for the necessary shareholder approvals at the annual general meeting to be able to continue with these buy-backs for a further year, albeit within the constraints of the annual waiver that we seek under the requirements of the Takeover Code.

## Dividend

The board is recommending to shareholders a final dividend of 36.8p, giving a total dividend for the year of 50.6p, an increase of 3.1% on the previous year. This would represent the forty-eighth consecutive year of increases in our annual dividend. Only a handful of listed companies have achieved such a long and consistent record and it demonstrates our long term attitude to investing. Subject to approval by shareholders at the annual general meeting to be held at Cayzer House on 16 July 2015, the final dividend will be paid on 6 August 2015.

## Board

As heralded in last year's annual report, Richard Goblet d'Alviella retired from the board in June 2014, with our thanks for the support he provided over his nine years as a non-executive director.
He was replaced by Harold Boël, whose commercial and investment expertise gained at Corus and Sofina is already proving insightful.

Charles Allen-Jones also stepped down from the board just before year end after 13 years. His immense experience, common sense and wisdom will be missed by the company, as he has guided the executive management and the board through various challenges during his tenure. We are truly grateful for his immense contribution.

At the same time, we were pleased to welcome David Stewart to the board, whose experience, both in the fund management world and working for family businesses, is particularly relevant to Caledonia. Shonaid Jemmett-Page will also join the board on 1 July 2015 and her experience at KPMG, Unilever Asia and CDC Group, as well as from her current non-executive portfolio, will be of great benefit to us.

## Outlook

The European Central Bank has taken over the baton of quantitative easing from The Federal Reserve and Bank of England. Interest rates in developed economies are being held at artificially low rates, in some cases the quite extraordinary situation exists where customers are charged for leaving money on deposit, and it looks as though they will stay low for quite some time yet. The combination of these two policies drove asset prices up, bond yields to new lows and stock markets to new highs. Strong currency movements are also a side effect of such policies. Corporate profits, and in particular margins, remain healthy and the economies of both the US and UK seem to be on a steady, if unspectacular, growth trajectory. Asia is more difficult to assess, which is reflected in markets which are more reasonably priced.

Although the UK General Election is now behind us, we still face uncertain times with a US presidential election due next year. We believe that our portfolio and conservative cash position leave us well placed however challenging market conditions may be. We are invested in high quality businesses which have good prospects for the medium to long term. Our strategy is delivering performance for shareholders at an appropriate level and we are confident that the portfolio is well positioned for the future.

**Rod Kent**
Chairman

**Will Wyatt**
Chief Executive

# Business model and strategy

Caledonia is a self-managed investment trust company with net assets of £1.6bn. Our heritage can be traced back to the shipping empire established by Sir Charles Cayzer in 1878. We have the backing of the Cayzer family, which owns some 48.5% of the share capital and provides both support for our long term value investment horizon and 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 in the company, which is used to mitigate any short term illiquidity within the portfolio, facilitating the bridging of short term investment flows. We also have a £50m revolving credit facility in a subsidiary treasury company, used to provide long term funding to subsidiaries and for liquidity management.

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 board seats in all significant private company investments.
- The *Funds pool* contains investments in both private equity and quoted market funds, providing Caledonia with diversified overseas reach in areas where our investment model would make direct investing more difficult to manage. The Funds pool is primarily focused on investment in North America and Asia.
- The *Income & Growth pool* provides an exposure to global companies offering higher dividend yield and dividend growth expectations. This pool provides both a reliable platform for our overall income requirements and a source of readily accessible liquidity.

## 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

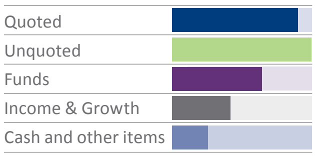
| Pool | Investment style | Strategic allocation % | Allocation 2015 % |
|---|---|---|---|
| Quoted | Large equity holdings in high quality companies | 35-50 | 28 |
| Unquoted | 8-10 direct stakes in private companies >£25m | 20-35 | 31 |
| Funds | Private equity and quoted market funds (US and Asia focus) | 15-20 | 20 |
| Income & Growth | Global equity portfolio, 4.5% net yield | 15-20 | 13 |
| Cash and other | | (10)-10 | 8 |
| Net assets | | | 100 |

We look to achieve a diverse investment portfolio, managed through distinct investment 'pools'.

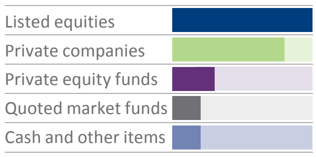
Despite a significantly sterling based asset portfolio, we achieve geographic exposure outside the UK through, in particular, our Funds and Income & Growth pool investments.

Overall exposures to geography, currency and asset classes are actively monitored and managed by our executive management, under the supervision of the board. The portfolio is further diversified through our fund investments and the selection of external fund managers with clear mandates.

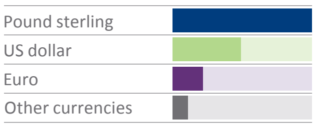
Pool distribution



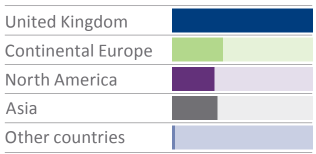

Asset class distribution




Currency distribution

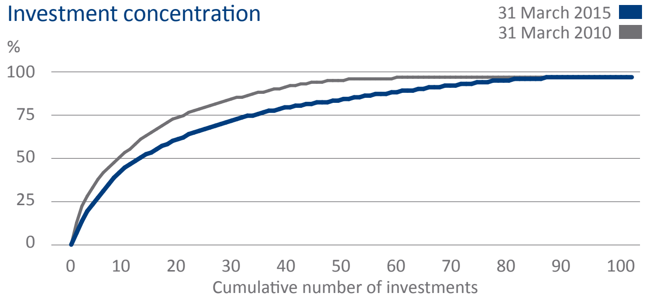



Geographic distribution




We look to mitigate concentration risk by managing 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.

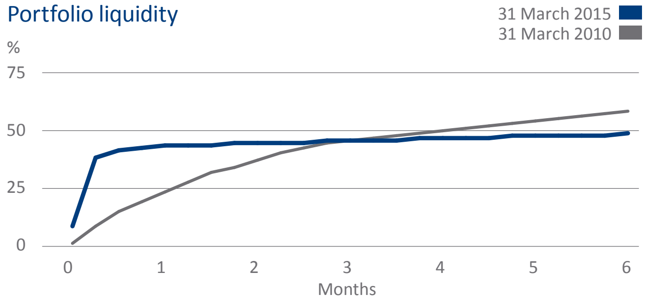
Investment concentration




We maintain 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 enhanced liquidity.

Portfolio liquidity




We maintain borrowing facilities primarily to provide additional temporary liquidity between buying and selling investments. We would not expect gearing 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

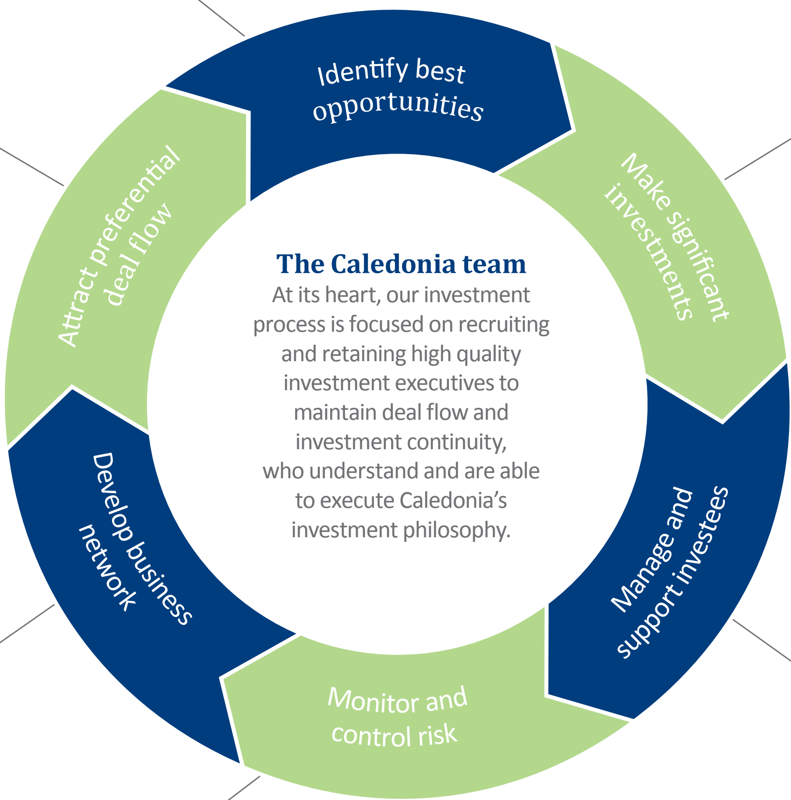
Our reputation, network of deal originators and family tradition enable us to access premium investment opportunities not always available to others. This derives from both tracking quality management teams in proven businesses and through the contacts we make through our extensive board representation 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 aim to invest between £25m and £100m for significant equity interests in companies.




### The Caledonia team

At its heart, our investment process is focused on recruiting and retaining high quality investment executives to maintain deal flow and investment continuity, who understand and are able to execute Caledonia's investment philosophy.

### 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.

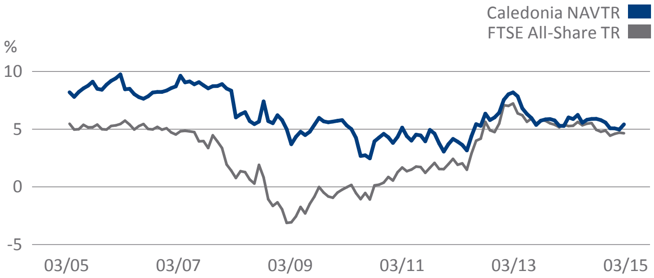
## Target returns

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 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.

We target real return and the chart below shows Caledonia's annualised ten year rolling RPI adjusted net asset value total return ('NAVTR') growth, compared with the RPI adjusted FTSE All-Share Total Return index ('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 14.2%.

Over the last five years, we have rebalanced our portfolio substantially, increasing diversification, yield and portfolio liquidity whilst 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 14.2%, which built on a total return of 14.9% 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 16.8% return, which, after management and other expenses, delivered an overall NAV total return of 14.2%.

The 16.8% portfolio return comprised increases in the valuation of our investments and the income that they yielded.

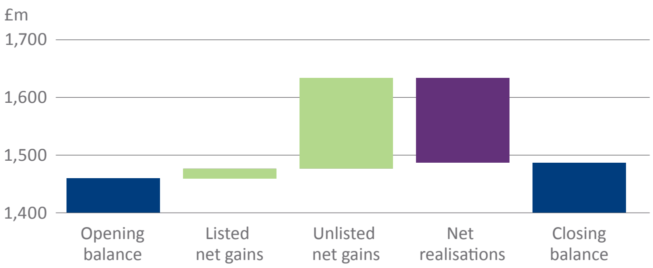
| Pool | Value 2014 £m | Investments £m | Disposals £m | Other movements £m | Value 2015 £m | Income £m | Return % |
|---|---|---|---|---|---|---|---|
| Quoted | 497.8 | 80.5 | (136.1) | 5.5 | 447.7 | 11.4 | 3.5 |
| Unquoted | 568.3 | 4.9 | (109.0) | 46.1 | 510.3 | 23.1 | 19.2 |
| Funds | 204.4 | 104.0 | (75.0) | 94.3 | 327.7 | 3.6 | 45.2 |
| Income & Growth | 189.6 | 51.3 | (51.6) | 12.8 | 202.1 | 8.7 | 11.4 |
| Portfolio | 1,460.1 | 240.7 | (371.7) | 158.7 | 1,487.8 | 46.8 | 16.8 |
| Other | (14.5) | | | | 139.1 | | |
| Net assets | 1,445.6 | | | | 1,626.9 | | 14.2 |

1. Unallocated investments with a value of £11.0m (2014 – £10.3m) were included in 'Other'. £0.4m of net gains and £0.4m of income was attributed to unallocated investments.
2. Other movements comprised £179.5m of net portfolio gains, less £2.3m of rolled-up interest and £18.5m of reclassifications, being the transfer of the Buckingham Gate property from the portfolio to property, plant and equipment.

### Portfolio movements

At the beginning of the year, the overall value of our investment portfolio was £1,460.1m. After £131.0m of net divestments and £158.7m of other movements, comprising £179.5m of net portfolio gains, £2.3m of rolled-up interest and £18.5m of reclassifications, the portfolio value increased to £1,487.8m at the year end. The following chart illustrates the components of this movement:

Movement in investment portfolio value




Around half of our £240.7m of investments were in new situations, predominantly in funds. Nearly half of all investments arose within the Funds pool, a third in Quoted pool situations and the balance within the Income & Growth pool. Minimal investment was made in unquoted companies in the year.

During the year, we realised £371.7m, around one-third resulting from the sale of Oval and other Unquoted pool realisations, another third from the sale and reduction of holdings in the Quoted pool and the remainder from fund distributions and recycling within the Income & Growth pool.

Net portfolio gains over the year totalled £179.5m, comprising £261.0m of gains, offset by £81.5m of losses. Over 50% (£96.5m) of net gains were generated by the Funds pool, principally due to the JD.com IPO and subsequent share price rise, reflected in the valuation of the Capital Today China fund. The Quoted pool generated £5.5m of net gains, the Unquoted pool £64.6m and the Income & Growth pool £12.8m.

## Investments

Total portfolio investments during the year were £240.7m (2014 – £332.4m), summarised as follows:

| Name | Pool | Cost £m |
|---|---|---|
| *New investments* | | |
| Macquarie Asia New Stars fund | Funds | 19.1 |
| Microsoft | Quoted | 17.8 |
| Newton Asian fund | Funds | 15.0 |
| Oracle | Quoted | 15.0 |
| Asia Landmark fund | Funds | 14.9 |
| NTAsian Discovery fund | Funds | 11.9 |
| Longleaf Global UCITS | Funds | 6.7 |
| Morgan Stanley PE Asia fund | Funds | 6.3 |
| Other new investments | | 15.1 |
| | | 121.8 |
| *Follow-on investments* | | |
| Rolls-Royce | Quoted | 19.9 |
| FLAG Capital fund | Funds | 7.1 |
| Diageo | Quoted | 7.1 |
| Arlington Ranger fund | Funds | 6.7 |
| Income & Growth pool | Income & Growth | 51.3 |
| Other follow-on investments | | 26.8 |
| | | 118.9 |
| Total portfolio investments | | 240.7 |

During the year, we made substantial fund investments. We increased our exposure to quoted market funds in the Asia Pacific region, with investments of £19.1m in the Macquarie Asia New Stars Fund, £15.0m in the Newton Asian fund, £14.9m in the Asia Landmark Fund, managed by New Silk Road, and £11.9m in the NTAsian Discovery fund, managed by NTAsset Management. We also increased our exposure to Asian private equity with a £6.3m investment in the Morgan Stanley Private Equity Asia fund. This £67.2m of investment in new Asian funds increased our exposure to this fast-growing region, through a range of established fund managers with a proven track record.

We also invested £6.7m in the Longleaf Global UCITS fund, managed by Southeastern in the US and investing in a concentrated portfolio of public companies in developed countries around the world.

Through the Quoted pool, we made new investments of £17.8m and £15.0m respectively in Microsoft and Oracle, the technology infrastructure companies. We also invested a further £19.9m in Rolls-Royce, the UK manufacturer of aircraft engines and other power systems.

The £51.3m invested through the Income & Growth pool represented both an increased allocation of cash to this pool of £10.0m and changing holdings within the pool. This portfolio contained 36 companies at 31 March 2015 (40 at the previous year end), in a range of sectors across the globe, with stakes ranging in value from £2.3m to £8.1m.

## Realisations

Proceeds from portfolio realisations during the year totalled £371.7m (2014 – £251.6m), summarised as follows:

| Name | Pool | Proceeds £m |
|---|---|---|
| Oval | Unquoted | 70.2 |
| Dewan Housing Finance | Quoted | 52.4 |
| Capital Today China | Funds | 15.2 |
| Close Brothers | Quoted | 15.1 |
| Latshaw Group | Unquoted | 15.1 |
| Quintain Estates | Quoted | 14.6 |
| Petroceltic International | Quoted | 13.3 |
| Diageo | Quoted | 12.4 |
| Brookshire Capital | Unquoted | 11.1 |
| Nova Caledonia | Funds | 11.1 |
| Pragma Capital funds | Funds | 11.0 |
| Income & Growth pool | Income & Growth | 51.6 |
| Other realisations | | 78.6 |
| Total portfolio realisations | | 371.7 |

1. Total portfolio realisations excluded the £18.5m transfer of property from portfolio investments to property, plant and equipment.

We completed the successful sale of Oval, the UK regional insurance broker, for £70.2m on 1 April 2014.

In the Quoted pool, we realised £52.4m from Dewan Housing Finance. We sold down our holdings in Close Brothers and Quintain Estates, raising £15.1m and £14.6m respectively, and sold our entire holdings in Petroceltic International and Diageo for £13.3m and £12.4m respectively.

The £51.6m of realisations through the Income & Growth pool were recycled into new investments, used to increase our holdings in existing companies or retained in cash.

## Portfolio returns

The total return on our portfolio over the year was 16.8%. The principal contributors to this performance were as follows:

| Name | Gain/loss £m | Income £m | Return £m | Return % |
|---|---|---|---|---|
| Capital Today China | 74.0 | 0.3 | 74.3 | 177.0 |
| TGE Marine | 25.2 | 5.8 | 31.0 | 84.8 |
| Dewan Housing Finance | 21.4 | 0.8 | 22.2 | 353.0 |
| Park Holidays | 20.2 | 2.0 | 22.2 | 27.4 |
| Latshaw Group | 15.9 | 4.7 | 20.6 | 76.1 |
| The Sloane Club | 11.1 | 1.4 | 12.5 | 28.7 |
| Close Brothers | 6.6 | 2.2 | 8.8 | 14.3 |
| Perlus Microcap fund | 5.5 | – | 5.5 | 22.7 |
| Cobehold | (8.0) | 1.7 | (6.3) | (6.4) |
| Polar Capital | (9.6) | 2.1 | (7.5) | (19.9) |
| Avanti Communications | (12.0) | – | (12.0) | (28.2) |
| Bristow Group | (13.8) | 1.1 | (12.7) | (17.1) |
| Income & Growth pool | 12.8 | 8.7 | 21.5 | 11.6 |
| Other investments | 30.2 | 16.0 | 46.2 | |
| Total portfolio returns | 179.5 | 46.8 | 226.3 | 16.8 |

# Investment review continued

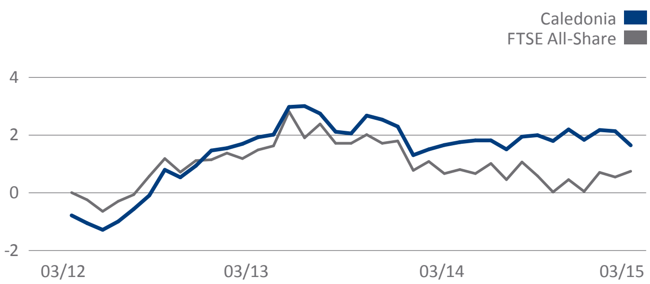
## Performance and analysis

The overall return benefited significantly from the Capital Today China fund, resulting from the IPO and subsequent share performance of JD.com, one of its investments. We also saw significant uplifts in the valuation of some unquoted companies – principally TGE Marine, Park Holidays, Latshaw Group and The Sloane Club – resulting from substantial increases in earnings and property valuations.

Partially offsetting these gains, we recorded valuation losses in Bristow Group, as a result of the oil price decline, Avanti Communications, on the back of downgraded profit forecasts and rising debt, and in Polar Capital.

As a result of actively managing risk, Caledonia's one year risk/return index (measured using the Sharpe methodology) has improved over the last three years.

### Risk/return over three years




## Portfolio analysis

### Pools

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

#### Pool distribution

| | 2015 | 2014 |
|---|---|---|
| Quoted | 28% | 35% |
| Unquoted | 31% | 39% |
| Funds | 20% | 14% |
| Income & Growth | 13% | 13% |
| Cash and other items | 8% | -1% |

The chart shows a significant redistribution during the year, from the Quoted and Unquoted pools to the Funds pool or retained as cash. Significant elements were the sale of Dewan Housing Finance and Oval from the Quoted and Unquoted pools respectively, against the substantial new Asian and US fund investments in the year.

### 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

| | 2015 | 2014 |
|---|---|---|
| United Kingdom | 50% | 57% |
| Continental Europe | 18% | 18% |
| North America | 15% | 14% |
| Asia | 16% | 10% |
| Other countries | 1% | 1% |

The sale of some significant, predominantly UK, holdings in the Quoted pool and of Oval in the Unquoted pool, together with new Asian fund investments, saw a shift in our geographic exposure from the UK to Asia.

At the end of the year, UK listed and resident companies accounted for 48% of our investment 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 a reduced exposure to the UK economy of 37%.

#### Geographic by revenue generation

| | 2015 | 2014 |
|---|---|---|
| United Kingdom | 37% | 47% |
| Continental Europe | 15% | 17% |
| North America | 16% | 14% |
| Asia | 26% | 15% |
| Other countries | 6% | 7% |

### Asset class

The following chart shows the distribution of net assets by asset class. Listed securities represented 40% of net assets at the year end and unlisted investments (companies and funds) in total accounted for 52%.

#### Asset class distribution

| | 2015 | 2014 |
|---|---|---|
| Listed equities | 40% | 48% |
| Private companies | 32% | 40% |
| Private equity funds | 12% | 10% |
| Quoted market funds | 8% | 3% |
| Cash and other items | 8% | -1% |

Over the year, there was a shift in allocation from listed equities and private companies to quoted market and private equity funds and to cash.

### Currency

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

#### Currency exposure

| | 2015 | 2014 |
|---|---|---|
| Pound sterling | 55% | 60% |
| US dollar | 27% | 19% |
| Euro | 12% | 13% |
| Other currencies | 6% | 8% |

The changes in currency exposure over the year principally reflected portfolio changes, in particular, the sales of UK quoted company holdings, investment in US dollar denominated funds, mainly investing in Asia, and the significant increase of the value of JD.com, held in the US dollar denominated Capital Today China fund.

# Portfolio summary

Holdings over 1% of net assets at 31 March 2015 were as follows:

| Name | Pool | Geography[1] | Business | Value £m | Net assets % |
|---|---|---|---|---|---|
| Capital Today China | Funds | China | Private equity fund | 103.6 | 6.4 |
| Park Holidays | Unquoted | UK | Caravan parks operator | 101.1 | 6.2 |
| Cobehold | Unquoted | Belgium | Investment company | 92.2 | 5.7 |
| TGE Marine | Unquoted | Germany | LNG engineering | 64.9 | 4.0 |
| Bristow Group | Quoted | US | Helicopter services | 60.8 | 3.7 |
| AG Barr | Quoted | UK | Soft drinks | 57.6 | 3.5 |
| Close Brothers | Quoted | UK | Financial services | 56.1 | 3.4 |
| The Sloane Club | Unquoted | UK | Residential club | 55.0 | 3.4 |
| Choice Care Group | Unquoted | UK | Care homes provider | 51.5 | 3.2 |
| Sterling Industries | Unquoted | UK | Engineering | 35.5 | 2.2 |
| Latshaw Group | Unquoted | US | Manufacturing | 34.0 | 2.1 |
| Perlus Microcap | Funds | US | Quoted market fund | 29.8 | 1.8 |
| Polar Capital | Quoted | UK | Fund manager | 29.3 | 1.8 |
| Avanti Communications | Quoted | UK | Satellite communications | 29.3 | 1.8 |
| Bowers & Wilkins | Unquoted | UK | Audio equipment | 24.0 | 1.5 |
| Quintain Estates | Quoted | UK | Property services | 23.5 | 1.4 |
| Rolls-Royce | Quoted | UK | Aircraft engine manufacturer | 23.1 | 1.4 |
| Spirax Sarco | Quoted | UK | Steam engineering | 22.2 | 1.4 |
| Macquarie Asia New Stars | Funds | Asia | Quoted market fund | 21.7 | 1.3 |
| Jardine Matheson | Quoted | Singapore | Industrial engineering | 21.5 | 1.3 |
| Satellite Information Services | Unquoted | UK | Broadcasting services | 20.6 | 1.3 |
| LondonMetric Property | Quoted | UK | Property investment | 20.4 | 1.3 |
| Microsoft | Quoted | US | Infrastructure technology | 18.4 | 1.1 |
| Oracle | Quoted | US | Infrastructure technology | 17.8 | 1.1 |
| Asia Landmark | Funds | Asia | Quoted market fund | 16.6 | 1.0 |
| Other investments | | | | 457.3 | 28.1 |
| Investment portfolio[2] | | | | 1,487.8 | 91.4 |
| Cash and other items | | | | 139.1 | 8.6 |
| Net assets | | | | 1,626.9 | 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 £11.0m are included in Cash and other items.

# Investment review continued

## Quoted pool

The Quoted pool is a concentrated portfolio of listed equities.

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

**+3.5%**

return over the year
28% of NAV at 31 March 2015

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 long term record of return on capital employed and a strong asset base. In common with the wider Caledonia philosophy, we look to invest in companies whose business model emphasises a steady long term accumulation of value, consistent with our target returns and risk.

The pool started the year with investments valued at £497.8m and ended with a value of £447.7m, as the opportunity was taken to realise a number of non-core investments and top-slice others into a strong market. In total, £136.1m was realised. Non-core realisations included £52.4m from Dewan Housing Finance, and £13.3m from Petroceltic International. We top-sliced our holdings in Close Brothers and Quintain Estates, realising £15.1m and £14.6m respectively. New investments included £17.8m in Microsoft and £15.0m in Oracle and we added a further £19.9m to our investment in Rolls-Royce.

Including £11.4m of income, the Quoted pool achieved a return over the year of 3.5%, following last year's return of 20.5%.

A number of strong performances contributed to the Quoted pool gains, notably from Dewan Housing Finance and Close Brothers, but these were substantially offset by reductions in the value of Bristow Group, Avanti Communications, Polar Capital and Weir. Overall, the Quoted pool achieved revaluation gains in the year of £5.5m.

| | £m |
|---|---|
| Opening value | 497.8 |
| Investments | 80.5 |
| Realisations | (136.1) |
| Revaluation | 5.5 |
| Closing value | 447.7 |
| Investment income | 11.4 |

### 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 | 4.7 | 24.8 | 60.8 | 13.6 | 1.1 | (13.8) |
| AG Barr | Soft drinks | UK | 1977 | 8.1 | 1.1 | 57.6 | 12.9 | 1.1 | – |
| Close Brothers | Financial services | UK | 1987 | 2.4 | 7.9 | 56.1 | 12.5 | 2.1 | 6.6 |
| Polar Capital | Fund manager | UK | 2001 | 9.0 | 0.6 | 29.3 | 6.5 | 2.1 | (9.6) |
| Avanti Communications | Satellite communications | UK | 2005 | 9.3 | 36.8 | 29.3 | 6.5 | – | (12.0) |
| Quintain Estates | Property services | UK | 1994 | 4.7 | 28.1 | 23.5 | 5.2 | – | (3.1) |
| Rolls-Royce | Aircraft engine manufacturer | UK | 2014 | 0.1 | 24.6 | 23.1 | 5.2 | 0.4 | (1.8) |
| Spirax Sarco | Steam engineering | UK | 2011 | 0.9 | 12.7 | 22.2 | 5.0 | 0.4 | 3.5 |
| Jardine Matheson | Industrial engineering | Singapore | 2011 | 0.1 | 16.6 | 21.5 | 4.8 | 0.5 | 2.5 |
| LondonMetric Property | Property investment | UK | 2007 | 2.0 | 12.8 | 20.4 | 4.6 | 1.0 | 2.9 |
| Microsoft | Infrastructure technology | US | 2014 | <0.1 | 17.8 | 18.4 | 4.1 | 0.3 | 0.7 |
| Oracle | Infrastructure technology | US | 2014 | <0.1 | 15.0 | 17.8 | 4.0 | 0.1 | 2.8 |

The table above shows pool holdings of over 1% of net assets at 31 March 2015.

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 continues to make progress in both its Oil and Gas and Search and Rescue business lines. Its share price has been impacted by the fall in the oil price and also strengthening of the US dollar. The pool had top-sliced the holding in Bristow during 2014.

AG Barr, the UK soft drinks manufacturer, particularly notable for its Scottish soft drinks, Irn-Bru and Rubicon, had another good year, with earnings increased by some 5% and dividends by some 10%.

Close Brothers, the UK listed specialist financial services group, had a strong first half result to 31 January 2015, with increases across the banking and asset management divisions, dampened by a decline in the Winterflood brokerage business. Although we continued to top-slice our holding into a buoyant market, our investment returned 14.3% over the year.

Polar Capital, the AIM listed investment manager, saw increased profitability in its half year to 30 September 2014. However, a recent decline in its assets under management over the year from $13.2bn to $12.3bn at 31 March 2015 has had an impact on its share price, resulting in a reduction in the value of our holding. We provided initial capital for this business in 2001, which has now grown to support 11 investment teams, 23 funds and six managed accounts across a range of long-only and alternative products.

Avanti Communications, the AIM listed company supplying satellite broadband services to telecoms companies across Europe, Africa and the Middle East, posted increased revenues for the six months to 31 December 2014. However, downgraded growth forecasts and rising debt costs have reflected in its share price, resulting in a negative return to us over the year of 28.2%.

Quintain Estates, the UK listed property company, returned a negative 8.9%, compared with a positive 62.0% last year. Its buoyant half year results to September 2014, with increased profits and NAV and reducing debt burden, appear not to have been reflected in its share price.

We increased our investment in Rolls-Royce, the UK listed manufacturer of aircraft engines and other power systems, by £19.9m over the year. Despite static results for its year ended 31 December 2014, the company had a record order book of £72bn (excluding a recent Emirates order for $9.2bn). The declining share price over the year resulted in a negative return of 6.8%.

Spirax Sarco, a supplier of engineered solutions for the design, maintenance and operation of industrial and commercial steam systems, posted strong underlying revenue and profit growth for the year ended 31 December 2014, however the international nature of its operations and the relative strengthening of sterling eroded most of this progress in its reported numbers. Spirax Sarco's share price has advanced over the year, contributing to our 21.3% return.

Jardine Matheson, the diversified business group focused on Asia, reported static results over the year. However, a recent increase in its share price has helped contribute to our 17.4% return from this investment.

LondonMetric Property, a UK REIT investing in commercial and residential property, principally in the UK, reported strong results across all key metrics in its September 2014 interim report, as it benefited from a structural shift in shopping patterns. This resulted in a 20.3% return to Caledonia whilst, at the same time, we reduced our holding.

During the year, we invested £17.8m and £15.0m in Microsoft and Oracle respectively, to gain exposure to these well-established, durable and cash generative information technology companies. Both performed well over the year, with Microsoft returning 8.6% and Oracle 27.6%.

# Investment review continued

## Unquoted pool

The Unquoted pool contains both majority and significant minority holdings in private companies. Our focus is on established businesses, led by sound management teams, where our target investment size of £25m to £100m provides a meaningful presence and growth capital supporting double-digit operating margins.

**+19.2%**

return over the year
31% of NAV at 31 March 2015

Principally as a result of the sale of Oval for £70.2m, the Unquoted pool has reduced in size over the year, from £568.3m at the start of the year to £510.3m at the end, after £104.1m of net realisations. Including £23.1m of income, the Unquoted pool achieved a return over the year of 19.2%, building on a return of 17.7% last year.

After an active year of acquisition in 2014, the Unquoted pool focused on building value within its portfolio during this year. The pool as a whole has seen significant revaluation gains in the year, principally reflecting strong underlying earnings growth.

On 1 April 2014, we sold our 23.2% holding in Oval, a leading provider of insurance broking and financial services in the UK, to Arthur J Gallagher of the US for £70.2m, as part of its acquisition of the entire Oval group.

In May 2014, we syndicated 7.7% of our holding in Park Holidays, the UK caravan parks operator acquired in November 2013, for £7.0m.

In November 2014, we received a distribution from Latshaw Group on the sale of one of its companies, Coast Wire & Plastic Tech Inc, a manufacturer of custom electronic wire and cable products for the medical, instrumentation and commercial electronics industries.

| | £m |
|---|---|
| Opening value | 568.3 |
| Investments | 4.9 |
| Realisations | (109.0) |
| Reclassification | (18.5) |
| Revaluation | 64.6 |
| Closing value | 510.3 |
| Investment income | 23.1 |

### Top investments

| Name | Business | Geography | First invested | Equity held % | Residual cost £m | Value £m | Pool % | Income/(expense) recognised in the year Revenue £m | Capital £m |
|---|---|---|---|---|---|---|---|---|---|
| Park Holidays | Caravan parks operator | UK | 2013 | 92.3 | 81.1 | 101.1 | 19.8 | 2.0 | 20.2 |
| Cobehold | Investment company | Belgium | 2004 | 8.7 | 43.7 | 92.2 | 18.1 | 1.7 | (8.0) |
| TGE Marine | LNG engineering | Germany | 2006 | 67.9 | 19.6 | 64.9 | 12.7 | 5.8 | 25.2 |
| The Sloane Club | Residential club | UK | 1991 | 100.0 | 38.4 | 55.0 | 10.8 | 1.4 | 11.1 |
| Choice Care Group | Care homes provider | UK | 2013 | 97.7 | 51.5 | 51.5 | 10.1 | 1.0 | – |
| Sterling Industries | Engineering | UK | 1989 | 100.0 | 5.3 | 35.5 | 7.0 | 3.5 | (0.9) |
| Latshaw Group | Manufacturing | US | 2012 | n/a | 12.3 | 34.0 | 6.7 | 4.7 | 15.8 |
| Bowers & Wilkins | Audio equipment | UK | 2011 | 20.0 | 24.1 | 24.0 | 4.7 | 0.8 | (0.1) |
| Satellite Information Services | Broadcasting services | UK | 2005 | 22.5 | 16.7 | 20.6 | 4.0 | 1.1 | – |

The table above shows pool holdings of over 1% of net assets at 31 March 2015.

Park Holidays is based in the south of England and owns and operates a portfolio of 24 caravan parks. We acquired a controlling stake in the company in November 2013 for £88.1m, with a strategy of building value through continuing to grow the parks' profits, selective capital expenditure, operational improvement and new park acquisition. Park Holidays has had a strong year, with revenue and profits well ahead of the prior year and continuing prospects for growth. We have revalued our holding upwards to £101.1m at the year end, giving a 27.4% return over the year.

Cobehold is a Belgium-based investment company with holdings in companies with long term growth prospects throughout Europe. Its portfolio of unquoted investments made steady progress throughout the year, maintaining capital values and increasing the dividend paid to shareholders. The NAV of Cobehold increased by 5.2% over the year, but the 14.3% depreciation in the value of the euro has caused our sterling value to decline, resulting in a negative return of 6.7% over the year.

TGE Marine, the Germany-based designer and supplier of cargo handling systems for liquid gas carrying ships and offshore units, had an excellent year, with significantly increased revenue and earnings. TGE Marine paid a dividend of £5.8m in the year. As a result of the excellent trading and improved prospects, the euro valuation has increased by some 90%. Our sterling return from TGE Marine has been impacted by the weakened euro and was 84.8%.

The Sloane Club is a premium residential club situated in central London near Sloane Square. The Club traded well in 2015, increasing both its revenue and earnings. As a result, we have marked up the value of the Club by nearly 25%. With a dividend of £1.4m, this has resulted in a return of 28.7% over the year.

Choice Care Group, based in the south of England, operates a portfolio of 52 residential learning disability homes, as well as providing supported living services in the same area. The estate is well invested and represents a solid platform for future developments. Following our acquisition of a controlling stake in 2013, the business has pursued a strategy of developing new homes, as well as extending its supported living business. Significant investment has been made in new capacity over the year, adding 19 new beds with agreement to add an additional 65 during 2016. We have maintained our valuation at the year end.

Sterling Industries, the international engineering business, specialising in the global supply of combustion and heat transfer technology and services, posted good trading results and paid a dividend of £3.5m. Although the valuation was little changed from last year, the substantial dividend enabled Sterling to return 7.3% over the year.

Latshaw Group comprises a number of US engineering businesses in sectors including mechanical wiring looms for oncology equipment and controls for domestic tools. The group has traded well over the year. In September 2014, Coast Wire & Plastic Tech Inc, a manufacturer of custom electronic wire and cable products for the medical, instrumentation and commercial electronics industries, was sold and Latshaw made a substantial capital distribution to us of £15.1m. In addition, Latshaw paid an income distribution to us of £4.7m, after receiving dividends from the underlying companies.

Bowers & Wilkins is a premium audio manufacturer headquartered in the UK. The business continued its development in the automotive and streaming spaces, whilst Bowers' core product range sold well throughout the world. Caledonia received a dividend during the year and gearing levels reduced in line with management's focus on reducing inventory. We have maintained our valuation at the year end.

Satellite Information Services, the UK media group, continued to build its media and betting rights inventory over the year. We have maintained our valuation of this business at the year end. The company paid a dividend to shareholders, resulting in a return to us of 5.6% over the year.

# Investment review continued

## Funds pool

The Funds pool comprises investments in private equity and quoted market 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 would prove more difficult for us to invest directly.

**+45.2%**

return over the year
20% of NAV at 31 March 2015

| | £m |
|---|---|
| Opening value | 204.4 |
| Investments | 104.0 |
| Realisations | (75.0) |
| Revaluation | 94.3 |
| Closing value | 327.7 |
| Investment income | 3.6 |

The Funds pool had an excellent year, with a total return of 45.2%. The principal component of this return was the increased valuation of the Capital Today China fund, following the IPO of JD.com, the Chinese e-commerce business, in May 2014. However, even excluding this exceptional performance from Capital Today China, the Funds pool return was 15.6% for the year. The pool started the year at £204.4m and ended at £327.7m, after net investment of £29.0m.

The Funds pool contains investments in private equity and quoted market funds principally in North America 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 private equity funds – $50m (£33.7m) to FLAG Private Equity VI, $20m (£13.4m) to Asia Alternatives IV and $25m (£16.8m) to Morgan Stanley Private Equity Asia. In addition, we invested in five new quoted market funds – £19.1m in Macquarie Asia New Stars, £14.9m in Asia Landmark, £15.0m in Newton Asian Income, £119m in NTAsian Discovery Fund and £6.7m in Longleaf US UCITS, whilst making an additional £6.7m investment in Arlington.

FLAG Private Equity VI is a fund of private equity funds, investing in buy-out managers operating in the US lower-mid market. Asia Alternatives IV is another fund of private equity funds, but focused on the Asian markets. In both cases we are invested in their previous funds. Morgan Stanley Private Equity Asia has an excellent record over two decades of investing in leading businesses in Asia with strong value propositions.

Macquarie Asia New Stars, Asia Landmark (managed by New Silk Road) and Newton Asian Income invest in quoted companies in Asia. Longleaf US UCITS, managed by Southeastern Asset Management in the US, invests in US securities that it believes to be significantly undervalued.

### 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 |
|---|---|---|---|---|---|---|---|---|---|
| Capital Today China | Private equity fund | China | 2006 | n/a | – | 103.6 | 31.5 | 0.3 | 74.0 |
| Perlus Microcap | Quoted market fund | US | 2010 | n/a | 16.6 | 29.8 | 9.1 | – | 5.5 |
| Macquarie Asia New Stars | Quoted market fund | Asia | 2014 | n/a | 19.1 | 21.7 | 6.6 | – | 2.6 |
| Asia Landmark | Quoted market fund | Asia | 2014 | n/a | 14.9 | 16.6 | 5.0 | – | 1.7 |

The table above shows pool holdings of over 1% of net assets at 31 March 2015.

Realisations in the year comprised £40.0m from the sale of securities and fund interests and £35.0m from fund distributions. Included in the sale of securities were £11.1m from the sale of TCL and Omniport from our Nova Capital managed portfolio, the realisation of our Polar Capital Global Financials Trust holding for £9.6m and the sale of our India Capital Growth Fund shares for £6.9m. During the year, we also sold our interests in the Pragma Capital private equity funds for £11.0m and in Crescendo IV for £0.8m. Fund distributions included £15.2m from Capital Today China, resulting from the sale of part of its holding in JD.com.

The Capital Today China Growth Fund is managed by Capital Today and provides growth capital to Chinese companies, focusing on the consumer, retail and internet sectors. The investment in JD.com, the Chinese e-commerce company, has been particularly successful. JD.com completed its IPO on NASDAQ in May 2014, raising $1.8bn. Capital Today has subsequently sold part of its holding in JD.com, resulting in a £15.2m distribution to us. 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 177.0% over the year. We continue to adjust the manager's quarterly valuation of the Capital Today China fund with the share price of JD.com at the reporting date.

Perlus Microcap is a long-only quoted market fund investing in small public companies in North America, managed by UK-based Perlus Investment Management. Perlus Microcap has an excellent track record, being 54.7% ahead of the Russell Value Index, since its August 2008 inception. Our investment in this fund returned 22.7% over the year. Subsequent to the year end, we have commenced a process of realising a portion of our investment in this fund in order to rebalance our North American quoted market fund portfolio.

Macquarie Asia New Stars is a quoted market fund managed by Macquarie Investment Management in Hong Kong, which aims to capture the potential growth of small and mid-sized companies in Asia (ex-Japan). We invested £19.1m in November 2014 and, over the four months of ownership, the fund has increased in value by 13.5%, delivering a return of 38.8%.

The Asia Landmark fund was established in 2009 and is managed by New Silk Road Investment in Singapore. It invests in Asian companies with the aim of achieving superior long term absolute returns through an independent, fundamentals-based, value-driven investment process. We invested £14.9m in this fund in May 2014, which has generated a return of 13.8% over the year.

At the year end, our fund commitments, including commitments to funds held in a subsidiary investment entity, amounted to £120.1m (2014 – £79.7m). The following chart shows the geographical spread of our fund investments and outstanding commitments.

### Fund investments and commitments

| | 2015 | 2014 |
|---|---|---|
| North America | 31% | 36% |
| Asia | 47% | 27% |
| United Kingdom | 17% | 27% |
| Continental Europe | – | 6% |
| Global | 5% | 4% |

The fund investments in the UK represented legacy private equity funds that were made prior to the Funds pool being established with its strategic focus on North America and Asia.

# 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 4.5% net.

The Income & Growth pool comprises a geographical and sector balanced portfolio of currently 36 investments in mainly global blue chip companies with strong balance sheets, above average returns and demonstrable histories of creating shareholder value. All investments have strong organic growth potential in tandem with a high dividend yield.

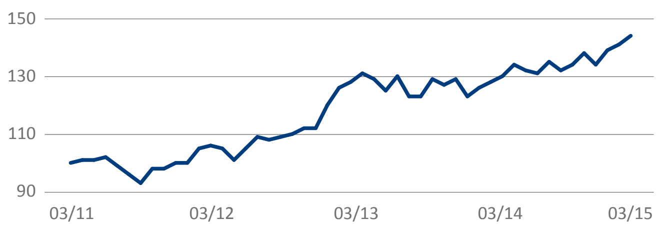
Over the year, the Income & Growth pool invested £51.3m, of which £10.0m was new funding, and realised £51.6m, as we rebalanced the portfolio. Net dividend income during the year was £8.7m, representing a net yield of 4.3% on the average invested capital. Overall, the value of the pool grew over the year from £189.6m to £202.1m, representing 13% of Caledonia's net assets.

The Income & Growth pool was created in March 2011, and has had £166.0m of investment to date, and, over the four years of its existence, produced a return of 43.9%, giving an annualised rate of 9.5%.

**+11.4%**

13% of NAV at 31 March 2015

Cumulative return




| | £m |
|---|---|
| Opening value | 189.6 |
| Investments | 51.3 |
| Realisations | (51.6) |
| Revaluation | 12.8 |
| Closing value | 202.1 |
| Investment income | 8.7 |

### Top investments

| Name | Business | Country | Value £m | Pool % | Income £m |
|---|---|---|---|---|---|
| Pfizer | Pharmaceuticals | US | 8.1 | 4.0 | 0.2 |
| Novartis | Pharmaceuticals | Switzerland | 7.7 | 3.8 | 0.1 |
| General Electric | Conglomerate | US | 7.2 | 3.6 | 0.2 |
| Daimler | Vehicle manufacturer | Germany | 7.1 | 3.5 | 0.1 |
| Zurich Insurance | Multi-line insurance | Switzerland | 7.1 | 3.5 | 0.4 |
| Telenor | Mobile telecommunications | Norway | 6.8 | 3.4 | – |
| RTL | Entertainment network | Belgium | 6.8 | 3.4 | 0.3 |
| Swedbank | Banking | Sweden | 6.7 | 3.3 | 0.4 |
| Television Broadcasts | Television broadcasting | Hong Kong | 6.7 | 3.3 | 0.3 |
| Sanofi | Healthcare | France | 6.7 | 3.3 | 0.2 |

The table above shows the top ten investments in the pool at 31 March 2015.

Following a relatively subdued market in the first half of the year, but fuelled by the Federal Reserve Bank completing its quantitative easing tapering programme, the pool had a strong second half year and produced a total return for the year of 11.4%, including a net yield of 4.3%.

Solid performance came from developed markets, with US, UK and European equities all contributing to returns. Europe in particular came back strongly in the second half of the year and the pool added a number of European holdings, including Daimler, the German maker of Mercedes cars and trucks, Roche, the Swiss pharmaceuticals company, British American Tobacco, the international tobacco company, and Telenor, the Norwegian mobile telecommunications provider. Good returns came from Novartis, Daimler, Zurich Financial Services and Standard Life in Europe, Pfizer, Intel and Altria in the US and APA Group in Australia.

Over the year, the pool was rebalanced away from the UK, the US and Latin America and into Europe and Asia, with a new investment in Scentre, the Australian retail property developer, including Westfield, and a further investment in Hutchinson Port Holdings, the Hong Kong-based ports investor.

## Sectors

| | 2015 | 2014 |
|---|---|---|
| Oil and gas | 4% | 5% |
| Basic materials | 3% | 3% |
| Industrials | 9% | 6% |
| Consumer goods | 20% | 24% |
| Health care | 14% | 13% |
| Consumer services | 10% | 8% |
| Telecommunications | 7% | 3% |
| Utilities | 5% | 5% |
| Financials | 28% | 30% |
| Technology | – | 3% |

## Regions

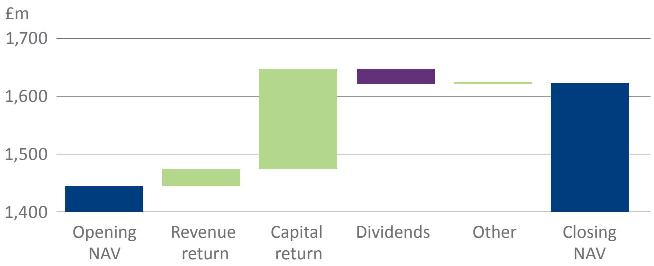
| | 2015 | 2014 |
|---|---|---|
| United Kingdom | 14% | 18% |
| Continental Europe | 44% | 37% |
| North America | 24% | 28% |
| Asia Pacific | 18% | 12% |
| Latin America | – | 5% |

# Financial review

The strength of the company's balance sheet has continued to reflect our longer term approach to capital accumulation, whilst benefiting from a managed growth in revenue income to support a record of 48 consecutive years of dividend growth.

Caledonia's net asset value increased over the year to £1,626.9m at 31 March 2015, from £1,445.6m 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 both investment income, net of expenses, and capital growth. For the year ended 31 March 2015, the total return was £205.9m (2014 – £184.2m), of which £29.6m (2014 – £28.7m) derived from income and £176.3m (2014 – £155.5m) from capital.

## Revenue performance

Investment income in the year of £47.2, including £0.4m from unallocated investments, was significantly higher than last year's £41.1m. The Income & Growth pool contributed £1.7m more than in 2014, reflecting first time dividends from investments initiated late last year and a progressive shift to higher-yielding investments. The Funds pool received £1.9m more income than last year, due principally to income distributions by the CBPE private equity funds on realisation of several of their investments. The Unquoted pool yielded £23.1m, similar to last year, but with last year's substantial income from The Sloane Club, Amber Chemicals (sold on 31 March 2014) and Oval (sold on 1 April 2014) replaced with receipts from TGE Marine, Park Holidays, Choice Care Group and Latshaw Group.

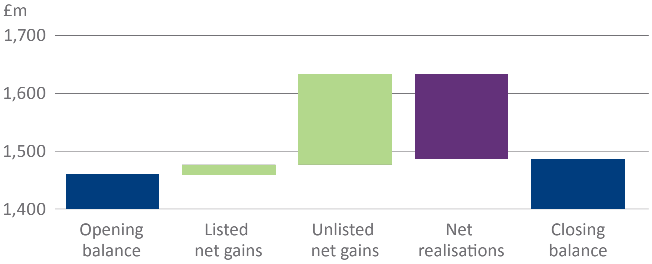
Investment income represented a net yield on the monthly average portfolio of 3.3%, compared with 3.2% last year.

## Capital performance

Net gains on investments totalled £179.9m (2014 – £151.4m), including £0.4m of gains on unallocated investments (2014 – £0.6m of gains). The principal individual gain was £74.0m from the Capital Today China fund, arising from the successful IPO of JD.com, the Chinese e-commerce company, in which the fund held a substantial stake. Significant gains also arose from TGE Marine, Dewan Housing Finance, Park Holidays and Latshaw Group. These gains more than offset our investment losses, the most significant of which were Bristow Group, Avanti Communications and Polar Capital.

Overall, across the entire portfolio, looking through subsidiary investment entities, listed investments contributed £17.5m to the valuation gains, and unlisted investments contributed £162.0m.

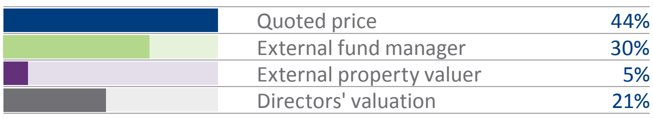
Movement in investment portfolio value




The company maintains a prudent valuation approach to all 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 multiples – generally of around 30% – to account for points of difference between the comparators and the company being valued, most significantly reflecting relative marketability and scale. 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 1.22% (2014 – 1.03%). 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 higher than last year at £18.3m (2014 – £13.6m). This primarily reflected a credit last year to expenses in respect of the 2011 performance share awards having failed to meet their performance targets, together with an increase in share-based payment expenses and reorganisation costs.

## Dividend

We recognise that a reliable source of growing dividends is an important part of shareholder total return over both the short and longer terms and have extended our record of growing annual dividends to 48 consecutive years.

We paid an interim dividend of 13.8p per share on 8 January 2015 and have proposed a final dividend of 36.8p per share. The total dividend for the year of 50.6p is an increase of 3.1% on last year.

Including the proposed final dividend, the dividends to be paid out of revenue earnings for the year ended 31 March 2015 totalled £27.9m, which was more than covered by the profit for the year of £29.6m.

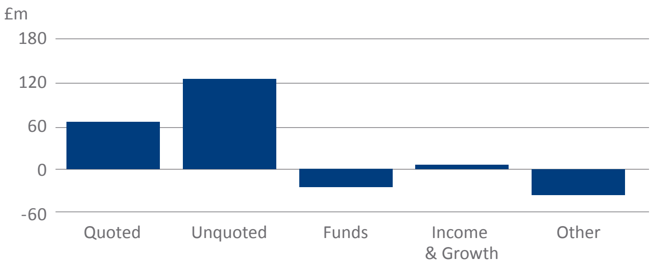
If approved, the final dividend will be payable on 6 August 2015 to holders of shares on the register on 10 July 2015. The ex-dividend date will be 9 July 2015.

## Cash flows, liquidity and facilities

Over the year, we moved from opening net debt of £7.1m to net cash of £131.0m, principally due to net portfolio realisations.

The total cash movement over the year of £138.1m is analysed by pool as follows:

Net cash movement by pool




At 31 March 2015, the company had undrawn committed facilities of £125m, expiring in April 2018. In addition, its treasury subsidiary had drawn £9.0m against £50m of committed facilities.

## 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

# 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.

# 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 monitors 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 risks 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 optimising 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 22 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 arise from the recruitment, development and retention of staff, systems and procedures and business disruption.

### 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.<br>The performance of the company and its key risks are monitored regularly by management and the board. | • Caledonia has developed its risk monitoring procedures to ensure that there is a clear and monitored strategic alignment of the portfolio to the agreed strategy. |
| Pool managers have well-developed networks through which they attract proprietary deal flow.<br>Investment opportunities are subject to rigorous and disciplined investment appraisals and multi-stage approval processes. Target entry and exit events and prices are monitored and updated regularly, in relation to market conditions and strategic aims. | • The continued development of investment management skills and expertise over the last three 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.<br>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 enhanced to look at the movement in the risk factors and why these have occurred, giving more complete 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.<br>Loan facilities are maintained to provide appropriate liquidity headroom.<br>The liquidity of the portfolio is reviewed regularly. | • Average liquidity levels of our quoted portfolio have increased over the last year, as we have continued to realise less liquid non-core investments.<br>• Committed borrowing facilities to £175m are in place up to April 2018. |
| 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.<br>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 is maintained and is an important document, noting current IT risks facing Caledonia.<br>• Increasing use of the cloud for systems processing, including email and for backing up data. |
| Caledonia has internal resources to consider 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. | • There have been no significant additional regulatory requirements in the year. |

# 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 UK 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 Number | Female Number | Female % |
|---|---|---|---|
| Board | 10 | – | – |
| Senior managers | 8 | 3 | 27 |
| All employees | 24 | 21 | 47 |

## 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<br>• Air conditioning refridgerant loss<br>• Company car use | 65 | Tonnes $CO_2e$ |
| Scope 2 (indirect emissions) | • Electricity purchased for own use | 171 | Tonnes $CO_2e$ |
| Scope 3 (indirect emissions) | • Business travel | 254 | Tonnes $CO_2e$ |
| Total | | 490 | Tonnes $CO_2e$ |
| Key performance indicator | Scope 1 and 2 normalised to full time employee equivalent | 10.0 | 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 a director in 2005 and Chief Executive in 2010. He is a non-executive director of Cobehold and Real Estate Investors. He is also a trustee of the Rank Foundation and a director of Newmarket Racecourses.

## 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 a director in 2005. He is Chairman of The Henderson Smaller Companies Investment Trust and a non-executive director of Polar Capital Holdings.

## 5 David Stewart
### Non-Executive Director

Appointed a non-executive director of Caledonia on 17 March 2015, he is a member of the Audit, Nomination and Remuneration Committees. Having begun his career at Swire Pacific in 1981, he joined James Capel in 1986 and then Fidelity Investments in 1995, where he was Head of Emerging Markets and subsequently European President. From 2005 until 2013, he was Chief Executive Officer of Odey Asset Management before assuming a non-executive director role until 2014. He is currently Chairman and a co-founder of IMM Associates.

## 6 Stuart Bridges
### Non-Executive Director

Appointed a non-executive director of Caledonia in 2013, he is Chairman of the Audit Committee and a member of the Governance and Nomination Committees. A chartered accountant, he has been Chief Financial Officer of Hiscox since 1999, although will be joining ICAP as Group Finance Director after 31 August 2015. Prior to Hiscox, 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 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. He is a member of the Nomination Committee.

## 8 Harold Boël
### Non-Executive Director

A Belgian national, he was appointed a non-executive director of Caledonia on 25 June 2014 and is a member of the Audit and Nomination Committees. A material sciences engineer by training, he has been Chief Executive Officer of Sofina, a quoted Belgian financial holding company, since 2008, prior to which he held a number of operational and managerial roles within Corus, now part of Tata Steel. He is a non-executive director of Suez Environnement Company and bioMérieux, in which Sofina has interests.

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## 9 Charles Gregson
### Senior Independent Non-Executive Director

Appointed a non-executive director of Caledonia in 2009, he is Chairman of the Governance and Remuneration Committees and a member of the Nomination Committee. 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 and a non-executive director of Non-Standard Finance.

## 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 | 8 | 8 |
| H Y H Boël[1] | 4 | 5 |
| S J Bridges | 7 | 8 |
| Hon C W Cayzer | 7 | 8 |
| C H Gregson | 8 | 8 |
| R B Woods | 7 | 8 |
| D C Stewart[2] | 1 | 1 |
| C M Allen-Jones[3] | 8 | 8 |
| R Goblet d'Alviella[4] | 2 | 3 |

1. Mr Boël was appointed a director on 25 June 2014.
2. Mr Stewart was appointed a director on 17 March 2015.
3. Mr Allen-Jones retired from the board on 17 March 2015.
4. Mr Goblet d'Alviella retired from the board on 25 June 2014.

### 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 for the duration of the reporting period.

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
- 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.

Following changes in the Financial Conduct Authority's Listing Rules introduced in May 2014, the election of those directors determined by the board to be independent under the UK Corporate Governance Code must be subject to the approval of both all shareholders of the company and separately those shareholders who are not controlling shareholders, being the Cayzer Concert Party.

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 prior to becoming non-executive. In assessing Mr Boël's independence, the board took account of his position as Chief Executive Officer of Sofina SA, whose wholly-owned subsidiary, Rebelco SA, has a 5.1% shareholding in Caledonia. Mr Boël'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. On 13 April 2015, ICAP plc, where Mr Gregson is non-executive Chairman, announced that, subject to approval by the Financial Conduct Authority, Mr Bridges would be joining that company as Group Finance Director. The board does not consider that Mr Bridges' new role, which will not take effect until after 31 August 2015, will have any influence on either his, or Mr Gregson's, ability to exercise independent judgement in relation to the affairs of Caledonia, which has no other connection with ICAP. Mr Woods has also had past connections with the company and in particular its former Chairman, the late Peter Buckley, through business dealings between P&O Steam Navigation Company and British & Commonwealth Shipping Company, in which Caledonia was a substantial shareholder, during the 1970s and early 1980s and remained a friend of Mr Buckley's until his death in 2008. The board does not consider that these past relationships affect his independence given the time that has passed since Mr Woods last had business dealings with British & Commonwealth and the fact that Mr Woods did not join Caledonia's board until some three years after Mr Buckley's death.

Caledonia has also announced that Shonaid Jemmett-Page will be joining the board from 1 July 2015. The board has determined that she will also be an independent director. Mrs Jemmett-Page was Caledonia's audit partner at KPMG Audit Plc from November 1995 to March 2001. The board does not consider that this affects her independence given the length of time that has elapsed since this role ended and also the fact that none of the current board members, other than The Hon Charles Cayzer, were in post whilst she was audit partner.

### 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 39 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 comprises 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 other members comprise 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 total return performance. The Investment Management Committee is chaired by the Chief Executive and other members comprise 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 other members comprise 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, tax and regulatory developments. The Compliance Committee is chaired by the Company Secretary and other members comprise 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 other members comprise the Finance Director, the Head of Finance and the Chairman of the Audit Committee. The meetings are observed by representatives from KPMG LLP.

## Board performance evaluation

The board conducts an annual evaluation of its performance and that of its committees and, in accordance with best practice, engages an independent third party facilitator to assist in this process every three years. For the year ended 31 March 2015, the evaluation of the board as a whole and of its committees was undertaken internally, led by the Chairman, and was conducted by inviting individual board members to complete questionnaires regarding the operation and effectiveness of the board and its committees, the responses from which were collated by the Company Secretary and discussed at a special 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 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.

# Corporate governance report continued

The results of the 2015 evaluation process were presented in a report to the board. The conclusion was that the board operated in a unified manner, but with a preparedness to provide an appropriate level of challenge to, and when necessary veto of, management proposals. Actions agreed for improvement included the provision of more general background information on macro-economic issues for board members and periodic reviews of the process involved in reaching key decisions taken to evaluate its effectiveness and whether any lessons could be learned.

## 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.

## Relations with controlling shareholders

Following recent changes to the Financial Conduct Authority's Listing Rules, where a premium listed company has a controlling shareholder or shareholders (being a person or persons acting in concert who exercise or control 30% of more of the company's voting rights), the company is required to enter into a written and legally binding agreement which is intended to ensure that the controlling shareholder undertakes to comply with certain independence provisions, namely that:

1. transactions and arrangements with the controlling shareholder (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;
2. neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and
3. neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The board confirms that agreements specified under the Listing Rules as described above (which were required to be in place by 17 November 2014) were entered into by the company on 30 October 2014 with The Cayzer Trust Company Limited ('Cayzer Trust') and separately with the Trustee of the Caledonia Investments plc Employee Share Trust ('Employee Share Trust'), which is deemed by the Panel on Takeovers and Mergers to form part of the Cayzer Concert Party. As at 26 May 2015, being the latest practicable date prior to the publication of this annual report, the Cayzer Concert Party held 48.49% of Caledonia's voting rights. Under the terms of its agreement, Cayzer Trust undertook to procure the compliance with the independence provisions of all of the other members of the Cayzer Concert Party, other than the Employee Share Trust.

The board confirms that, between 30 October 2014 and 26 May 2015, being the latest practicable date prior to the publication of this annual report:

1. the company has complied with the independence provisions included in the agreements with Cayzer Trust and the Employee Share Trust
2. so far as the company is aware, the independence provisions included in the agreements have been complied with by Cayzer Trust and the Employee Share Trust
3. so far as the company is aware, the procurement obligation included in the agreement with Cayzer Trust has been complied with by that company.

Rod Kent
Chairman of the board

27 May 2015

# Nomination Committee report

The Nomination Committee is focused on evaluating the directors and examining the skills and attributes needed of board members. It is also responsible for identifying suitable candidates for new director positions.

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 measureable objectives in relation thereto.

## 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) | 5 | 5 |
| H Y H Boël[1] | 3 | 4 |
| S J Bridges[1] | 3 | 4 |
| The Hon C W Cayzer[1] | 3 | 4 |
| C H Gregson | 4 | 5 |
| D C Stewart[2] | 0 | 0 |
| R B Woods | 4 | 5 |
| W P Wyatt[1] | 4 | 4 |
| C M Allen-Jones[3] | 5 | 5 |
| R Goblet d'Alviella[4] | 0 | 1 |

1. Mr Boël, Mr Bridges, The Hon C W Cayzer and Mr Wyatt were appointed members of the committee on 17 July 2014.
2. Mr Stewart was appointed a member of the committee on 17 March 2015.
3. Mr Allen-Jones retired from the committee on 17 March 2015.
4. Mr Goblet d'Alviella retired from the committee on 25 June 2014.

## Work of the Nomination Committee

The Nomination Committee met four times during the year and the work undertaken included:

- an evaluation of the structure, size and composition of the board as a whole in the light of the 2014 board performance evaluation
- consideration of the contributions and effectiveness of the non-executive directors seeking election or re-election at the 2014 annual general meeting, prior to giving recommendations for their elections or re-elections
- a recommendation to the board that Mr Boël be appointed a director of the company
- the conduct of a search for additional independent non-executive directors, concluding with recommendations to the board that Mr Stewart and Mrs Jemmett-Page be appointed.

The Nomination Committee engaged an external search consultancy, Odgers Berndtson, to assist in the search that culminated in the appointments of Mr Stewart and Mrs Jemmett-Page. Odgers Berndtson has no other connection with the company. An external search consultancy was not used in relation to the appointment of Mr Boël, who was known to the company by virtue of his role at Sofina.

Rod Kent
Chairman of the Nomination Committee

27 May 2015

# 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) | 3 | 3 |
| H Y H Boël[1] | 2 | 2 |
| D C Stewart[2] | 1 | 1 |
| C M Allen-Jones[3] | 2 | 2 |
| R Goblet d'Alviella[4] | 1 | 1 |
| C H Gregson[5] | 3 | 3 |

1. Mr Boël was appointed a member of the committee on 17 July 2014.
2. Mr Stewart was appointed a member of the committee on 17 March 2015.
3. Mr Allen-Jones retired as a member of the committee on 17 March 2015.
4. Mr Goblet d'Alviella retired as a member of the committee on 25 June 2014.
5. Mr Gregson ceased to be a member of the committee on 17 March 2015.

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 2015, in May and November 2014 and in March 2015. Subsequent to the year end, it met in May 2015 to consider the significant issues in relation to the 2015 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 2014 was the 2014 annual report and financial statements and the 2014 half-year results respectively, including evaluation of the going concern statements therein.

The March 2015 meeting considered principally the audit planning for the 2015 annual report, including in particular the requirements of the 2012 revision of the UK Corporate Governance Code and other disclosure requirements.

In its May 2015 meeting, the Audit Committee reviewed the form and content of the 2015 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 2015 annual report to the board.

The significant issues the Audit Committee considered in relation to the 2015 financial statements were the valuation of unlisted and listed investments. In relation to these financial statements, the Audit Committee also considered the going concern statement (and related liquidity issues) and compliance with the annual report 'fair, balanced and understandable' provisions of the 2012 revision of the UK Corporate Governance Code.

### 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 the Challenge Committee 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.

### Listed valuations
Listed investments are a significant component of the financial statements. The Challenge Committee 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. The Audit Committee concurred that it was appropriate to use the exchange bid price in all cases.

### 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.

### 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 2015 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 corporate tax and VAT compliance and reporting, purchase invoice processing and payment and general ledger accounting and reporting. No significant areas of weakness were identified. The Audit Committee agreed the control review work plan for 2015.

The board of directors is responsible for the company's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

### 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. 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. 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 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 16 July 2015.

## 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

27 May 2015

# 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.

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.

## 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 H Gregson (Chairman)[1] | 3 | 3 |
| S J Bridges[2] | 0 | 0 |
| R B Woods | 2 | 3 |
| C M Allen-Jones[3] | 3 | 3 |

1. Mr Gregson replaced Mr Allen-Jones as chairman of the committee on 17 March 2015.
2. Mr Bridges was appointed a member of the committee on 17 March 2015.
3. Mr Allen-Jones retired as a member of the committee on 17 March 2015.

## Work of the Governance Committee

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

- the review and approval of the Corporate governance report for the year ended 31 March 2014
- 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 review and approval of agreements entered into by the company with The Cayzer Trust Company Limited and the Trustee of the Caledonia Investments plc Employee Share Trust incorporating independence provisions to comply with the new Listing Rule requirements for premium listed companies with controlling shareholders.

Charles Gregson
Chairman of the Governance Committee

27 May 2015

# 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) | 6 | 6 |
| D C Stewart[1] | 1 | 1 |
| R B Woods | 4 | 6 |
| C M Allen-Jones[2] | 5 | 5 |

1. Mr Stewart was appointed a member of the committee on 17 March 2015.
2. Mr Allen-Jones retired as a member of the committee on 17 March 2015.

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 Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The parts of the annual report on directors' remuneration that have been audited are indicated in that report. The annual statement of the Chairman of the Remuneration Committee and the policy on directors' remuneration are not subject to audit.

On behalf of the board, I am pleased to introduce Caledonia's directors' remuneration report for the year ended 31 March 2015.

Last year, the Remuneration Committee completed a strategic review of Caledonia's executive remuneration framework and engaged with its larger shareholders and investor representative bodies on the key changes. The revised framework was set out in the remuneration policy which was approved by shareholders at the 2014 annual general meeting. No changes to this policy are proposed at this year's annual general meeting and the key elements of the policy have been included in this year's directors' remuneration report for ease of reference.

In this introductory statement, I have set out a summary of the implementation of the remuneration policy in respect of the year ended 31 March 2015 and how we intend to approach remuneration for the 2016 financial year. Detailed disclosure and explanations of the remuneration paid to directors in the year ended 31 March 2015 are included in the annual report on directors' remuneration, which will be put to an advisory vote of shareholders at the annual general meeting on 16 July 2015.

### Remuneration for the year ended 31 March 2015

Turning to the year under review, as described in the Chairman's and Chief Executive's report, Caledonia has delivered a net asset value per share total return ('NAVTR') of 14.2%, continuing the strong returns achieved over the previous two years and extending Caledonia's record of outperformance against the Retail Prices Index ('RPI') over one, three and five years and the FTSE All-Share Total Return index ('FTSE index') over ten years. The Funds pool, led by Jamie Cayzer-Colvin, was a significant contributor to this year's performance, delivering a total return of 45.2% compared with its target of 12.5%. Taking these results into account 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 2015 also represented the end of the three year performance measurement period for awards granted in 2012 under the company's performance share scheme. For these awards, the performance targets were that, for two-thirds of the shares comprised in an award, Caledonia's NAVTR had to outperform the 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. Both of these targets were comfortably met, with Caledonia's NAVTR outperforming the FTSE index by 17.2% and the Gilts index by 29.9% over the three year period. Accordingly, these awards have vested in full.

No deferred bonus plan awards were granted in 2012.

# Directors' remuneration report continued

## Annual statement by the Chairman of the Remuneration Committee

### Performance measures for long term incentive awards

Following a further consultation with shareholders and investor representative bodies, in November 2014 the Remuneration Committee adopted new performance measures for the performance share scheme and deferred bonus plan matching shares which are based on the annualised absolute returns achieved by Caledonia over three and five year periods, in order to align the measures more closely with the company's long term objective of achieving absolute returns over rolling ten year periods of between RPI+3% and RPI+6%. For investment executives, including Mr Cayzer-Colvin, a substantial proportion of the awards will be geared towards the total returns achieved by the pools of capital for which they are responsible. Further details of these new performance measures and how they will operate for executive directors are set out in the summary of performance measures and targets in the notes to the remuneration policy table on pages 43 and 44.

### Remuneration for the year ending 31 March 2016

Looking ahead to the 2016 financial year, basic salaries of executive directors have been increased with effect from 1 April 2015 by 1.0%, broadly in line with inflation, which was the same as the standard increase given to the company's senior executives, although other grades of staff received a higher increase of 3.0%. The Chairman's and the non-executive directors' fees are reviewed on a triennial basis and, since these were last increased in April 2014, they have not been changed.

We plan to make performance share scheme and deferred bonus plan awards following the release of our 2015 full year results announcement in line with our normal grant cycle. These will be subject to the performance measures adopted in November 2014, as outlined above.

The company performance related element of the annual bonus scheme is determined by reference to the relative performance of the company's NAVTR to RPI over the year, with a 10% pay-out if NAVTR matches RPI, rising to a 100% pay-out if outperformance of 7% or more is achieved. In view of the current low level of RPI, the Remuneration Committee has decided that, for bonus awards for the 2016 and subsequent financial years, the RPI comparator should be 3%, which is broadly in line with the historic long term average, or actual RPI if higher.

### Malus and clawback

Last year, provisions were introduced into Caledonia's performance share scheme and deferred bonus plan which 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 known as 'malus' provisions.

In September 2014, a revised UK Corporate Governance Code ('Code') was issued which included a provision that all performance related incentive schemes for executive directors operated by UK listed companies should include not only malus provisions, but also arrangements to recover amounts of variable remuneration after it has been paid (known as 'clawback'). The Code is not specific as to the period of time over which clawback should operate or the circumstances in which it should be applied and the Remuneration Committee has been advised that, since only malus provisions were included in the current remuneration policy approved by shareholders in 2014, it would be necessary to seek formal shareholder approval to amend the policy should clawback provisions be introduced. As a consequence, the Remuneration Committee has decided to see how market practice in relation to clawback develops before making a decision as to whether to introduce it to Caledonia's performance related incentive schemes and, if it decides to do so, whether to seek an amendment of the remuneration policy before it would next ordinarily be proposed for shareholder approval at the annual general meeting in 2017.

Charles Gregson
Chairman of the Remuneration Committee

27 May 2015

# Remuneration policy

## Introduction

Set out below are the material elements of the directors' remuneration policy which was approved by shareholders at the annual general meeting of the company held on 17 July 2014. The policy came into effect on that date and is next due to be put for approval by shareholders in 2017, unless the Remuneration Committee wishes to implement any changes earlier.

There have been no changes to the policy since its implementation and the extracts shown below are for information only and to provide context for the 2015 annual report on directors' remuneration which follows. The performance conditions for the deferred bonus plan and the performance share scheme described in the policy table and the notes thereto have been updated to incorporate the new performance measures adopted by the Remuneration Committee in November 2014. References to share awards held by executive directors at the date of approval of the policy which have since been exercised have been removed and it has also been noted where share awards have met their performance targets since implementation of the policy.

The full directors' remuneration policy is contained on pages 42 to 48 of the company's annual report 2014, which is available in the 'Literature' section of Caledonia's website at www.caledonia.com.

## 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.<br>The basic salaries of the executive directors on implementation of the policy were as follows:<br>W P Wyatt £506,480 J M B Cayzer-Colvin £303,890<br>S A King £359,380<br>The current salaries of the executive directors are set out in the annual report on directors' remuneration. |
| 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.<br>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%.<br>No recovery or withholding provisions. |
| Performance measurement framework | 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, and 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.<br>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.<br>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.<br>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.<br>No recovery or withholding provisions. |
| Performance measurement framework | Not applicable. |

# Directors' remuneration report continued

## Remuneration policy

| 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.<br>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).<br>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.<br>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.<br>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 | 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.<br>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.<br>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.<br>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 there are no matching share awards still outstanding. |
| 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.<br>Matching shares are granted on a one for one basis for shares derived from bonus deferral.<br>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.<br>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.<br>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 | For Mr Wyatt and Mr King, nil-cost options awarded under the 2011 performance share scheme are subject to the performance, on an absolute basis, of the company's diluted net asset value per share on a total return basis ('NAVTR') measured on an annualised basis over three or five years. For Mr Cayzer-Colvin, the nil-cost options are subject to a combination of the performance of the company's NAVTR as above and the total returns achieved by the Funds pool, for which he is responsible, again measured on an annualised basis over three or five years.<br>Matching share awards granted under the deferred bonus plan are subject to the performance, on an absolute basis, of the company's NAVTR, measured on an annualised basis over three years.<br>The rules of each scheme provide discretion to the Remuneration Committee to amend the performance targets or impose different performance targets.<br>The performance targets for all outstanding options granted under the company's executive share option scheme 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.<br>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.<br>No recovery or withholding provisions. |
| Performance measurement framework[1] | Not applicable. |

## 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. For bonus awards for the 2016 and subsequent financial years, RPI will be taken as the higher of actual RPI over the bonus year or 3%, being broadly in line with its historic long term average. 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 against a set target return 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 Caledonia's NAVTR against the FTSE Actuaries UK Index-linked Gilts (all stocks) Total Return index ('Gilts index') over three years. For the other two-thirds, NAVTR is measured against the FTSE All-Share Total Return index ('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.

For nil-cost options granted to Mr Wyatt and Mr King in the 2015 financial year and subsequently, awards will vest on a graduated basis, with vesting commencing at 10% on the achievement of an annualised NAVTR of 3%, rising incrementally to 100% vesting on achievement of an annualised NAVTR of 10%, measured over three and five years. For Mr Cayzer-Colvin, who is head of the Funds pool, 60% of his performance share scheme awards will be measured against the annualised total returns achieved by the Funds pool, measured over three and five years. Awards will similarly vest on a graduated basis, with vesting commencing at 10% on achievement of an annualised Funds pool total return of 6%, rising incrementally to 100% vesting on achievement of an annualised total return of 13.5%. The remaining 40% of Mr Cayzer-Colvin's performance share scheme awards will be measured against Caledonia's NAVTR as above.

For nil-cost options granted in the 2015 financial year, one-half of the shares comprised in the awards will be measured over three years and one-half over five years. For subsequent financial years, one-third will be measured over three years and two-thirds over five years. In all cases, shares that vest will become immediately exercisable and will lapse if not exercised within ten years of grant.

*Deferred bonus plan matching awards*

The performance targets for matching shares awarded under the deferred bonus plan in the 2015 and prior financial years 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 twelve months thereafter.

Matching awards to be granted in the 2016 and subsequent financial years will be subject to performance measurement by reference to Caledonia's NAVTR on an annualised basis over three years, with vesting commencing at 20% on achievement of an annualised NAVTR of 4%, rising incrementally to 100% vesting on achievement of an annualised NAVTR of 10%. Again, shares that vest can be called immediately following the end of the performance measurement period and will lapse if not called within twelve months thereafter.

# Directors' remuneration report continued

## Remuneration policy

*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 creating value for the company.

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 Caledonia's NAVTR on an annualised basis as the performance measurement, as it believes that this is the most effective method of aligning directors' rewards with the long term strategic objective of the company of delivering annualised returns over rolling ten year periods of between RPI+3% and RPI+6%. For Mr Cayzer-Colvin, the Remuneration Committee believes that a significant proportion of his variable pay should be weighted towards the annualised total return performance of the Funds pool of capital for which he is responsible and has therefore determined that 60% of his performance share scheme awards should be tested by reference to this.

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.

### 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.

### 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.

Since its approval by shareholders at the 2014 annual general meeting, there have been no changes to the policy, although new performance measurement conditions for the performance share scheme and the deferred bonus plan matching shares have been adopted within the terms of the policy, as described above.

### 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.<br>The Chairman receives an annual fee, which includes his basic non-executive director's fee, but does not receive any other remuneration.<br>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.<br>The fees of the Chairman and the non-executive directors on implementation of the policy were as follows:<br>Chairman £184,500; Basic non-executive director's fee £39,900<br>Audit Committee chairman £5,600; Audit Committee member £2,300<br>Remuneration Committee chairman £4,900; Remuneration Committee member £1,600<br>Senior Independent Director/ Governance Committee chairman £5,100<br>The current fees paid to the chairman and non-executive directors are set out in the annual report on directors' remuneration, but are unchanged from the above. |
| 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.<br>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.<br>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.

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.

## 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.

## 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.

# Directors' remuneration report continued

## Remuneration policy

#### 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.

### 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.

# 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 2015 and describes how Caledonia's remuneration policy will be implemented for the 2016 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 2015 and a comparison with the previous financial year.

| | Salary | | Taxable benefits[1] | | Short term incentives[2] | | Long term incentives[3] | | Pension related benefits | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £'000 |
| W P Wyatt | 506 | 494 | 19 | 18 | 506 | 494 | 1,154 | 88 | 100 | 102 | 2,285 | 1,196 |
| S A King | 359 | 351 | 3 | 4 | 359 | 351 | 819 | 66 | 55 | 54 | 1,595 | 826 |
| J M B Cayzer-Colvin | 304 | 296 | 18 | 18 | 304 | 296 | 692 | 48 | 51 | 51 | 1,369 | 709 |

1. **Taxable benefits**
   Taxable benefits comprised 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 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:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Compulsorily deferred £'000 | Cash £'000 | Total £'000 | Compulsorily deferred £'000 | Cash £'000 | Total £'000 |
| W P Wyatt | 253 | 253 | 506 | 247 | 247 | 494 |
| S A King | 179 | 180 | 359 | 175 | 176 | 351 |
| J M B Cayzer-Colvin | 152 | 152 | 304 | 148 | 148 | 296 |

   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 2015 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 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 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 was 14.2% over the year, compared with an increase of 0.9% in RPI, resulting in a maximum bonus entitlement for the company performance element. The Funds pool's return over the year was 45.2%, significantly ahead of its target return and therefore triggering the maximum entitlement for pool performance. The Remuneration Committee judged that significant progress had been made over the year in identifying and promoting Caledonia to high quality private equity and quoted market fund managers in Asia and the US and in building the strategic portfolio for the Funds pool, which merited a maximum bonus for Mr Cayzer-Colvin's 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 2012 under the company's performance share scheme. The vesting of the awards was dependent on the performance of the company's NAVTR over the three financial years ended 31 March 2015 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 53.2% over the performance period, compared with increases of 35.9% for the FTSE index and 23.2% for the Gilts index. Accordingly, both of the performance targets were met and the performance share awards granted in 2012 therefore vested in full.

   The amounts shown in the table above under long term incentives therefore comprised the value of the vested performance share scheme awards granted in 2012 based on the company's share price at 31 March 2015 of 2281p, together with the value of dividends and associated tax credits that would have accrued on the vested shares during the performance measurement period as follows:

| | Value of performance share scheme awards £'000 | Value of dividend equivalents £'000 | Total £'000 |
|---|---|---|---|
| W P Wyatt | 1,080 | 74 | 1,154 |
| S A King | 766 | 53 | 819 |
| J M B Cayzer-Colvin | 648 | 44 | 692 |

# 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 2015 and the previous year were as follows:

| | Fees | |
|---|---|---|
| | 2015 £'000 | 2014 £'000 |
| R D Kent | 185 | 168 |
| H Y H Boël[1] | – | – |
| S J Bridges[2] | 46 | 40 |
| Hon C W Cayzer[3] | 100 | 96 |
| C H Gregson | 47 | 43 |
| D C Stewart[4] | 2 | – |
| R B Woods | 42 | 38 |
| C M Allen-Jones[5] | 47 | 44 |
| R Goblet d'Alviella[6] | 10 | 38 |

1. Mr Boël was appointed a director on 25 June 2014 and has waived his entitlement to all fees arising from his appointment.
2. Mr Bridges' non-executive director's fees were paid to Hiscox Group Underwriting Services Ltd.
3. The Hon C W Cayzer's fees for 2015 and 2014 included £60,000 paid by a subsidiary in respect of his services as Chairman of The Sloane Club.
4. Mr Stewart was appointed a director on 17 March 2015.
5. Mr Allen-Jones retired from the board on 17 March 2015.
6. Mr Goblet d'Alviella retired from the board on 25 June 2014.

### 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 | |
|---|---|---|---|---|---|---|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| W P Wyatt | – | 37,059 | 100,139 | 65,130 | 100,139 | 102,189 |
| S A King | – | – | 55,265 | 53,916 | 55,265 | 53,916 |
| J M B Cayzer-Colvin | 31,022 | 38,912 | 19,472 | 11,398 | 50,494 | 50,310 |

#### 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 in December 2012 and therefore has not accrued any further pensionable service since then, nor have any contributions been 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 2015 | a | 184,434 |
| Accrued pension at 31 March 2014 | b | 177,642 |
| Increase in accrued pension during the year | c | 6,792 |
| Transfer value of accrued pension at 31 March 2015 | d | 3,653,745 |
| Transfer value of accrued pension at 31 March 2014 | e | 3,250,539 |
| Change in transfer value over the year | f | 403,206 |

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, which reflected market conditions 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 changes 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 | 633 | 2294 | 27,598 | 10 | 31.03.19 |
| Deferred Bonus Plan | Compulsory award | % of bonus in excess of 50% | 247 | 2186 | 11,302 | 100 | 31.03.17 |
| Deferred Bonus Plan | Matching award | 1:1 | 247 | 2186 | 11,302 | 10 | 31.03.17 |
| Total scheme interests awarded | | | 1,127 | | 50,202 | | |
| **S A King** | | | | | | | |
| Performance Share Scheme | Nil-cost option | 125% of salary | 449 | 2294 | 19,582 | 10 | 31.03.19 |
| Deferred Bonus Plan | Compulsory award | % of bonus in excess of 50% | 175 | 2186 | 8,019 | 100 | 31.03.17 |
| Deferred Bonus Plan | Matching award | 1:1 | 175 | 2186 | 8,019 | 10 | 31.03.17 |
| Total scheme interests awarded | | | 799 | | 35,620 | | |
| **J M B Cayzer-Colvin** | | | | | | | |
| Performance Share Scheme | Nil-cost option | 125% of salary | 380 | 2294 | 16,558 | 10 | 31.03.19 |
| Deferred Bonus Plan | Compulsory award | % of bonus in excess of 50% | 148 | 2186 | 6,781 | 100 | 31.03.17 |
| Deferred Bonus Plan | Matching award | 1:1 | 148 | 2186 | 6,781 | 10 | 31.03.17 |
| Total scheme interests awarded | | | 676 | | 30,120 | | |

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 2015 £'000 | Fees 2014 £'000 |
|---|---|---|---|
| S A King | Non-executive director, TT Electronics plc | 47 | 47 |
| J M B Cayzer-Colvin | Non-executive chairman, The Henderson Smaller Companies Investment Trust plc | 29 | 28 |

## Payments to past directors (audited)

There were no payments made to former directors during the year.

## 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 scheme for which the performance targets have been met. Also included are bonuses deferred, compulsorily or voluntarily, under the company's deferred bonus plan and any uncalled bonus matching shares for which the performance targets have been met, again net of income tax and National Insurance contributions.

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 2015, calculated by reference to Caledonia's closing share price on that date of 2281p, were as follows:

| | Value of shareholding £m | Minimum shareholding achievement % |
|---|---|---|
| W P Wyatt | 25.1 | 2,456 |
| S A King | 0.5 | 56 |
| J M B Cayzer-Colvin | 8.6 | 1,859 |

### 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 2015, or date of retirement if earlier, were as follows:

| | Beneficial 2015[1] No | Beneficial 2014[2] No | Non-beneficial 2015[1] No | Non-beneficial 2014[2] No |
|---|---|---|---|---|
| R D Kent | 10,000 | 10,000 | – | – |
| W P Wyatt[3] | 1,060,365 | 1,034,420 | 28,293 | 23,293 |
| S A King | 4,054 | 650 | – | – |
| J M B Cayzer-Colvin[3] | 364,314 | 355,298 | 65,953 | 64,453 |
| H Y H Boël[4] | – | – | – | – |
| S J Bridges | 5,000 | – | – | – |
| Hon C W Cayzer[3] | 40,092 | 45,092 | 21,500 | 18,985 |
| C H Gregson | 610 | 610 | – | – |
| D C Stewart[5] | – | – | – | – |
| R B Woods | 2,000 | 2,000 | – | – |
| C M Allen-Jones[6] | 15,273 | 15,273 | – | – |
| R Goblet d'Alviella[7] | – | – | – | – |

1. Or date of retirement, if earlier.
2. Or date of appointment, if later.
3. Mr Wyatt's beneficial interests included 9,000 shares (2014 – 6,485 shares) in which The Hon C W Cayzer had a non-beneficial interest and 953,066 shares (2014 – 934,125 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 (2014 – 4,200 shares) in which Mr Wyatt and Mr Cayzer-Colvin had non-beneficial interests and his non-beneficial interests included 12,500 shares (2014 – 12,500 shares) in which Mr Wyatt also had a non-beneficial interest.
4. Mr Boël was appointed a director on 25 June 2014.
5. Mr Stewart was appointed a director on 17 March 2015.
6. Mr Allen-Jones retired from the board on 17 March 2015.
7. Mr Goblet d'Alviella retired from the board on 25 June 2014.

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

# Directors' remuneration report continued

## Annual report on directors' remuneration

### Directors' share scheme interests

The interests of directors as at 31 March 2015 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 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 | 11,025 | 19,496 |
| | *Performance share scheme awards* | | | | | |
| | Granted 28.05.12 (nil-cost) | 1267p | – | 15,776 | 31,553 | 47,329 |
| | Granted 12.06.13 (nil-cost) | 1802p | 34,275 | – | – | 34,275 |
| | Granted 27.11.14 (nil-cost) | 2294p | 27,598 | – | – | 27,598 |
| | | | 61,873 | 15,776 | 31,553 | 109,202 |
| | *Deferred bonus plan – compulsory awards* | | | | | |
| | Granted 12.06.13 (nil-cost) | 1802p | – | 13,310 | – | 13,310 |
| | Granted 06.06.14 (nil-cost) | 2186p | – | 11,302 | – | 11,302 |
| | | | – | 24,612 | – | 24,612 |
| | *Deferred bonus plan – matching awards* | | | | | |
| | Granted 12.06.13 (nil-cost) | 1802p | 13,310 | – | – | 13,310 |
| | Granted 06.06.14 (nil-cost) | 2186p | 11,302 | – | – | 11,302 |
| | | | 24,612 | – | – | 24,612 |
| | Total share scheme interests | | 86,485 | 48,859 | 42,578 | 177,922 |

During the year, Mr Wyatt exercised executive share options and deferred bonus awards over a total of 21,760 shares at a pre-tax gain of £278,795.

| | | Share price at date of award | Unvested with performance conditions[1] | Unvested without performance conditions[2] | Vested but unexercised[3] | Total |
|---|---|---|---|---|---|---|
| S A King | *Performance share scheme awards* | | | | | |
| | Granted 28.05.12 (nil-cost) | 1267p | – | 11,194 | 22,389 | 33,583 |
| | Granted 12.06.13 (nil-cost) | 1802p | 24,320 | – | – | 24,320 |
| | Granted 27.11.14 (nil-cost) | 2294p | 19,582 | – | – | 19,582 |
| | | | 43,902 | 11,194 | 22,389 | 77,485 |
| | *Deferred bonus plan – compulsory awards* | | | | | |
| | Granted 12.06.13 (nil-cost) | 1802p | – | 9,444 | – | 9,444 |
| | Granted 06.06.14 (nil-cost) | 2186p | – | 8,019 | – | 8,019 |
| | | | – | 17,463 | – | 17,463 |
| | *Deferred bonus plan – matching awards* | | | | | |
| | Granted 12.06.13 (nil-cost) | 1802p | 9,444 | – | – | 9,444 |
| | Granted 06.06.14 (nil-cost) | 2186p | 8,019 | – | – | 8,019 |
| | | | 17,463 | – | – | 17,463 |
| | Total share scheme interests | | 61,365 | 28,657 | 22,389 | 112,411 |

During the year, Mr King exercised deferred bonus awards over 6,444 shares at a pre-tax gain of £141,027.

| | | Share price at date of award | Unvested with performance conditions[1] | Unvested without performance conditions[2] | Vested but unexercised[3] | Total |
|---|---|---|---|---|---|---|
| Mr J M B Cayzer-Colvin | *Executive share options* | | | | | |
| | 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 | 11,025 | 19,496 |
| | *Performance share scheme awards* | | | | | |
| | Granted 28.05.12 (nil-cost) | 1267p | – | 9,466 | 18,931 | 28,397 |
| | Granted 12.06.13 (nil-cost) | 1802p | 20,565 | – | – | 20,565 |
| | Granted 27.11.14 (nil-cost) | 2294p | 16,558 | – | – | 16,558 |
| | | | 37,123 | 9,466 | 18,931 | 65,520 |
| | *Deferred bonus plan – compulsory awards* | | | | | |
| | Granted 12.06.13 (nil-cost) | 1802p | – | 7,986 | – | 7,986 |
| | Granted 06.06.14 (nil-cost) | 2186p | – | 6,781 | – | 6,781 |
| | | | – | 14,767 | – | 14,767 |
| | *Deferred bonus plan – matching awards* | | | | | |
| | Granted 12.06.13 (nil-cost) | 1802p | 7,986 | – | – | 7,986 |
| | Granted 06.06.14 (nil-cost) | 2186p | 6,781 | – | – | 6,781 |
| | | | 14,767 | – | – | 14,767 |
| | Total share scheme interests | | 51,890 | 32,704 | 29,956 | 114,550 |

During the year, Mr Cayzer-Colvin exercised executive share options and deferred bonus awards over a total of 17,960 shares at a pre-tax gain of £195,632.

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 on 28 May 2012 and 12 June 2013 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.

   For nil-cost options granted to Mr Wyatt and Mr King on 27 November 2014, shares will vest on a graduated basis, with vesting commencing at 10% if the company achieves an annualised NAVTR of 3%, rising incrementally to 100% vesting on achievement of an annualised NAVTR of 10%. For Mr Cayzer-Colvin, who is head of the Funds pool, 60% of his performance share scheme awards granted on 27 November 2014 will be measured against the annualised total returns achieved by the Funds pool. Awards will similarly vest on a graduated basis, with vesting commencing at 10% on achievement of an annualised Funds pool total return of 6%, rising incrementally to 100% vesting on achievement of an annualised total return of 13.5%. The remaining 40% of Mr Cayzer-Colvin's performance share scheme awards will be measured against Caledonia's NAVTR as above. For all nil-cost options granted on 27 November 2014, the relevant performance conditions will be tested over three years for one-half of the shares comprised in an award and over five years for the other half of the shares comprised in an award.

   ***Deferred bonus plan matching awards***
   The performance targets for the matching awards are the same as those for nil-cost options granted under the performance share scheme on 28 May 2012. Shares that vest must be called within 12 months of vesting.
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.

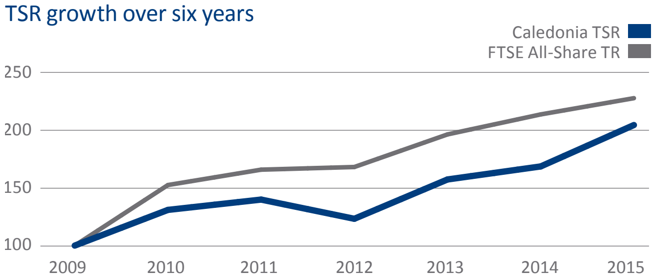
   ***Performance share scheme***
   For nil-cost options granted under the performance share scheme on 28 May 2012, to the extent that a performance target is met, two-thirds of the shares that vest may normally be exercised three years after grant, with the remaining one-third normally becoming exercisable five years after grant.

   For nil-cost options granted on 12 June 2013 and 27 November 2014, shares that vest following three or five year performance testing become immediately exercisable.
3. **Vested but unexercised**
   Shares vested but unexercised represent those awards that are immediately exercisable without any conditions.

## 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 six financial years ending on 31 March 2015. 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 six years to 31 March 2015, prepared on the same basis as in the single total figure in the table on page 47, and the percentage of the maximum potential short and long term incentives received in those years.

### TSR growth over six years




| | Years ended 31 March | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011[1] | 2011[1] | 2012 | 2013 | 2014 | 2015 |
| Chief Executive | T C W Ingram | T C W Ingram | W P Wyatt | W P Wyatt | W P Wyatt | W P Wyatt | W P Wyatt |
| Total remuneration (£'000) | 926 | 215 | 669 | 585 | 1,077 | 1,196 | 2,285 |
| Short term incentives vested as a percentage of maximum (%) | 47.5 | – | 67.5 | – | 100.0 | 100.0 | 100.0 |
| Long term incentives vested as a percentage of maximum (%) | – | 1.5 | – | 50.0 | – | 10.1 | 100.0 |

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 at a pre-tax gain of £119,413 in the 2014 financial year.

# Directors' remuneration report continued

## Annual report on directors' remuneration

### Percentage change in remuneration of Chief Executive

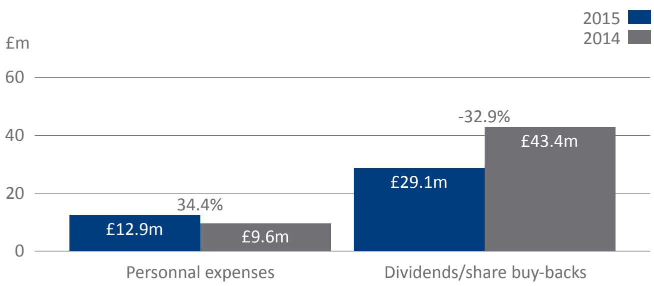
The following table shows the percentage change in the basic salary, value of taxable benefits and short term incentives paid to the Chief Executive in the year to 31 March 2015 against the previous financial year, compared with the average percentage changes in those components of pay of Caledonia's other staff on a per capita basis. Caledonia's staff received a standard increase in basic salary of 2.5% 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 | 2.5 | 6.0 |
| Taxable benefits | 0.7 | 3.5 |
| Short term incentives | 2.5 | 10.5 |

### 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 2016 financial year

The company expects to operate the remuneration policy as described in the previous section without any changes in the financial year ending 31 March 2016.

#### Basic salaries of executive directors

In respect of the 2016 financial year, the Remuneration Committee has already awarded the executive directors inflation-based increases in basic salary of 1.0%, as follows.

| | Salary for year to 31 March 2016 £ | 2015 £ |
|---|---|---|
| W P Wyatt | 511,550 | 506,480 |
| S A King | 362,980 | 359,380 |
| J M B Cayzer-Colvin | 306,930 | 303,890 |

#### 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 2014 and therefore their fees are unchanged since that date, as follows:

| | Fees for years to 31 March 2016 and 2015 £ |
|---|---|
| Chairman | 184,500 |
| Non-executive director basic fee | 39,900 |
| Chairman of the Audit Committee | 5,600 |
| Member of the Audit Committee | 2,300 |
| Chairman of the Remuneration Committee | 4,900 |
| Member of the Remuneration Committee | 1,600 |
| Senior Independent Director/Chairman of the Governance Committee | 5,100 |

#### 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 2016 and subsequent years, the current target, whereby payments commence with a 10% pay-out if the performance of the company's NAVTR matches RPI, increasing incrementally to the maximum entitlement payable if outperformance of 7% or more is achieved, should be qualified such that the RPI comparator should be the higher of actual RPI or 3%, being broadly in line with the historic long term average.

#### Long term incentive schemes

No changes to the company's long term incentive schemes are anticipated for the 2016 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), David Stewart and Robert Woods. Mr Gregson and Mr Woods served throughout the year and Mr Stewart became a member of the Committee on 17 March 2015. Charles Allen-Jones also served as a member of the Committee until his retirement from the board on 17 March 2015.

During the year, the Remuneration Committee received advice from Freshfields Bruckhaus Deringer LLP, the company's main legal advisers, in relation to the preparation of the 2014 directors' remuneration report, the adoption of new performance measures for the long term incentive plans and the implications of the introduction of clawback provisions into the UK Corporate Governance Code. 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 17 July 2014, the proxy votes lodged for the resolutions relating to directors' remuneration were as follows:

| | Number | % |
|---|---|---|
| *To approve the 2014 directors' remuneration report (other than the directors' remuneration policy)* | | |
| Votes in favour | 36,607,789 | 99.8 |
| Votes against | 68,129 | 0.2 |
| Total votes cast | 36,675,918 | |
| Votes withheld | 274,305 | |
| *To approve the directors' remuneration policy* | | |
| Votes in favour | 36,427,822 | 99.8 |
| Votes against | 88,185 | 0.2 |
| Total votes cast | 36,516,007 | |
| Votes withheld | 434,216 | |

This report was approved by the board on 27 May 2015 and signed on its behalf by:

Charles Gregson
Chairman of the Remuneration Committee

# Other governance matters

## Dividends
An interim dividend of 13.8p per share (2014 – 13.4p) was paid on 8 January 2015 and the board has proposed that a final dividend of 36.8p per share (2014 – 35.7p) be paid on 6 August 2015. This will result in total dividends for the year of 50.6p per share (2014 – 49.1p).

## 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 2015, 55,381,017 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 2015, 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 30,000 ordinary shares at a total cost of £0.6m. The company's issued share capital after these transactions, as at 26 May 2015, being the latest practicable date prior to signature of these accounts, was 55,381,017 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 2015, 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 | 19,623,769 | 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 scheme and the performance share scheme or calling for awards vesting under the company's deferred bonus plan. The voting rights of shares held by the trust are exercisable by the independent trustee. The trustee has 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 2015, the trust held 273,640 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 17 July 2014, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £923,516, 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 £923,517, 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 at that time by the Association of British Insurers. The directors were further authorised to issue ordinary shares up to a nominal amount of £138,527 other than pro rata to existing ordinary shareholders. These authorities last until 17 October 2015 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 17 July 2014, shareholders also granted authority for the company to make market purchases of up to 5,541,100 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 17 October 2015 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 17 October 2015 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 scheme and its performance share scheme and awards made under its deferred bonus plan 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 other senior executives 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-sixth annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Thursday, 16 July 2015 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 other than Mr H Y H Boël and Mr D C Stewart, who were appointed on 25 June 2014 and 17 March 2015 respectively. In addition, Mr C M Allen-Jones and Mr R Goblet d'Alviella served as directors until their retirements from the board on 17 March 2015 and 25 June 2014 respectively. Mrs S C R Jemmett-Page will join the board with effect from 1 July 2015.

## 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 or her 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.

Following changes to the Financial Conduct Authority's Listing Rules introduced in May 2014, the election of those directors determined by the board to be independent under The UK Corporate Governance Code must be subject to the approval of both all shareholders of the company and separately those shareholders who are not controlling shareholders, being the Cayzer Concert party.

## 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 and 23. In addition, note 22 to the financial statements includes the group's capital management policies and procedures and processes for managing market risk 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 37 within the Audit Committee report.

# Other governance matters continued

### Cross references to information required to be disclosed by Listing Rule 9.8.4 R.

To comply with Listing Rule 9.8.4 C, the following table provides references to where relevant information required to be disclosed under Listing Rule 9.8.4 R can be found.

| Listing Rule | Required information | Location |
|---|---|---|
| 9.8.4 R (5) | Details of any arrangements under which a director has waived or agreed to waive any emoluments from the company or any subsidiary undertaking. | Directors' remuneration report – page 48. Waiver by Mr Boël of all non-executive director fees to which he would otherwise be entitled. |
| 9.8.4 R (6) | Where a director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review. | As above. |
| 9.8.4 R (12) | Details of any arrangement under which a shareholder has waived or agreed to waive any dividends. | Other governance matters – page 54. Waiver of all dividends by the trustee of the Caledonia Investments plc Employee Share Trust, except to the extent of 0.0001% of such dividends. |
| 9.8.6 R (13) | Where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review. | As above. |
| 9.8.4 R (14)(a) | A statement made by the board that the listed company has entered into an agreement with a controlling shareholder under Listing Rule 9.2.2 AR (2)(a). | Corporate governance report – page 34. Relations with controlling shareholders. |
| 9.8.4 R (14)(c) | A statement made by the board that:<br>1. the listed company has complied with the independence provisions included in any agreement with a controlling shareholder entered into under Listing Rule 9.2.2 AR (2)(a)<br>2. so far as the listed company is aware, the independence provisions included in any agreement with a controlling shareholder entered into under Listing Rule 9.2.2 AR (2)(a) have been complied with during the period under review by the controlling shareholder or any of its associates<br>3. so far as the listed company is aware, the procurement obligation (as set out in Listing Rule 9.2.2 BR (2)(a) included in any agreement entered into under Listing Rule 9.2.2 AR (2)(a) has been complied with during the period under review by a controlling shareholder. | As above. |

# 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 ('IFRSs') 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 IFRSs 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
- 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
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 IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group
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 |
| 27 May 2015 | 27 May 2015 |

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

### 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 2015 set out on pages 60 to 78. 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 2015 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 (£850.2m)**
Refer to page 36 (Audit Committee report), page 64 (accounting policy) and page 68 (financial disclosures)

#### The risk

50.9% of the group's total assets (by value) is held in investments where no quoted market price is available. Unlisted 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:

- Enquiry of 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 all 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 group'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 challenged 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 arm's-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 obtained and agreed the latest reported net asset values from the fund managers. Our procedures also included obtaining audited financial statements of the funds and checking 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 22 in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

**Carrying value of investments listed on recognised stock exchanges (£648.6m)**
Refer to page 37 (Audit Committee report), page 64 (accounting policy) and page 68 (financial disclosures)

#### The risk

The group's portfolio of listed equity investments makes up 38.8% of the total assets of the group and is considered to be one of the key drivers 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 judgement 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 completeness, valuation and existence of the group's listed 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 100 per cent of investments in the portfolio to externally quoted prices; and
- agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations.

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

Materiality for the financial statements as a whole was set at £25m, determined with reference to a benchmark of total group assets, of which it represents 1.5%.

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £1.2m in addition to other identified misstatements that warranted reporting on qualitative grounds.

The group audit team performed the audit of the group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total group revenue, group profit before tax, and total group assets.

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

In our opinion:

- the parts of the directors' remuneration report to be audited have 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 Audit Committee report 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 55, 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 ten provisions of the 2012 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/auditscopeukco2014a, 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

27 May 2015

# Group statement of comprehensive income

## for the year ended 31 March 2015

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | Note | Revenue £m | Capital £m | Total £m | Revenue £m | Capital £m | Total £m |
| *Revenue* | | | | | | | |
| Investment income | 1 | 47.2 | – | 47.2 | 41.1 | – | 41.1 |
| Other income | 1 | 0.5 | – | 0.5 | 0.5 | – | 0.5 |
| Gains and losses on fair value investments | 8 | – | 179.9 | 179.9 | – | 151.4 | 151.4 |
| Gains on fair value property | | – | 0.3 | 0.3 | – | – | – |
| Total revenue | | 47.7 | 180.2 | 227.9 | 41.6 | 151.4 | 193.0 |
| Management expenses | 2 | (18.3) | (0.6) | (18.9) | (13.6) | (0.5) | (14.1) |
| Other non-recurring expenses | | (2.6) | – | (2.6) | – | – | – |
| Performance fees | | – | (1.1) | (1.1) | – | – | – |
| Guarantee obligation provided | 15 | – | (0.7) | (0.7) | – | (0.8) | (0.8) |
| Warranty provision released | 15 | – | – | – | – | 3.5 | 3.5 |
| Profit before finance costs | | 26.8 | 177.8 | 204.6 | 28.0 | 153.6 | 181.6 |
| Treasury interest receivable | 3 | 0.3 | – | 0.3 | 1.2 | – | 1.2 |
| Finance costs | 4 | (1.6) | – | (1.6) | (1.7) | – | (1.7) |
| Exchange movements | | 1.2 | – | 1.2 | (0.3) | – | (0.3) |
| Profit before tax | | 26.7 | 177.8 | 204.5 | 27.2 | 153.6 | 180.8 |
| Taxation | 5 | 2.9 | 0.3 | 3.2 | 1.5 | 0.8 | 2.3 |
| Profit for the year | | 29.6 | 178.1 | 207.7 | 28.7 | 154.4 | 183.1 |
| *Other comprehensive income items never to be reclassified to profit or loss* | | | | | | | |
| Actuarial gain/(loss) on defined benefit pension schemes | 24 | – | (2.7) | (2.7) | – | 1.4 | 1.4 |
| Tax on other comprehensive income | 5 | – | 0.9 | 0.9 | – | (0.3) | (0.3) |
| Total comprehensive income | | 29.6 | 176.3 | 205.9 | 28.7 | 155.5 | 184.2 |
| | | | | | | | |
| Basic earnings per share | 7 | 53.7p | 323.3p | 377.0p | 51.9p | 279.2p | 331.1p |
| Diluted earnings per share | 7 | 52.9p | 318.2p | 371.1p | 51.3p | 276.1p | 327.4p |

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 78 are an integral part of these financial statements.

# Statement of financial position

## at 31 March 2015

| | Note | Group 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|---|
| *Non-current assets* | | | | | |
| Investments held at fair value through profit or loss | 8 | 1,498.8 | 1,451.9 | 1,496.2 | 1,435.9 |
| Investments in subsidiaries held at cost | 8 | – | – | 0.8 | 0.8 |
| Property, plant and equipment | 9 | 19.1 | 18.6 | – | – |
| Deferred tax assets | 10 | 2.4 | 1.0 | – | – |
| Employee benefits | 24 | 1.9 | 3.2 | – | – |
| Non-current assets | | 1,522.2 | 1,474.7 | 1,497.0 | 1,436.7 |
| *Current assets* | | | | | |
| Trade and other receivables | 11 | 7.3 | 7.3 | 5.5 | 5.6 |
| Current tax assets | 5 | 0.4 | – | 1.2 | 0.1 |
| Cash and cash equivalents | 12 | 140.0 | 35.5 | 138.7 | 35.5 |
| Current assets | | 147.7 | 42.8 | 145.4 | 41.2 |
| Total assets | | 1,669.9 | 1,517.5 | 1,642.4 | 1,477.9 |
| *Current liabilities* | | | | | |
| Bank overdrafts | 12 | – | (2.6) | – | – |
| Interest-bearing loans and borrowings | 13 | – | (20.0) | – | – |
| Trade and other payables | 14 | (16.0) | (15.0) | (11.7) | (6.8) |
| Employee benefits | 24 | (2.4) | (2.1) | – | – |
| Current tax liabilities | | – | (0.2) | – | – |
| Provisions | 15 | (10.4) | (8.3) | (9.0) | (10.9) |
| Current liabilities | | (28.8) | (48.2) | (20.7) | (17.7) |
| *Non-current liabilities* | | | | | |
| Interest-bearing loans and borrowings | 13 | (9.0) | (20.0) | – | (20.0) |
| Employee benefits | 24 | (5.0) | (3.4) | – | – |
| Deferred tax liabilities | 10 | (0.2) | (0.3) | – | – |
| Non-current liabilities | | (14.2) | (23.7) | – | (20.0) |
| Total liabilities | | (43.0) | (71.9) | (20.7) | (37.7) |
| Net assets | | 1,626.9 | 1,445.6 | 1,621.7 | 1,440.2 |
| *Equity* | | | | | |
| Share capital | 16 | 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 | | 1,328.3 | 1,152.6 | 1,331.8 | 1,154.5 |
| Retained earnings | | 310.0 | 304.4 | 301.3 | 297.1 |
| Own shares | | (17.2) | (17.2) | (17.2) | (17.2) |
| Total equity | | 1,626.9 | 1,445.6 | 1,621.7 | 1,440.2 |
| Undiluted net asset value per share | 17 | 2952p | 2624p | | |
| Diluted net asset value per share | 17 | 2906p | 2593p | | |

The financial statements on pages 60 to 78 were approved by the board and authorised for issue on 27 May 2015 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 78 are an integral part of these financial statements.

# Statement of changes in equity

## for the year ended 31 March 2015

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Capital reserve £m | Retained earnings £m | Own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| 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 | – | – | – | 155.5 | 28.7 | – | 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 | 1,152.6 | 304.4 | (17.2) | 1,445.6 |
| *Total comprehensive income* | | | | | | | |
| Profit for the year | – | – | – | 178.1 | 29.6 | – | 207.7 |
| Other comprehensive income | – | – | – | (1.8) | – | – | (1.8) |
| Total comprehensive income | – | – | – | 176.3 | 29.6 | – | 205.9 |
| *Transactions with owners of the company* | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | |
| Exercise of options | – | – | – | – | – | 1.2 | 1.2 |
| Share-based payments | – | – | – | – | 3.3 | – | 3.3 |
| Own shares purchased | – | – | – | – | – | (1.2) | (1.2) |
| Own shares cancelled | – | – | – | (0.6) | – | – | (0.6) |
| Dividends paid | – | – | – | – | (27.3) | – | (27.3) |
| Total transactions with owners | – | – | – | (0.6) | (24.0) | – | (24.6) |
| Balance at 31 March 2015 | 3.2 | 1.3 | 1.3 | 1,328.3 | 310.0 | (17.2) | 1,626.9 |
| **Company** | | | | | | | |
| 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 |
| Profit and total comprehensive income | – | – | – | 177.9 | 28.2 | – | 206.1 |
| *Transactions with owners of the company* | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | |
| Exercise of options | – | – | – | – | – | 1.2 | 1.2 |
| Share-based payments | – | – | – | – | 3.3 | – | 3.3 |
| Own shares purchased | – | – | – | – | – | (1.2) | (1.2) |
| Own shares cancelled | – | – | – | (0.6) | – | – | (0.6) |
| Dividends paid | – | – | – | – | (27.3) | – | (27.3) |
| Total transactions with owners | – | – | – | (0.6) | (24.0) | – | (24.6) |
| Balance at 31 March 2015 | 3.2 | 1.3 | 1.3 | 1,331.8 | 301.3 | (17.2) | 1,621.7 |

The accounting policies and notes to the financial statements on pages 64 to 78 are an integral part of these financial statements.

# Statement of cash flows
## for the year ended 31 March 2015

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| *Operating activities* | | | | | |
| Dividends received | | 45.0 | 38.7 | 45.0 | 39.7 |
| Interest received | | 3.6 | 5.9 | 2.6 | 4.4 |
| Cash received from customers | | 0.5 | 1.5 | – | – |
| Cash paid to suppliers and employees | | (18.8) | (15.6) | (18.2) | (14.0) |
| Taxes received | | 0.3 | 1.3 | 0.3 | 1.3 |
| Group tax relief received | | 1.7 | 3.1 | 2.0 | 3.4 |
| Net cash flow from operating activities | | 32.3 | 34.9 | 31.7 | 34.8 |
| *Investing activities* | | | | | |
| Purchases of investments | | (240.4) | (327.1) | (239.2) | (318.7) |
| Proceeds from disposal of investments | | 372.7 | 255.7 | 358.7 | 246.6 |
| Purchases of property, plant and equipment | | (0.5) | (0.1) | – | – |
| Proceeds from disposal of property, plant and equipment | | – | 0.3 | – | – |
| Net cash flow from/(used in) investing activities | | 131.8 | (71.2) | 119.5 | (72.1) |
| *Financing activities* | | | | | |
| Interest paid | | (1.6) | (2.5) | (1.2) | (2.0) |
| Dividends paid to owners of the company | | (27.3) | (26.5) | (27.3) | (26.5) |
| Proceeds from new borrowings | | 20.0 | 35.0 | – | 35.0 |
| Repayment of borrowings | | (51.0) | (14.9) | (20.0) | (14.9) |
| Proceeds from group company loans | | 15.1 | – | 9.0 | – |
| Repayment of group company loans | | (11.6) | (0.4) | (7.9) | – |
| Exercise of share options | | 1.2 | 1.7 | 1.2 | 1.7 |
| Purchase of own shares | | (1.8) | (17.0) | (1.8) | (17.0) |
| Net cash flow used in financing activities | | (57.0) | (24.6) | (48.0) | (23.7) |
| Net increase/(decrease) in cash and cash equivalents | | 107.1 | (60.9) | 103.2 | (61.0) |
| Cash and cash equivalents at year start | | 32.9 | 93.8 | 35.5 | 96.5 |
| Cash and cash equivalents at year end | 12 | 140.0 | 32.9 | 138.7 | 35.5 |

The accounting policies and notes to the financial statements on pages 64 to 78 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 27 May 2015.

These financial statements are presented in pounds 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*

Most 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 actively traded financial instruments, quoted market prices are readily available. For other financial instruments, such as unlisted securities, valuation techniques are used to estimate fair value. Valuation techniques make maximum use of market inputs, 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 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 by 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 November 2014 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 55. Accordingly, they continue to adopt the going concern basis of preparing the financial statements.

### Adopted IFRSs

In the current year, the group has not adopted any new standards or interpretations.

### IFRSs not yet applied

At the date of approval of these financial statements, the following standards had been issued by the IASB but not adopted by the EU:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*

The directors anticipate that the adoption of these standards in future periods in their issued form will have no material impact on the financial statements.

### Assessment as investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to account for most investments in controlled entities as held at fair value through profit or loss. Subsidiaries that provide investment related services or engage in permitted investment related activities with investees continue to be consolidated unless they are also investment entities. The board has concluded that the company meets the definition of an investment entity.

### Basis of consolidation

In accordance with the IFRS 10/IAS 28 *Investment entities amendments*, 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 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 in other comprehensive income.

Past service cost is recognised immediately in the period of a plan amendment.

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

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

*Share-based payments*
The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed on a straight-line basis over the vesting period, based on the group's estimate of 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. In addition, the parent recognises an increase in equity and an increase in subsidiary investment equivalent to the amount of the share-based payment transaction.

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 IFRS10, 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 has 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 future 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 future 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 held 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 or 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 24.

# Significant accounting policies continued

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
- actuarial gains and losses on defined benefit pension schemes
- taxation on items recognised in the capital reserve.

### Property, plant and equipment
Property is measured at fair value. Gains arising from changes in the fair value are included in other comprehensive income for the period in which they arise and losses included in profit or loss. To the extent gains represent the reversal of cumulative losses previously recognised they are included in profit or loss.

Plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment loss.

Assets in course of construction are measured at cost less any accumulated impairment loss.

Depreciation is calculated to write off the fair value or cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives. Land and assets in course of construction are not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 25-50 years |
| Office equipment | 3-5 years |

Accumulated depreciation on revalued property is eliminated against the gross carrying amount of the asset.

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. Revenue

### Investment income

| | 2015 £m | 2014 £m |
|---|---|---|
| *Income from portfolio investments* | | |
| Dividends from UK listed companies | 9.8 | 9.9 |
| Dividends from overseas listed companies | 9.9 | 7.8 |
| Dividends from unlisted companies | 17.6 | 15.9 |
| Distributions from limited partnerships | 7.8 | 4.9 |
| Interest on debt instruments | 1.3 | 2.6 |
| Scrip dividends | 0.4 | – |
| | 46.8 | 41.1 |
| *Income from unallocated investments* | | |
| Dividends from unlisted companies | 0.4 | – |
| | 47.2 | 41.1 |

### Other income

| | 2015 £m | 2014 £m |
|---|---|---|
| Property income | 0.5 | 0.5 |

## 2. Expenses

### Management expenses

| | 2015 £m | 2014 £m |
|---|---|---|
| *Income statement revenue column* | | |
| Personnel expenses | 12.9 | 9.6 |
| Depreciation | 0.3 | 0.1 |
| Auditor's remuneration | 0.2 | 0.2 |
| Other administrative expenses | 5.5 | 4.9 |
| Directors' fees and disbursements recharged | (0.7) | (0.6) |
| Management fees and recharges | (0.4) | (0.3) |
| Gain on disposal of plant and equipment | – | (0.3) |
| Other expenses | 0.5 | – |
| | 18.3 | 13.6 |
| *Income statement capital column* | | |
| Transaction costs | 0.6 | 0.5 |
| | 18.9 | 14.1 |

### Further information

*Auditor's remuneration*

Fees payable to KPMG LLP were as follows:

| | 2015 £m | 2014 £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*

| | 2015 £m | 2014 £m |
|---|---|---|
| Wages and salaries | 7.2 | 7.1 |
| Compulsory social security contributions | 0.9 | 1.0 |
| Contributions to defined contribution plans | 0.5 | 0.4 |
| Defined benefit pension plans expense (note 24) | 0.2 | 0.3 |
| Equity-settled share-based payments (note 23) | 3.3 | 0.7 |
| National Insurance on share awards | 0.8 | 0.1 |
| | 12.9 | 9.6 |

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

| | 2015 No | 2014 No |
|---|---|---|
| Average number of employees | 46 | 45 |

## 3. Treasury interest receivable

| | 2015 £m | 2014 £m |
|---|---|---|
| Interest on bank deposits | 0.2 | 0.3 |
| Group facility fees | 0.1 | 0.1 |
| Loan impairment reversal | – | 0.8 |
| | 0.3 | 1.2 |

## 4. Finance costs

| | 2015 £m | 2014 £m |
|---|---|---|
| Interest on bank loans and overdrafts | 1.6 | 1.6 |
| Interest on loans from subsidiaries | – | 0.1 |
| | 1.6 | 1.7 |

## 5. Taxation

### Recognised in comprehensive income

| | 2015 £m | 2014 £m |
|---|---|---|
| *Current tax income* | | |
| Current year | 0.7 | 0.8 |
| Adjustments for prior years | 1.9 | 1.7 |
| | 2.6 | 2.5 |
| *Deferred tax income/(expense)* | | |
| Origination and reversal of temporary differences | 0.6 | (0.2) |
| Total tax income | 3.2 | 2.3 |

### Reconciliation of effective tax expense

| | 2015 £m | 2014 £m |
|---|---|---|
| Profit before tax | 204.5 | 180.8 |
| Tax expense at the domestic rate of 21% (2014 – 23%) | (42.9) | (41.6) |
| Non-deductible expenses | (0.7) | 0.1 |
| Losses for the year unrelieved | (1.2) | (1.4) |
| Non-taxable gains on investments | 37.7 | 35.4 |
| Non-taxable UK dividend income | 4.1 | 6.0 |
| Tax exempt revenues | 3.8 | 2.2 |
| Other temporary differences | 0.5 | (0.1) |
| Over-provided in prior years | 1.9 | 1.7 |
| Tax income | 3.2 | 2.3 |

### Recognised in other comprehensive income

| | 2015 £m | 2014 £m |
|---|---|---|
| *Deferred tax income/(expense)* | | |
| On actuarial losses/(gains) on defined benefit pension schemes | 0.5 | (0.3) |
| On share options and awards | 0.4 | – |
| | 0.9 | (0.3) |

### Current tax assets

Current tax assets of £0.4m in the group and £1.2m in the company represented tax loss relief surrender for settlement (2014 – company £0.1m).

# Notes to the financial statements

## 6. Dividends

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | p/share | £m | p/share | £m |
| Final dividend for the year ended 31 March 2014 (2013) | 35.7 | 19.7 | 34.3 | 19.1 |
| Interim dividend for the year ended 31 March 2015 (2014) | 13.8 | 7.6 | 13.4 | 7.4 |
| | 49.5 | 27.3 | 47.7 | 26.5 |
| Proposed final dividend for the year ended 31 March 2015 (2014) | 36.8 | 20.3 | 35.7 | 19.7 |

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 16 July 2015, will be payable on 6 August 2015 to holders of shares on the register on 10 July 2015. The ex-dividend date will be 9 July 2015.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2015 are the interim and final dividends for that year, amounting to £27.9m (2014 – £27.1m).

## 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 profit attributable to shareholders (basic and diluted) was as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Revenue | 29.6 | 28.7 |
| Capital | 178.1 | 154.4 |
| Total | 207.7 | 183.1 |

The weighted average number of shares was as follows:

| | 2015 000's | 2014 000's |
|---|---|---|
| Issued shares at year start | 55,411 | 56,222 |
| Effect of shares cancelled | (16) | (589) |
| Effect of shares held by the employee share trust | (296) | (327) |
| Basic weighted average number of shares during the year | 55,099 | 55,306 |
| Effect of performance shares, share options and deferred bonus awards | 873 | 628 |
| Diluted weighted average number of shares during the year | 55,972 | 55,934 |

## 8. Investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| *Investments held at fair value through profit or loss* | | | | |
| Investments listed on a recognised stock exchange | 648.6 | 703.2 | 648.6 | 703.2 |
| Unlisted investments | 850.2 | 748.7 | 847.6 | 732.7 |
| | 1,498.8 | 1,451.9 | 1,496.2 | 1,435.9 |
| *Investments held at cost* | | | | |
| Service subsidiaries | – | – | 0.8 | 0.8 |
| | 1,498.8 | 1,451.9 | 1,497.0 | 1,436.7 |

The movements in non-current investments were as follows:

| | Listed equity £m | Unlisted equity[1] £m | Unlisted debt £m | Total £m |
|---|---|---|---|---|
| **Group** | | | | |
| 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 |
| Reclassifications | (0.9) | (31.8) | 32.7 | – |
| Purchases at cost | 131.8 | 97.9 | 11.1 | 240.8 |
| Disposal proceeds | (199.5) | (110.4) | (61.6) | (371.5) |
| Gains on investments | 14.0 | 154.6 | 11.3 | 179.9 |
| Rolled-up interest | – | – | (2.3) | (2.3) |
| Balance at 31 March 2015 | 648.6 | 787.2 | 63.0 | 1,498.8 |
| **Company** | | | | |
| 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 |
| Reclassifications | (0.9) | (31.8) | 32.7 | – |
| Purchases at cost | 131.8 | 101.2 | 9.9 | 242.9 |
| Disposal proceeds | (199.5) | (113.7) | (44.4) | (357.6) |
| Gains on investments | 14.0 | 154.6 | 8.7 | 177.3 |
| Rolled-up interest | – | – | (2.3) | (2.3) |
| Balance at 31 March 2015 | 648.6 | 802.6 | 45.8 | 1,497.0 |

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

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

Reclassifications in the current year reflected an investee de-listing and the reorganisation of a portfolio of US private equity funds. In the prior year, reclassifications represented a subsidiary debt to equity conversion.

## 9. Property, plant and equipment

### Group

| | Property £m | Under construction £m | Office equipment £m | Total £m |
|---|---|---|---|---|
| *Cost* | | | | |
| Balance at 31 March 2013 | 20.0 | – | 1.4 | 21.4 |
| Acquisitions | – | – | 0.1 | 0.1 |
| Disposals | – | – | (0.5) | (0.5) |
| Balance at 31 March 2014 | 20.0 | – | 1.0 | 21.0 |
| Acquisitions | – | 0.5 | – | 0.5 |
| Balance at 31 March 2015 | 20.0 | 0.5 | 1.0 | 21.5 |
| *Depreciation* | | | | |
| Balance at 31 March 2013 | – | – | (1.3) | (1.3) |
| Depreciation charge | – | – | (0.1) | (0.1) |
| Disposals | – | – | 0.5 | 0.5 |
| Balance at 31 March 2014 | – | – | (0.9) | (0.9) |
| Depreciation charge | (0.3) | – | – | (0.3) |
| Eliminate depreciation | 0.3 | – | – | 0.3 |
| Balance at 31 March 2015 | – | – | (0.9) | (0.9) |
| *Revaluation* | | | | |
| Balance at 31 March 2013 and 2014 | (1.5) | – | – | (1.5) |
| Revaluation in the year | 0.3 | – | – | 0.3 |
| Eliminate depreciation | (0.3) | – | – | (0.3) |
| Balance at 31 March 2015 | (1.5) | – | – | (1.5) |
| *Carrying amounts* | | | | |
| At 31 March 2013 | 18.5 | – | 0.1 | 18.6 |
| At 31 March 2014 | 18.5 | – | 0.1 | 18.6 |
| At 31 March 2015 | 18.5 | 0.5 | 0.1 | 19.1 |

Property is measured at fair value and comprised freehold land and building partly occupied by the group and partly let out to third parties.

## 10. 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 |
|---|---|---|---|
| **2015** | | | |
| Employee benefits | 2.4 | – | 2.4 |
| Other items | – | (0.2) | (0.2) |
| | 2.4 | (0.2) | 2.2 |
| **2014** | | | |
| Employee benefits | 1.0 | (0.1) | 0.9 |
| Other items | – | (0.2) | (0.2) |
| | 1.0 | (0.3) | 0.7 |

*Movement in temporary differences during the year*

| | Balance at year start £m | Comprehensive income £m | Other comprehensive income £m | Balance at year end £m |
|---|---|---|---|---|
| **2015** | | | | |
| Employee benefits | 0.9 | 0.6 | 0.9 | 2.4 |
| Other items | (0.2) | – | – | (0.2) |
| | 0.7 | 0.6 | 0.9 | 2.2 |
| **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 |

### Group and company

*Unrecognised deferred tax assets*

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Tax losses | 2.4 | 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 losses.

## 11. Trade and other receivables

| | Group 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|
| Trade receivables | 4.8 | 5.5 | 4.6 | 4.7 |
| Non-trade receivables and prepayments | 1.9 | 1.8 | 0.9 | 0.9 |
| Other receivables | 0.6 | – | – | – |
| | 7.3 | 7.3 | 5.5 | 5.6 |

## 12. Net cash and cash equivalents

| | Group 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|
| Bank balances | 41.6 | 33.3 | 2.0 | 33.3 |
| Short term deposits | 98.4 | 2.2 | 136.7 | 2.2 |
| Cash and cash equivalents | 140.0 | 35.5 | 138.7 | 35.5 |
| Bank overdrafts | – | (2.6) | – | – |
| | 140.0 | 32.9 | 138.7 | 35.5 |

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

## 13. Interest-bearing loans and borrowings

| | Group 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|
| *Current liabilities* | | | | |
| Unsecured bank loans | – | 20.0 | – | – |
| *Non-current liabilities* | | | | |
| Unsecured bank loans | 9.0 | 20.0 | – | 20.0 |
| | 9.0 | 40.0 | – | 20.0 |

# Notes to the financial statements continued

## 14. Trade and other payables

| | Group 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|
| Trade payables | 0.7 | 2.7 | 9.8 | 6.1 |
| Non-trade payables and accrued expenses | 0.7 | 1.4 | 0.6 | 0.7 |
| Other payables | 14.6 | 10.9 | 1.3 | – |
| | 16.0 | 15.0 | 11.7 | 6.8 |

Other payables included short term lending by subsidiaries to Caledonia Investments plc and Caledonia Treasury Ltd.

## 15. Provisions

### Group

| | Warranty £m | Solvency guarantee £m | Litigation £m | Total £m |
|---|---|---|---|---|
| Balance at 31 March 2013 | 3.5 | 7.5 | – | 11.0 |
| Provided during the year | – | 0.8 | – | 0.8 |
| Released during the year | (3.5) | – | – | (3.5) |
| Balance at 31 March 2014 | – | 8.3 | – | 8.3 |
| Provided during the year | – | 0.7 | 1.4 | 2.1 |
| Balance at 31 March 2015 | – | 9.0 | 1.4 | 10.4 |

### Company

| | Warranty £m | Bank guarantee £m | Solvency guarantee £m | Total £m |
|---|---|---|---|---|
| Balance at 31 March 2013 | 3.5 | 1.9 | 7.5 | 12.9 |
| Provided during the year | – | 0.7 | 0.8 | 1.5 |
| Released during the year | (3.5) | – | – | (3.5) |
| Balance at 31 March 2014 | – | 2.6 | 8.3 | 10.9 |
| Provided during the year | – | – | 0.7 | 0.7 |
| Released during the year | – | (2.6) | – | (2.6) |
| Balance at 31 March 2015 | – | – | 9.0 | 9.0 |

The warranty provision relates to the disposal of an investment in 2006. The provision was estimated based on the amount of the claim against the company. The claim was determined in the prior year and the agreed settlement covered by insurance.

The bank guarantee provision related to a bank loan drawn by a subsidiary and lent to another subsidiary, which did not have sufficient resources to settle the obligation in full. The provision was estimated based on the expected shortfall should the loan be repaid. During the year, the ultimate borrower was restructured and the loan obligation settled in full.

The solvency guarantee provision related to a subsidiary that had a claim against it, but insufficient resources to settle any such obligations. The provision was estimated based on the amount of the claim against the subsidiary. During the year, the provision was increased based on a review of the obligations.

The litigation provision related to a claim arising from the acquisition of a subsidiary in 2013. The amount of the provision was estimated based on the costs of defending the claim in the courts.

With the exception of the litigation provision, these provisions were allocated to the capital reserve. As the matters that gave rise to the provisions were expected to be resolved over the next year, all provisions were classified as current liabilities.

## 16. Share capital

| | Ordinary shares £m | Deferred ordinary shares £m | Share premium £m | Total £m |
|---|---|---|---|---|
| Balance at 31 March 2013, 2014 and 2015 | 2.8 | 0.4 | 1.3 | 4.5 |

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

| | Ordinary shares 2015 000's | Ordinary shares 2014 000's | Deferred ordinary shares 2015 000's | Deferred ordinary shares 2014 000's |
|---|---|---|---|---|
| Balance at the year start | 55,411 | 56,222 | 8,000 | 8,000 |
| Shares cancelled | (30) | (811) | – | – |
| Balance at the year end | 55,381 | 55,411 | 8,000 | 8,000 |

The company had outstanding share options and performance share scheme and deferred bonus awards (note 23).

As at 31 March 2015, the issued share capital of the company comprised 55,381,017 ordinary shares (2014 – 55,411,017) and 8,000,000 deferred ordinary shares (2014 – 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 subsidiaries, all voting rights are suspended.

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

## 17. 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 ordinary shares in issue at the year end less ordinary 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.

| | 2015 Net assets £m | 2015 Number of shares 000's | 2015 NAV p/share | 2014 Net assets £m | 2014 Number of shares 000's | 2014 NAV p/share |
|---|---|---|---|---|---|---|
| Undiluted | 1,626.9 | 55,107 | 2952 | 1,445.6 | 55,090 | 2624 |
| Adjustments | 1.2 | 924 | (46) | 2.3 | 748 | (31) |
| Diluted | 1,628.1 | 56,031 | 2906 | 1,447.9 | 55,838 | 2593 |

## 18. 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 group's total assets. 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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Quoted pool | 16.9 | 92.1 | 447.7 | 497.8 |
| Unquoted pool | 87.8 | 80.0 | 510.3 | 568.3 |
| Funds pool | 100.1 | 21.3 | 327.7 | 204.4 |
| Income & Growth pool | 21.5 | 0.2 | 202.1 | 189.6 |
| Investment portfolio | 226.3 | 193.6 | 1,487.8 | 1,460.1 |
| Other investments | 1.6 | (0.6) | 11.0 | 10.3 |
| Total revenue/investments[1] | 227.9 | 193.0 | 1,498.8 | 1,470.4 |
| Cash and cash equivalents | 0.3 | 1.2 | 140.0 | 32.9 |
| Other items | (23.7) | (13.4) | 31.1 | 14.2 |
| Reportable total | 204.5 | 180.8 | 1,669.9 | 1,517.5 |

1. In 2014, total investments included property held at fair value of £18.5m.

### 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 |
|---|---|---|---|---|
| **2015** | | | | |
| Revenue | 52.0 | 123.4 | 52.5 | 227.9 |
| Non-current assets | 19.1 | – | – | 19.1 |
| **2014** | | | | |
| Revenue | 141.2 | 27.6 | 24.2 | 193.0 |
| 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.

## 19. Related parties

### Identity of related parties

The group and company had related party relationships with its subsidiaries (note 25) and associates (note 26) 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 2015 (2014 – 35.4%).

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 in the directors' remuneration report on page 48.

The key management personnel compensation was as follows:

| | Group | |
|---|---|---|
| | 2015 £m | 2014 £m |
| Short term employee benefits | 2.5 | 2.4 |
| Post-employment benefits | – | 0.1 |
| Equity compensation benefits | 1.6 | 0.5 |
| | 4.1 | 3.0 |

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

During the year, the group invoiced and received £0.1m (2014 – £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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 | – |
| Dividends receivable on equity shares | 14.8 | – | 13.6 | – |
| Capital distributions receivable | 3.3 | – | 0.7 | – |
| Management fees payable | (19.9) | (9.2) | (13.8) | (3.5) |
| Taxation | 1.4 | – | 3.0 | – |
| *Financial position items* | | | | |
| Investments purchased | 5.5 | – | – | – |
| Investments sold | (31.6) | – | – | – |
| Equity subscribed | 1.7 | – | 144.5 | – |
| Capital contributions | 5.9 | – | 15.7 | – |
| Loans receivable | 38.5 | 43.0 | (14.5) | 4.5 |
| Loans payable | (1.3) | (1.3) | – | – |

# Notes to the financial statements continued

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 | 2.1 | – | 1.2 | – |
| Interest receivable on loan securities | – | – | 1.3 | – |
| Taxation | 0.6 | – | 0.4 | – |
| Loans receivable | (39.5) | – | (2.8) | 39.5 |
| *Other group companies* | | | | |
| Directors' fees receivable | 0.1 | – | 0.3 | 0.1 |

*Cayzer Family Archive*
In the previous 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.

## 20. 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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| *Investments* | | | | |
| Contracted but not called | 128.9 | 88.5 | 128.9 | 88.5 |
| Conditionally contracted | 29.7 | 19.0 | 29.7 | 19.0 |
| | 158.6 | 107.5 | 158.6 | 107.5 |

## 21. Contingencies

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

At 31 March 2015, there was a litigation claim outstanding in respect of an investment made in 2013.

## 22. 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.

### 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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Investments held at fair value through profit or loss | 1,465.4 | 1,380.1 | 1,480.8 | 1,395.5 |

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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Increase in prices | 146.5 | 138.0 | 148.1 | 139.5 |
| Decrease in prices | (146.5) | (138.0) | (148.1) | (139.5) |

The sensitivity to equity and fund investments has increased during the year due to investment portfolio gains 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 and 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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Cash and cash equivalents | 0.5 | 2.0 | 0.5 | 1.9 |

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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Sterling depreciates (weakens) | – | 0.2 | – | 0.2 |
| Sterling appreciates (strengthens) | – | (0.1) | – | (0.1) |

The exposure to foreign currency has decreased during the year due to the reduction in foreign denominated cash and cash equivalents.

### 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 | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| *Fixed rate* | | | | |
| Investments in debt instruments | – | 9.0 | – | 9.0 |
| Interest-bearing loans to subsidiaries | 2.6 | 9.1 | – | – |
| *Floating rate* | | | | |
| Investments in debt instruments | 16.2 | 32.2 | 16.2 | 32.2 |
| Interest-bearing loans to subsidiaries | 14.6 | 21.5 | – | – |
| Cash and cash equivalents | 140.0 | 32.9 | 138.7 | 35.5 |
| Interest-bearing loans and borrowings | (9.0) | (40.0) | – | (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 | | Company | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Decrease in interest rates | 0.5 | 0.6 | 0.4 | 0.4 |
| Increase in interest rates | (0.5) | (0.6) | (0.4) | (0.4) |

The group's and company's sensitivity to interest rates has changed in the year due to a reduction in fixed interest loans, against an increase in floating rate loans and net cash with a relatively lower rate of interest.

### 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 2015, the financial assets exposed to credit risk were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Investments in debt instruments | 33.4 | 71.8 | 16.2 | 41.2 |
| Operating and other receivables | 7.3 | 7.3 | 5.5 | 5.6 |
| Cash and cash equivalents | 140.0 | 32.9 | 138.7 | 35.5 |
| | 180.7 | 112.0 | 160.4 | 82.3 |

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.

At the year end, the group and company had cash deposits with the Royal Bank of Scotland plc of £98.0m and £96.7m respectively.

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.

### 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.

### 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, including the level of undrawn committed facilities.

# Notes to the financial statements continued

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 |
|---|---|---|---|---|
| **2015** | | | | |
| *Unsecured loans* | | | | |
| Subsidiaries | 0.1 | 9.2 | (0.3) | 9.0 |
| **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 |

## 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 (2014 – £175m).

The group's total capital at 31 March 2015 was £1,626.9m (2014 – £1,445.6m) and comprised equity share capital and reserves. The group was 0.6% geared at the year end (2014 – 2.8%) and had a further £166m of committed bank facilities.

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.

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 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 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|
| *Investments held at fair value* | | | | |
| Level 1 | 648.6 | 703.2 | 648.6 | 703.2 |
| Level 2 | 99.2 | 39.4 | 111.3 | 39.4 |
| Level 3 | 751.0 | 709.3 | 736.3 | 693.3 |
| | 1,498.8 | 1,451.9 | 1,496.2 | 1,435.9 |

In the year, group and company investments with a value of £0.9m and £2.9m were transferred from Level 1 to Level 3 and Level 2 to Level 3 respectively, as a result of there no longer being any observable market data. In addition, the group transferred £5.5m from Level 2 to Level 3 in respect of property investments.

Movement in Level 3 financial instruments was as follows:

| | Group 2015 £m | Group 2014 £m | Company 2015 £m | Company 2014 £m |
|---|---|---|---|---|
| Balance at the year start | 709.3 | 494.7 | 693.3 | 476.6 |
| Reclassifications | 9.3 | – | 3.8 | – |
| Purchases | 40.1 | 186.8 | 40.1 | 183.4 |
| Disposal proceeds | (158.5) | (45.2) | (149.0) | (40.5) |
| Gains and losses on investments sold in the year | 32.6 | 7.5 | 32.5 | 7.5 |
| Gains and losses on investments held at the year end | 118.2 | 65.5 | 115.6 | 66.3 |
| Balance at the year end | 751.0 | 709.3 | 736.3 | 693.3 |

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.

Significant unobservable inputs used at 31 March 2015 in measuring Level 3 financial instruments were developed as follows:

- EBITDA multiples represent amounts that market participants would use when pricing investments. EBITDA multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that management consider reasonable. The traded multiples for comparable companies are determined by dividing the enterprise value of the company by its EBITDA. EBITDA multiples ranged from 5 to 12, weighted average 8.3.
- Discounted cash flows use a medium term time horizon of five years and a cost of capital of 10%.
- Marketability discounts represent the adjustment to comparable market multiples to reflect the illiquidity of the portfolio companies relative to the comparable peer group. Management determines the discount for lack of marketability based on its judgement, after considering market liquidity conditions and company specific factors such as the development stage of the portfolio company. Marketability discount rates ranges from 10% to 30%, weighted average 20%.

The table below sets out information about significant unobservable inputs used at 31 March 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy;

| Description/ valuation technique | Fair value £m | Unobservable input | Weighted average input | Input sensit-ivity +/- | Change in valu-ation +/- £m |
|---|---|---|---|---|---|
| *Internally developed* | | | | | |
| *Private companies* | | | | | |
| Earnings | 277.0 | EBITDA multiple | 8.3x | 1.0x | 47.1 |
| | | Marketability discount | 20% | 1% | 7.0 |
| Discounted cash flow | 20.6 | Discount rate | 10% | 1% | 0.4 |
| | | Marketability discount | 10% | 1% | 0.2 |
| Net assets | 32.9 | Multiple | 1.0x | 0.1x | 3.3 |
| | 330.5 | | | | 58.0 |
| *Externally developed* | | | | | |
| *Private equity funds investments* | | | | | |
| Net asset value[1] | 365.5 | | | | |
| *Private companies* | | | | | |
| External valuation[2] | 55.0 | | | | |
| | 420.5 | | | | |
| | 751.0 | | | | |

1. The entity has determined that the net asset values reported by the fund managers represents fair value at the reporting date.
2. The entity has determined that independent third party valuations represents fair value at the reporting date.

Private equity fund investments, included in Level 3, are valued in accordance with the valuation guidelines and are based on information provided by the general partner. The general partners' 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 managers.

## 23. 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. Nil-cost option awards granted in 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. For nil-cost option awards granted in 2013 and 2014, half of the shares comprised in the awards may be exercised after three years, and half after five years.

The company also has a deferred bonus 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 2015 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 | 2,585 |
| 01.06.06 | Option grant to senior staff | Note 1 | 18,933 |
| 29.05.09 | Option grant to senior staff | Note 1 | 53,022 |
| | | | 74,540 |
| *Performance share scheme awards* | | | |
| 28.05.12 | Award grant to senior staff | Note 2 | 245,452 |
| 12.06.13 | Award grant to senior staff | Note 3 | 185,910 |
| 03.07.13 | Award grant to senior staff | Note 3 | 5,813 |
| 27.11.14 | Award grant to senior staff | Note 4 | 200,722 |
| | | | 637,897 |
| *Deferred bonus awards to senior staff* | | | |
| 12.06.13 | Compulsory award | Note 5 | 46,509 |
| 12.06.13 | Matching shares | Note 6 | 46,509 |
| 06.06.14 | Voluntary award | Note 7 | 549 |
| 06.06.14 | Compulsory award | Note 5 | 58,680 |
| 06.06.14 | Matching shares | Note 6 | 59,229 |
| | | | 211,476 |

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/five years of service with vesting on a graduated basis from 10% to 100% for annualised NAV total return of 3% to 10% and (for investment executives) annualised pool total returns in a range of 4% to 15%, in each case measured over three years for one-half of the award and five years for the other half of the award. Investment executives' awards are measured as to 80% by reference to pool total returns and 20% by reference to NAV total return, other than Mr Cayzer-Colvin's awards, which are 60% and 40% respectively.
5. Three years of service.

# Notes to the financial statements continued

6. 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%.

7. Three years of service or earlier termination of employment.

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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 | 1589 | 146 | 1487 | 271 |
| Exercised during the year | 1619 | (71) | 1387 | (118) |
| Lapsed during the year | – | – | 1055 | (7) |
| Outstanding at the year end | 1560 | 75 | 1589 | 146 |

The options outstanding at 31 March 2015 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 | 2015 £m | 2014 £m |
|---|---|---|
| Share options granted in 2010 | – | 0.1 |
| Performance share awards granted in 2012 | – | (1.4) |
| Performance share awards granted in 2013 | 0.7 | 0.8 |
| Performance share awards granted in 2014 | 0.8 | 0.7 |
| Performance share awards granted in 2015 | 0.4 | – |
| Deferred bonus awards for 2011 | 0.2 | – |
| Deferred bonus awards for 2013 | 0.5 | 0.5 |
| Deferred bonus awards for 2014 | 0.7 | – |
| | 3.3 | 0.7 |

## 24. Employee benefits

### Group

| | 2015 £m | 2014 £m |
|---|---|---|
| *Non-current assets* | | |
| Defined benefit pension asset | 1.9 | 3.2 |
| *Current liabilities* | | |
| Profit sharing bonus | (2.4) | (2.1) |
| *Non-current liabilities* | | |
| Defined benefit pension obligations | (3.8) | (2.8) |
| National Insurance on share options, performance shares and deferred bonus awards | (1.2) | (0.6) |
| | (5.0) | (3.4) |
| Total employee liabilities | (7.4) | (5.5) |

### Defined benefit pension obligations

The group makes contributions to two (2014 – two) plans in the UK that provide pension benefits for employees. Both schemes were closed to new members in April 1996. New employees joining after that date were offered alternative defined contribution pension arrangements.

| | 2015 £m | 2014 £m |
|---|---|---|
| Present value of funded obligations | 42.6 | 38.5 |
| Fair value of plan assets | (40.7) | (38.9) |
| Present value of net (assets)/obligations | 1.9 | (0.4) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Balance at year start | 38.5 | 39.2 |
| Service cost | 0.3 | 0.3 |
| Interest cost | 1.6 | 1.6 |
| Actuarial (gain)/loss | 3.5 | (1.5) |
| Actual benefit payments | (1.3) | (1.1) |
| Balance at year end | 42.6 | 38.5 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Balance at year start | 38.9 | 37.4 |
| Expected return on assets | 1.7 | 1.6 |
| Actuarial gain/(loss) | 0.8 | (0.1) |
| Employer contributions | 0.6 | 1.1 |
| Actual benefit payments | (1.3) | (1.1) |
| Balance at year end | 40.7 | 38.9 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Current service cost | 0.3 | 0.3 |
| Interest on obligations | 1.6 | 1.6 |
| Expected return on plan assets | (1.7) | (1.6) |
| | 0.2 | 0.3 |

Amounts recognised in other comprehensive income were as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Actuarial gains/(losses) arising from financial assumptions | (6.2) | 1.1 |
| Actuarial gains from demographic adjustments | 2.5 | – |
| Actuarial gains from experience adjustments | 1.0 | 0.3 |
| Actuarial gains/(losses) in the year | (2.7) | 1.4 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Equities | 29.8 | 26.4 |
| Bonds | 5.6 | 5.6 |
| Cash | 5.3 | 6.9 |
| | 40.7 | 38.9 |

The analysis of plan assets above included an underlying asset allocation of investment funds.

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

| | 2015 % | 2014 % |
|---|---|---|
| Discount rate at year end | 3.1 | 4.2 |
| Future salary increases | 4.1 | 5.0 |
| Future pension increases | 3.1 | 3.5 |
| RPI price inflation | 3.1 | 3.5 |

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% pa. Life expectancy on retirement in normal health is assumed to be 27.7 years (2014 – 27.6 years) for males and 29.0 years (2014 – 28.8 years) for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ending 31 March 2016 were £0.2m (2015 – £0.7m).

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 Mar 2012 £m | Weighted average duration at 31 Mar 2015 Years |
|---|---|---|
| Amber Industrial Holdings pension scheme | 12.1 | 16 |
| Caledonia Pension Scheme | 27.4 | 17 |

### Sensitivities

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises the estimated increase in defined benefit obligations to a change in individual actuarial assumptions, 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 an assumption would occur in isolation, as some of the assumptions may be correlated.

| | 2015 £m | 2014 £m |
|---|---|---|
| Reduction in the discount rate of 0.25% | 1.5 | 1.5 |
| Increase in inflation of 0.25% | 1.2 | 1.2 |
| Increase in future salary increases of 0.25% | 0.2 | 0.2 |
| Increase in life expectancy of one year | 1.5 | 1.5 |

### Risks

The schemes typically expose the group to risks such as:

- Investment risk – the schemes hold their investments in equities and bonds, the value of which fluctuates, whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.
- Interest rate risk – the schemes' liabilities are assessed using market rates of interest, based on corporate bond yields, to discount the liabilities and are therefore subject to any volatility in the movement of the market rate of interest. The net interest income or expense recognised in profit or loss is calculated using the market rate of interest.
- Inflation risk – a significant proportion of the benefits under the schemes are linked to inflation. Although the schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short term would increase the schemes' net deficit.
- Mortality risk – in the event that members live longer than assumed, the liabilities may turn out to have been understated originally and a deficit may emerge if funding has not been adequately provided for the increased life expectancy.

# Notes to the financial statements continued

## 25. Subsidiaries

Significant subsidiaries were as follows:

| Name | Country of domicile | Shares held | Ownership 2015 % | Ownership 2014 % |
|---|---|---|---|---|
| Amber 2010 Ltd | UK | Ordinary | 100 | 100 |
| Brookshire Capital LLP | UK | Capital | 70 | 80 |
| Buckingham Gate Ltd[1] | UK | Ordinary | 100 | 100 |
| Coöperatieve Caledonia Netherlands Holding WA | Netherlands | Member contribution | 100 | |
| Caledonia Lion Ltd | UK | Ordinary | 93 | 100 |
| Caledonia Choice Ltd | UK | Ordinary | 98 | 98 |
| Caledonia Group Services Ltd[1] | UK | Ordinary | 100 | 100 |
| Caledonia Treasury Ltd[1] | UK | Ordinary | 100 | 100 |
| Deveronside Trading Company Ltd | UK | Ordinary | 100 | 100 |
| Easybox Sarl | Luxembourg | Ordinary<br>Preferred | 100<br>100 | 100<br>100 |
| Edinmore Estates Ltd | UK | Ordinary | 100 | 100 |
| Edinmore Properties 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 |
| Southoak Ltd | UK | Ordinary | 100 | 100 |
| Sterling Industries PLC | UK | Ordinary<br>Preference | 100<br>80 | 100<br>80 |
| TGE Marine AG | Germany | Ordinary | 68 | 68 |

1. Subsidiaries included in the consolidated financial statements as service companies controlled by the company, in accordance with the IASB Investment entities exemption.

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

## 26. Interests in associates

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

Significant associates of the company were as follows:

| Name | Country of domicile | Shares held | Ownership 2015 % | Ownership 2014 % |
|---|---|---|---|---|
| B&W Group Ltd | UK | Preferred | 20 | 20 |
| Eredene Capital plc | UK | Ordinary | 21 | 21 |
| General Practice Investment Corp Ltd | UK | Ordinary<br>Preference | 24<br>100 | 24<br>100 |
| Marwadi Shares & Finance Ltd | India | Ordinary | 32 | 32 |
| Satellite Information Services Ltd | UK | Ordinary | 23 | 23 |

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:

| | 2015 £m | 2014 £m |
|---|---|---|
| Assets | 340.9 | 921.5 |
| Liabilities | (182.7) | (586.4) |
| Equity | 158.2 | 335.1 |
| Revenues | 369.6 | 775.3 |
| Loss | (5.5) | (5.3) |

# 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 % |
|---|---|---|---|---|---|---|---|---|
| 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 |
| 2015 | 207.7 | 371.1 | 50.6 | 1,627 | 2906 | 2281 | 7.5 | 7.7 |

1. Profits, earnings and net assets from 2013 were from the group results, prepared in accordance with IASB *Investment Entities* amendments to IFRS 10 *Consolidated Financial Statements*. Pre-2013, they were from the company results.
2. 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. You can elect for the dividend reinvestment plan online at www.capitashareportal.com, where you can view the terms of service, or you can request an application form by telephone 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 9.00am 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 £15,240, for the tax year ending 5 April 2016. 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)[2]
Stephen A King (Finance Director)
Jamie M B Cayzer-Colvin

## Non-executive directors
Harold Y H Boël[1,2]
Stuart J Bridges[1,2,4]
The Hon Charles W Cayzer[2]
Charles H Gregson (Senior Independent)[2,3,4]
David C Stewart[1,2,3]
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

## Secretary
Graeme P Denison

## Registered office
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## Registered number
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**Auditor**
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The Association of
Investment Companies

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