CALEDONIA INVESTMENTS

# Annual report 2016

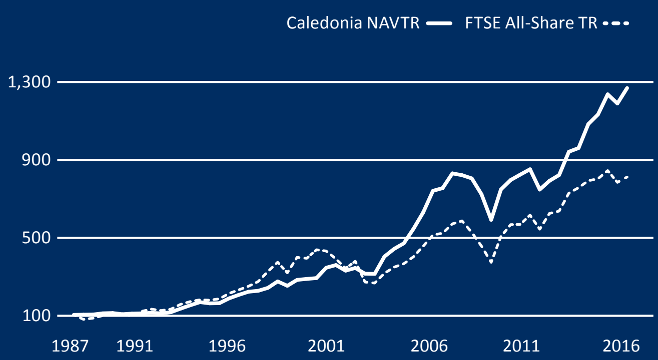
Year ended 31 March 2016

# Welcome to Caledonia

Caledonia is a self-managed investment trust company with net assets of £1.6bn. Our aim is to grow net assets and dividends paid to shareholders over the long term, whilst managing risk to mitigate volatility of returns. We achieve this by investing in well-managed businesses that combine reasonable growth characteristics with an ability to deliver increasing levels of income. Our investments include listed and private companies, as well as funds, in a range of sectors and geographies.

The success of this strategy can be seen in the performance of Caledonia's NAV per share total return measured against the FTSE All-Share since 1987 and its track record of increasing its annual dividend every year since 1967.

NAV total return growth since 1987

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# Company highlights

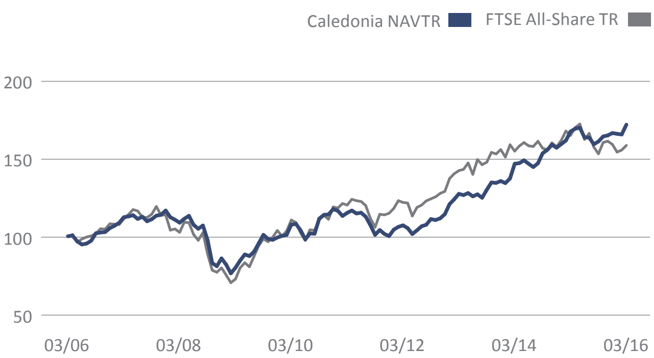
- Net asset value per share total return of 2.6%
- Continued ten year outperformance against the FTSE All-Share
- Annual dividend per share up 4.0% to 52.6p – 49th consecutive annual increase

## Results summary

| | 31 March 2016 | 31 March 2015 | Change % |
|---|---|---|---|
| Net asset value | £1,644m | £1,627m | 1.1 |
| NAV per share | 2890p | 2906p | (0.6) |
| Annual dividend per share | 52.6p | 50.6p | 4.0 |

Net asset value does not include an accrual for the second interim dividend paid on 1 April 2016, whereas NAV per share adjusts for this dividend on the ex-dividend date. Annual dividend per share includes the interim and second interim dividends in the year.

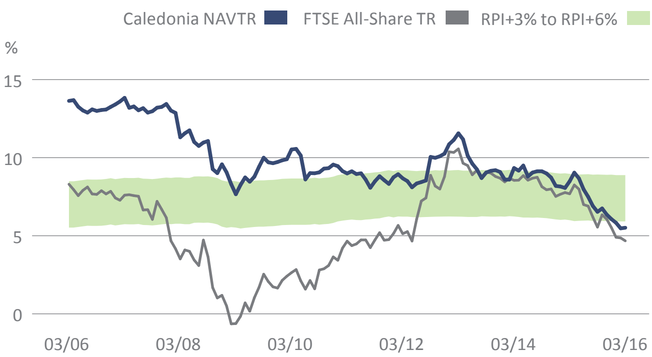
## NAV total return growth over ten years




## Performance

| | 1 year % | 5 years % | 10 years % |
|---|---|---|---|
| NAV total return (annualised) | 2.6 | 8.3 | 5.5 |
| NAV total return | 2.6 | 49.2 | 71.6 |
| Total shareholder return | 4.1 | 52.1 | 45.5 |
| Dividend growth | 4.0 | 41.8 | 77.7 |

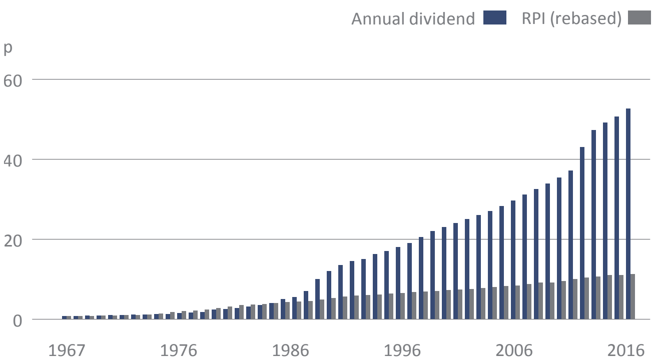
## Annualised ten year rolling performance




## Pools

| | Value £m | Return % |
|---|---|---|
| Quoted | 449.3 | (7.0) |
| Income & Growth | 194.1 | (0.4) |
| Unquoted | 646.3 | 15.2 |
| Funds | 308.4 | 5.9 |
| Portfolio | 1,598.1 | 4.1 |
| Cash and other | 46.2 | |
| Net assets | 1,644.3 | 2.6 |

## Annual dividend growth over 49 years




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

# Chairman's and Chief Executive's report

The company delivered a positive NAV total return of 2.6%. Our long term diversified portfolio of both quoted and unquoted investments provided mitigation to the continued volatility of the markets and we continued our rolling ten year outperformance against the FTSE All-Share. The portfolio continues to provide a growing income and we are pleased to have increased our annual dividend by 4.0%, the 49th consecutive year of increase.

## Results

Caledonia delivered a positive net asset value per share total return ('NAVTR') of 2.6% for the year ended 31 March 2016, compared with 14.2% for the previous year. We do not seek to benchmark our performance over as short a period as a year, but rather our objective is to outperform the FTSE All-Share Total Return over ten years. This we have achieved over the last ten years when our NAVTR was 71.6%. Over shorter periods, we aim to produce overall annualised returns of between RPI+3% and RPI+6% and this has been delivered.

## Background to the year in listed equities

Over the year, the FTSE All-Share Total Return fell by 3.9%, though the S&P 500 remained flat. Equity markets in both the US and Europe suffered two significant falls during the year, in August 2015 and in January 2016. The bull market in commodity related stocks is well and truly over, following sharp falls in the price of oil and gas and other basic commodities. However, markets recovered their poise within a couple of months on both occasions, as the requirement for income drove investors back into yielding equity investments. Having taken money out of the market last year, we took advantage of the market volatility during the year to make selective purchases of high quality businesses that match our Quoted pool's long term strategy.

## Caledonia's competitive advantage in private equity markets

The private equity market is flush with capital looking to be invested. This is being provided by funds which have very significant unutilised commitments and banks which are once again offering high levels of debt but at very low rates. The result is keen competition for, and pricing of, private equity money. It is therefore vital for us to be able to differentiate ourselves from the competition in order to attract deals at sensible prices. In this regard, Caledonia has two significant advantages.

The first is the fact that we are a closed-ended investment trust with a long term supportive family shareholder, which enables us to invest for considerably longer than the majority of those who operate in unlisted markets, often for over a decade. Our main competition comes from the private equity industry, which raises money through funds and promises to deliver it back to fund holders within a designated period. This rarely allows them to invest for longer than five to seven years, whereas we have no such time constraints. If an investee company continues to perform and its management are of sufficient quality, we are able to remain as a shareholder rather than be forced by the time limits of a particular fund to have to sell our investment.

The second is our reputation. We strive to be fair and to work alongside management teams rather than, as is so often the case, take a view that managements work for us. We call this a 'hands with' rather than a 'hands on' approach. We believe that our established reputation for being a good partner for management teams continues to give us an advantage in the marketplace.

These characteristics have led to two interesting new investments this year, Seven Investment Management and Gala Bingo. Both companies were purchased without having to enter into an auction process, as the vendors and the managements believed that we would deliver on our promises and that we would be the right home for their businesses.

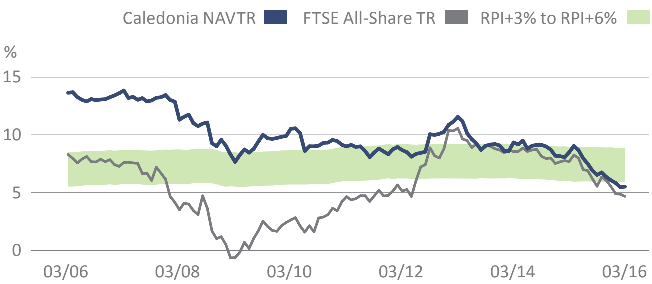
## Investment performance

We take a longer term perspective when assessing Caledonia's investment performance. The construction of our portfolio, with its significant portion of unquoted investments and lack of correlation to any particular equity market, has led the board to measure performance by comparing Caledonia's NAVTR with the FTSE All-Share Total Return index over rolling ten year periods. History shows that a consistent performance of RPI+3% to RPI+6% will deliver a return that will outperform most markets over ten years. The table below shows a summary of performance against RPI for periods up to ten years and against the FTSE All-Share for ten years:

| | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|
| NAV total return | 2.6 | 34.9 | 49.2 | 71.6 |
| *Annualised* | | | | |
| NAV total return | 2.6 | 10.5 | 8.3 | 5.5 |
| Retail Prices Index | 1.6 | 1.6 | 2.3 | 3.0 |
| Performance against RPI | 1.0 | 8.9 | 6.0 | 2.5 |
| FTSE All-Share Total Return | | | | 4.7 |
| Performance against FTSE | | | | 0.8 |

The graph below shows that Caledonia's returns remain ahead of those of the FTSE All-Share over rolling ten year periods, although recently have slipped marginally below our RPI target area as designated by the shaded zone.

Annualised ten year rolling performance




## Income

Portfolio income for the year rose by 7.3% to £50.2m which, after expenses, fully covered the dividend for the year. We place a strong emphasis on income yield in our investment strategy, as this ensures that we purchase cash generative companies which have the ability not only to increase their capital value but also to pay growing dividends to their shareholders on an annual basis. This supports our objective of paying an increasing annual dividend to our shareholders, which we have now done for 49 consecutive years.

## Expenses

Our ongoing charges ratio for the year was 1.01%, compared with 0.96% in 2015 on a like-for-like basis. The increase primarily reflected the costs of temporary office accommodation whilst our head office is being refurbished. Caledonia's business model, which includes significant investment in unquoted businesses, requires more resource than a pure quoted equity portfolio, hence we have higher costs than a typical listed fund manager. For the first time this year, we have allocated share award costs relating to our performance-based incentive schemes to capital, in line with industry practice.

## Balance sheet and cash

At the year end, our balance sheet was ungeared with a net cash position of £22.9m, compared with net cash of £131.0m at 31 March 2015. During the year, we made investments totalling £406m and divestments of £315m, excluding purchases and sales within the Income & Growth pool. The two most substantial new investments were £74m in Seven Investment Management and £92m in Gala Bingo. We received proceeds of £79m from the sale of TGE Marine and distributions of £50m from the Capital Today China fund following further realisations of its holding in JD.com.

## Strategy

The Cayzer family, whose ancestors built from scratch the business from which Caledonia derives its origins and who now owns some 48% of the company, takes a long term view. The stability and inter-generational time horizon of the family shareholding and other shareholders have helped to define Caledonia's strategy, which remains to seek long term capital growth combined with an increasing annual dividend. This is executed by investing in two principal markets, listed equity and private equity. The company is managed via four 'pools of capital' covering both these markets, each with an allocated amount of capital and carefully designed return targets which reflect the risk appetite of the shareholder base.

During the year, the board carried out a detailed review of the strategy adopted in 2011. This concluded that the strategy had delivered good returns to date and should continue to do so. It is important to re-emphasise the key tenets of this strategy:

### Strategic aims

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

### Investment strategy

The portfolio is structured to deliver these strategic aims through:

- A long term investment horizon (ten years or longer), investing in quoted and unquoted businesses and funds that accumulate value over that time period
- A diversity of investment markets via pools that together reflect our risk/return aims
- A sustainable and increasing annual cash yield that is a prominent part of total return and covers annual dividends and expenses.

# Chairman's and Chief Executive's report continued

## Performance measurement

- To deliver annual average total returns of between RPI+3% and RPI+6% which, based on history, should deliver performance over a ten year period in line with or above most share indices, including the FTSE All-Share.

The board however agreed to make several minor adjustments to the strategy:

- To make some changes to the allocation ranges of some of the pools
- To increase the Funds pool's exposure to private equity funds in the US and Asia through further commitments and to reduce its exposure to quoted market funds in those regions
- To reduce the Funds pool's strategic requirement for income to zero, reflecting the structure of the funds in which it invests
- To reduce the target return for the Income & Growth pool from 10% to 7%, reflecting its required risk/return profile.

The resultant portfolio and strategic targets at current allocations are as follows:

| | Annual return targets | | | | |
|---|---|---|---|---|---|
| Pool | Income % | Capital % | Total % | Target allocation % | Current allocation % |
| Quoted | 2.5 | 7.5 | 10.0 | 25-40 | 27.3 |
| Income & Growth | 4.5 | 2.5 | 7.0 | 15-20 | 11.8 |
| Unquoted | 5.0 | 9.0 | 14.0 | 35-45 | 39.3 |
| Funds | – | 12.5 | 12.5 | 15-20 | 18.8 |
| Liquidity | | | | (10)-10 | 2.8 |

## Review of portfolio

The portfolio, before expenses and other net assets were taken into account, returned 4.1% for the year under review. Excluding transactions within the Income & Growth pool, we invested more than £400m during the course of the year, equivalent to some 25% of the portfolio. Of this, some 40% was attributed to the Unquoted pool, with the two sizeable acquisitions of Seven Investment Management and Gala Bingo, and 40% to the Quoted pool. Realisations totalled £315m, with TGE Marine, Capital Today China and Quintain Estates being the largest.

| Pool | Value 2015 £m | Investments £m | Disposals £m | Other movements £m | Value 2016 £m | Income £m | Return % |
|---|---|---|---|---|---|---|---|
| Quoted | 447.7 | 156.9 | (112.9) | (42.4) | 449.3 | 13.9 | (7.0) |
| Income & Growth | 202.1 | 142.6 | (135.8) | (14.8) | 194.1 | 8.6 | (0.4) |
| Unquoted | 510.3 | 171.5 | (88.6) | 53.1 | 646.3 | 25.8 | 15.2 |
| Funds | 327.7 | 77.6 | (113.6) | 16.7 | 308.4 | 1.9 | 5.9 |
| Portfolio | 1,487.8 | 548.6 | (450.9) | 12.6 | 1,598.1 | 50.2 | 4.1 |
| Other | 139.1 | | | | 46.2 | | |
| Net assets | 1,626.9 | | | | 1,644.3 | | 2.6 |

The Unquoted pool produced a 15.2% return, which was commendable and included over £26m of income, an uplift of 12% over the previous year. The main driver of value was our investment in Park Holidays, where profitability increased significantly for the second consecutive year, enabling a refinancing of its bank facilities and payment of a special dividend just after the year end. The Funds pool also produced a respectable return of 5.9%, especially considering that over a third of its investments are in quoted market funds. These pools provide a good mitigation to the more volatile returns of the quoted equity markets. The Quoted pool suffered from its holding in Bristow Group falling considerably in value, though in line with the oil price. This pool, however, took advantage of the fall in equity markets in August to add several new holdings. The Income & Growth pool demonstrated its robust nature in the face of falling markets, ending the year with a broadly flat overall return. This was a particularly good effort, for which Jonathan Greig, in his first year as the manager of the fund, should take credit.

The changes to pool allocations have been mentioned in the strategy section above. The only pool currently outside its strategic range, some 3% below its lower range, is Income & Growth. This reflects the nature of the pool which we use, alongside cash and facilities, to provide liquidity or a store for capital as and when required. The exact timing of our larger investments and divestments from the Unquoted pool is difficult to estimate and the liquid nature of the Income & Growth pool adds to our flexibility.

## Overview of pool performance

### Quoted (£449m, 27% of net assets)

We invest in companies with established business models, strong balance sheets and good returns on capital and strong annual cash flows.

The Quoted pool produced a negative total return of 7.0% for the year. Performance was held back by falls in the share price of Bristow Group and AG Barr, in which we have large holdings. Having taken profits from Bristow a couple of years ago and with our deep knowledge of the business gathered from over 25 years as an investor, we felt comfortable in adding to our holding at an advantageous price. AG Barr suffered from poor investor sentiment whilst the sugar tax argument raged in political circles. We have owned an 8% stake in this company for many years and believe that its prospects remain good, led by an excellent management team. Other notable detractors from performance were Rolls-Royce, which we sold following several profit warnings, and Avanti Communications, in which we significantly reduced our stake in the early part of the year.

On the bright side, more recent additions to the portfolio, including Microsoft, Thermo Fisher Scientific, Unilever, British American Tobacco and Colgate Palmolive, all produced returns of over 20%. Quintain Estates was taken over during the year at a good premium and Hill & Smith continued to produce excellent results that translated into a strong share price performance.

We have been overall sellers in the quoted markets for several years, as valuations have become stretched, although the occasional market hiccup has allowed us to deploy some capital, as happened in August this year. However, we remain wary of high market levels, low investor confidence and signs that GDP growth is slowing a little.

## Income & Growth (£194m, 12% of net assets)

**We invest in a portfolio of liquid global equities that produces a reliable and increasing income stream.**

The portfolio was repositioned earlier in the year to take a more defensive stance. With the benefit of hindsight, this proved well timed and the result for the year, a flat return, compared well with a market that retreated by 4%. The pool also returned a 4.1% dividend yield, which helped to underpin our overall income requirement.

## Unquoted (£646m, 39% of net assets)

**We invest in unlisted businesses requiring capital and an investor with a balance sheet who is able to provide a long term perspective. We mainly invest in majority positions.**

The Unquoted pool returned over 15% for the year under review, including over £25m of income. Park Holidays was the outstanding performer in the pool, producing a total return of 63% over the course of the year, which included a £12m dividend. In addition, Cobehold, the Belgian investment company, produced a healthy 23% sterling return after a couple of flat years.

The market remains busy with plenty of businesses available for purchase, the Unquoted team reviewing over 220 during the year. We sold one business during the year, TGE Marine for £79m, and since the year end have realised our stake in Bowers & Wilkins, the premium audio equipment manufacturer, for £24m. We made two purchases during the year, Seven Investment Management ('7IM') for £74m and Gala Bingo for £92m. Both businesses fit our criteria well and have made good starts in the portfolio.

SEVEN Investment Management

7IM is a fast growing wealth management company with funds under management of £10bn. The experienced management team, who started 7IM 11 years ago, were introduced to Caledonia whilst searching for replacement shareholders and we were pleased that we had the characteristics that they were looking for in a shareholder.

Gala bingo

Gala Coral had been searching for a purchaser for its retail bingo business prior to its merger with Ladbrokes. The head of our Unquoted team knew the business well from earlier in his career and we were able to agree terms to buy this substantial and cash generative company, because of our ability to move quickly to close the deal.

Since 2011, when Caledonia's new strategy was implemented, the pool has produced an annualised return of 12.4%. Over the past three years this has increased to 17.4%. The objective of the pool is to produce consistent returns, both on capital and income accounts, without taking too much risk. The businesses that we have purchased over the past five years reflect this strategy and have the capability of producing good returns in the future.

## Funds (£308m, 19% 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 5.9% was respectable considering the volatile markets in Asia where we have several quoted market fund investments. We took the opportunity created by market weakness to top up several holdings, including PVAM Perlus Microcap, Arlington AVM Ranger, Macquarie Asia New Stars and NTAsian.

The private equity portfolio continued to perform well and we made several new commitments during the course of the year to funds in the US and Asia.

We received distributions of £50m from the Capital Today China fund, a large portion of which was proceeds from its sale of JD.com. This fund has produced a return of 11.7x money invested and an IRR of 47.5% so far over its ten year life. Kathy Xu, the manager, has delivered outstanding results, having backed four separate businesses that have returned over 10x the initial investment. We consider ourselves fortunate to have been a cornerstone investor in this fund.

Looking ahead, the Funds pool will increase its exposure to private equity funds, particularly in the US which is a mature market, and also in Asia, though at a lower rate due to the infancy of this market.

# Chairman's and Chief Executive's report continued

## Dividend and discount

The company paid an interim dividend of 14.3p on 7 January 2016 and a second interim of 38.3p on 1 April 2016 making a total for the year of 52.6p, the 49th consecutive year in which the annual dividend has been raised. No final dividend is proposed. The dividend is a vital component of our return to shareholders and the strategy of the company is focused on its maintenance and steady increase. During the year, the discount of the share price to our NAV per share ranged between 12% and 26% and the share price rose marginally, from 2281p at the beginning of the year to 2285p, whereas the FTSE All-Share fell by some 7%.

We did not make any share buybacks during the year, but we will again seek the necessary permissions from shareholders at the AGM to buy in shares should they offer particular value.

## Board

Robert Woods stepped down from the board in March 2016. He joined in 2011 at a time of strategic change at Caledonia and his depth of experience and wisdom was a particular source of strength for the company and management during his time on the board. We wish him well in his retirement and will miss his insights into the world of trade that stemmed from his career in shipping.

## Outlook

We are faced with several seminal moments this year. There is a referendum on British membership of the EU and the US Presidential election, both of which have the potential to destabilise the existing order. There is a lack of fundamental confidence in GDP growth, be it in China, the US, Europe, or at home in the UK. The central bankers have utilised extreme monetary policies to stimulate economies without much effect and seemingly have few tools to bring to bear if growth deteriorates. Equity markets have witnessed a prolonged period of growth but are seemingly expensive, perhaps lacking the underlying earnings growth from companies to justify those valuations. However, investors have few alternative options, with bond yields at record lows.

We have invested in companies that have consistent and dependable cash flows, such that they are able to pay us annual dividends whilst continuing to grow steadily. We have exposure through the listed markets to some of the world's leading brands that will continue to sell goods to consumers and businesses alike whatever the state of the economy and our unquoted portfolio complements and diversifies the shorter term volatility of the quoted markets. This gives us confidence that we will be able to meet our shareholders' requirements for capital growth and income over the longer term, without needing to expose their capital to undue risk.

**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 judiciously and focus it within the Unquoted pool, where the investment case includes strong cash generation to support a resilient repayment plan. Our Funds pool targets investments that employ little or no gearing in structuring their returns.

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.

Our business model has been tested 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 differentiated capital and income returns, combining to provide a balanced total return for Caledonia.

- The *Quoted pool* focuses on identifying opportunities to build meaningful positions in long term value businesses.
- 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.
- The *Unquoted pool* targets direct majority, and in exceptional cases minority, 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.

# Business model and strategy continued

## 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/return objectives. These allocation ranges are reviewed regularly to ensure they remain consistent with our strategy and market conditions.

### Where we are now

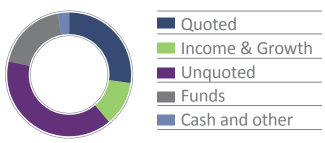
| Pool | Investment style | Strategic allocation % | Allocation 2016 % |
|---|---|---|---|
| Quoted | Large equity holdings in high quality companies | 25-40 | 27 |
| Income & Growth | Global equity portfolio, 4.5% net yield | 15-20 | 12 |
| Unquoted | 8-10 direct stakes in private companies >£25m | 35-45 | 39 |
| Funds | Private equity and quoted market funds (US and Asia focus) | 15-20 | 19 |
| Cash and other | | (10)-10 | 3 |
| Net assets | | | 100 |

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

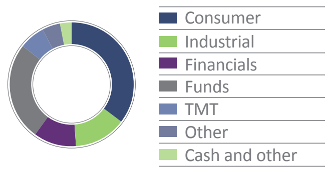
We achieve geographic exposure outside the UK through the global reach of our direct investments and particularly in Asia and North America through the Funds pool.

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 investing in international companies with revenues generated throughout the world.

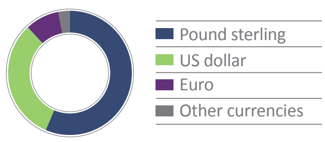
Pool distribution



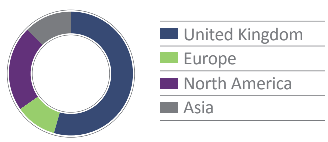

Business sector distribution




Currency distribution

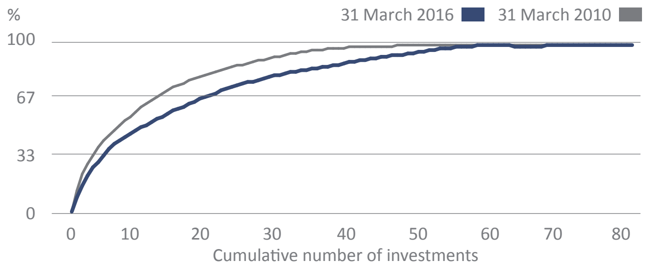



Geographic distribution




We have a concentrated investment portfolio, but 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.

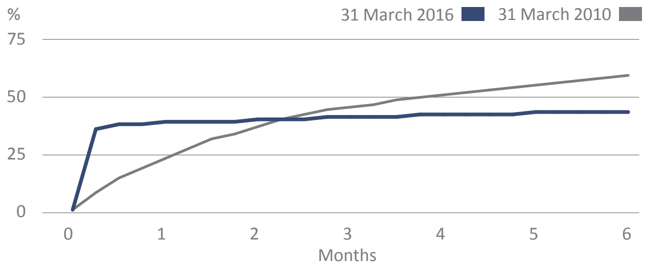
### Investment concentration




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

Our portfolio is focused on large, established businesses. Investments in the Quoted and Income & Growth pools can be realised quickly to provide liquidity when required.

### 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.

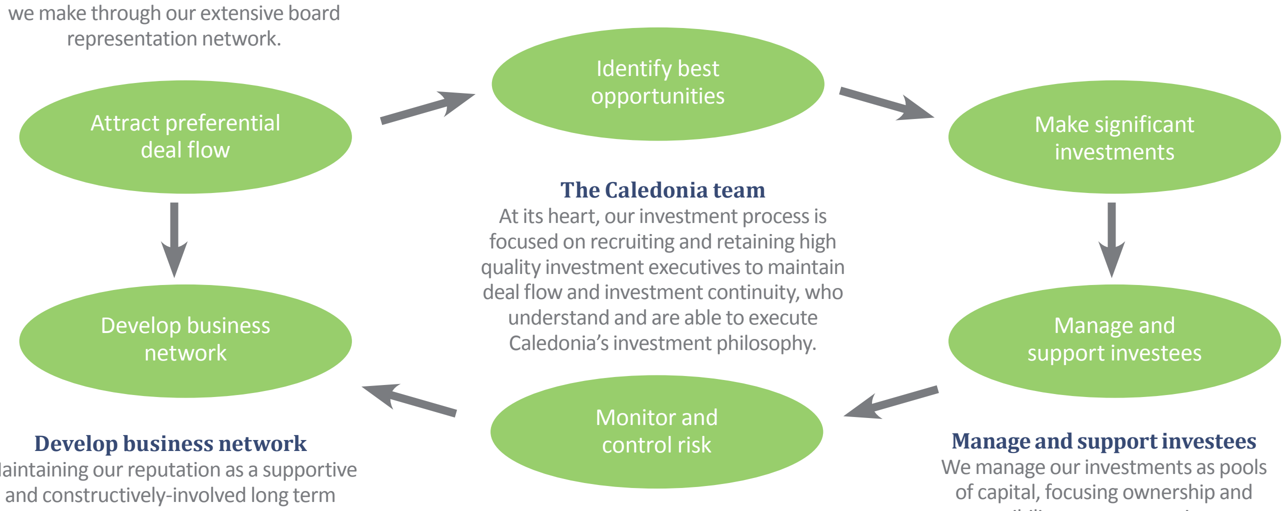
## Investment process

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 boards 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. Private company performance is closely monitored through monthly reporting of key metrics.

**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.

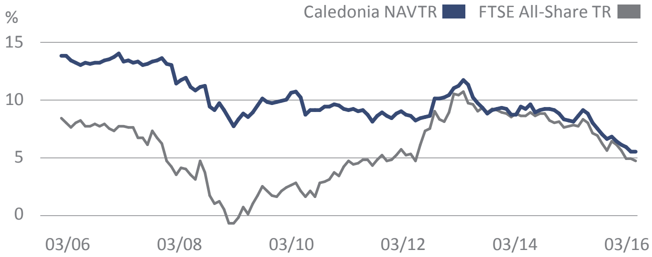
## Target returns

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 net asset value total return growth, compared with the FTSE All-Share Total Return index.

### Annualised ten year rolling performance



# Investment review

## Performance and analysis

Over the year, our investment performance delivered an NAV total return of 2.6%.

Over the last six 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. Our research and disciplined process is fundamental to our choice of investments.

### Performance

Our NAV total return over the year was 2.6%, which built on a total return of 14.2% 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 revaluation and realisation gains, as well as higher levels of income. Our investment portfolio produced a 4.1% return, which, after management and other expenses, delivered an overall NAV total return of 2.6%.

The 4.1% portfolio return comprised increases in the valuation of our investments and the income that they yielded.

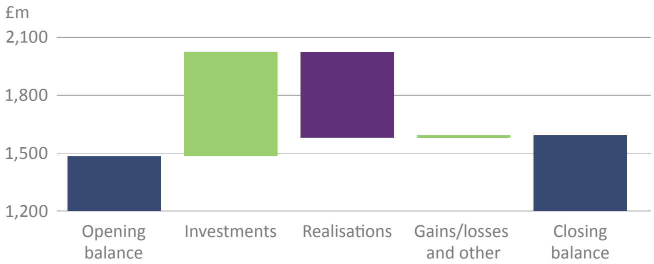
| Pool | Value 2015 £m | Invest-ments £m | Disposals £m | Other move-ments £m | Value 2016 £m | Income £m | Return % |
|---|---|---|---|---|---|---|---|
| Quoted | 447.7 | 156.9 | (112.9) | (42.4) | 449.3 | 13.9 | (7.0) |
| Income & Growth | 202.1 | 142.6 | (135.8) | (14.8) | 194.1 | 8.6 | (0.4) |
| Unquoted | 510.3 | 171.5 | (88.6) | 53.1 | 646.3 | 25.8 | 15.2 |
| Funds | 327.7 | 77.6 | (113.6) | 16.7 | 308.4 | 1.9 | 5.9 |
| Portfolio | 1,487.8 | 548.6 | (450.9) | 12.6 | 1,598.1 | 50.2 | 4.1 |
| Other | 139.1 | | | | 46.2 | | |
| Net assets | 1,626.9 | | | | 1,644.3 | | 2.6 |

1. Unallocated investments with a value of £11.1m (2015 – £11.0m) were included in 'Other'. £0.4m of losses and £0.5m of income was attributed to unallocated investments.
2. Other movements comprised £12.9m of net portfolio gains less £0.3m of reclassifications, being the transfer of the Easybox investment from the portfolio to unallocated investments.

### Portfolio movements

At the beginning of the year, the overall value of our investment portfolio was £1,487.8m. After £97.7m of net investments and £12.6m of other movements, comprising £12.9m of net portfolio gains less £0.3m of reclassifications to unallocated investments, the portfolio value increased to £1,598.1m at the year end. The following chart illustrates the components of this movement:

Movement in the investment portfolio




Around half of our £548.6m of investments was in new situations, predominantly comprised of Seven Investment Management and Gala Bingo in the Unquoted pool. Investment was evenly spread across the pools, except for the Funds pool, which invested around half the amount of the other pools.

During the year, we realised £450.9m, spread evenly across the four pools, with around one-fifth resulting from the sale of TGE Marine.

Net portfolio gains over the year totalled £12.9m, comprising £174.4m of gains and £161.5m of losses. Around one-third of the gross gains were generated by Park Holidays and 40% of the losses by Bristow Group and Sterling Industries. Overall, the Quoted pool generated £47.8m of net losses and the Unquoted pool £53.4m of net gains.

## Investments

Total portfolio investments during the year were £548.6m (2015 – £240.7m), summarised as follows:

| Name | Pool | Cost £m |
|---|---|---|
| New investments | | |
| Gala Bingo | Unquoted | 92.3 |
| Seven Investment Management | Unquoted | 73.6 |
| Flowserve | Quoted | 35.0 |
| Union Pacific | Quoted | 25.0 |
| Thermo Fisher Scientific | Quoted | 10.9 |
| Unilever | Quoted | 10.3 |
| Other new investments | | 22.7 |
| | | 269.8 |
| Follow-on investments | | |
| British American Tobacco | Quoted | 21.7 |
| Bristow Group | Quoted | 17.1 |
| Macquarie Asia New Stars fund | Funds | 13.3 |
| Arlington AVM Ranger fund | Funds | 13.2 |
| Aberdeen US PE funds | Funds | 10.5 |
| Income & Growth pool | Income & Growth | 142.6 |
| Other follow-on investments | | 60.4 |
| | | 278.8 |
| Total portfolio investments | | 548.6 |

During the year, we made two substantial unquoted investments. We invested £92.3m for 98.9% of the equity in Gala Bingo, the UK's largest retail bingo operator, and £73.6m for 93.6% of the equity in Seven Investment Management, the UK provider of discretionary fund management, retail investment fund and platform services to UK investors.

Other new investments included four purchases through the Quoted pool. £35.0m was invested in Flowserve, the US listed manufacturer of pumps, valves, seals and components to the process industries. £25.0m was invested in Union Pacific, the US listed operator of a railroad franchise in the western two-thirds of the US. £10.9m was invested in Thermo Fisher Scientific, the US listed provider of products and services to life sciences research. £10.3m was invested in Unilever, the UK listed provider of food, home care and personal care products.

Follow-on investments included a further £21.7m in British American Tobacco, the UK listed tobacco company, £17.1m in Bristow Group, the US listed offshore helicopter transport services company, and £37.0m in two US funds and one Asian fund.

The £142.6m invested through the Income & Growth pool reflected a restructuring of the portfolio to increase yield and reduce volatility, by reducing the number of holdings and increasing the weighting of businesses domiciled in the UK.

## Realisations

Proceeds from portfolio realisations during the year totalled £450.9m (2015 – £371.7m), summarised as follows:

| Name | Pool | Proceeds £m |
|---|---|---|
| TGE Marine | Unquoted | 78.8 |
| Capital Today China Growth fund | Funds | 49.6 |
| Quintain Estates | Quoted | 34.8 |
| Close Brothers | Quoted | 19.2 |
| Avanti Communications | Quoted | 15.4 |
| Newton Asian Income fund | Funds | 14.7 |
| Rolls-Royce | Quoted | 14.4 |
| Weir | Quoted | 13.1 |
| PVAM Perlus Microcap fund | Funds | 13.0 |
| Ocean Dial India fund | Funds | 10.6 |
| Income & Growth pool | Income & Growth | 135.8 |
| Other realisations | | 51.5 |
| Total portfolio realisations | | 450.9 |

During the year, we disposed of our 67.9% holding in TGE Marine, the German gas engineering business, for £78.8m to Mitsui Engineering & Shipbuilding. This investment delivered a lifetime IRR of 39% and a money multiple of 3.5x over nine years.

We received £49.6m of distributions from the Capital Today China Growth fund on its sale of part of its holding in JD.com, the US listed Chinese internet retail company.

In the Quoted pool, we realised a total of £96.9m from the sale of part of our holdings in Close Brothers and Avanti Communications and the whole of our stakes in Quintain Estates, Rolls-Royce and Weir.

## Portfolio returns

The total return on our portfolio over the year was 4.1%. The principal contributors to this performance were as follows:

| Name | Gain/(loss) £m | Income £m | Return £m | Return % |
|---|---|---|---|---|
| Park Holidays | 49.3 | 12.1 | 61.4 | 63.3 |
| Cobehold | 19.0 | 1.7 | 20.7 | 22.8 |
| TGE Marine | 13.9 | 5.4 | 19.3 | 91.0 |
| Quintain Estates | 11.3 | – | 11.3 | 172.0 |
| Sterling Industries | (24.4) | 1.5 | (22.9) | (64.5) |
| Bristow Group | (39.3) | 1.1 | (38.2) | (58.6) |
| Income & Growth pool | (9.4) | 8.6 | (0.8) | (0.4) |
| Other investments | (7.5) | 19.8 | 12.3 | |
| Total portfolio return | 12.9 | 50.2 | 63.1 | 4.1 |

The overall return benefited significantly from the revaluation of Park Holidays, based on a CBRE property valuation and strong trading results in the year. We also saw a significant uplift in the valuation of TGE Marine and Quintain Estates, resulting from the sale of our holdings in both companies during the year.

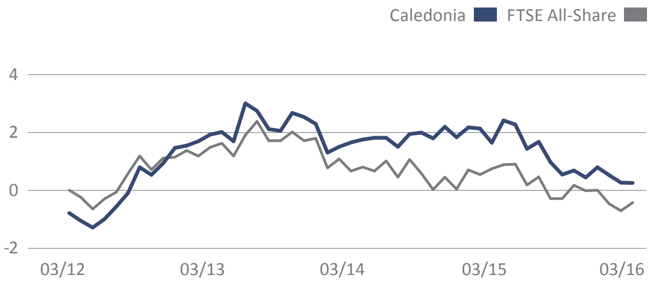
Partially offsetting these gains, we recorded valuation losses in Bristow Group, whose share price reflected the continued oil price decline, and Sterling Industries, on the back of an economic slowdown reducing demand for its services.

# Investment review continued

## Performance and analysis

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

### Risk/return over four years




## Distribution analysis

### Pools

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

### Pool distribution

| | 2016 | 2015 |
|---|---|---|
| Quoted | 27% | 28% |
| Income & Growth | 12% | 12% |
| Unquoted | 39% | 31% |
| Funds | 19% | 20% |
| Cash and other | 3% | 9% |

The table shows a redistribution during the year from cash to the Unquoted pool, as a result of the acquisitions of Seven Investment Management and Gala Bingo, offset by the sale of TGE Marine.

### 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

| | 2016 | 2015 |
|---|---|---|
| United Kingdom | 55% | 50% |
| Continental Europe | 11% | 16% |
| North America | 22% | 17% |
| Asia | 12% | 17% |

The investments in Seven Investment Management and Gala Bingo and the sale of TGE Marine, resulted in the balance of exposure in the Unquoted pool shifting from Europe to the UK. In addition, the Quoted pool used UK cash to invest in new investments in the US and the Funds pool invested distributions from the Capital Today China Growth fund in US fund drawdowns.

Further, restructuring of the Income & Growth pool resulted in a shift of investment exposure from Europe and Asia to the UK.

At the end of the year, non-UK investments accounted for 46% of our investment portfolio. However, much of our investment is in multinational companies, which generate a large proportion of their revenues overseas. The following chart shows the geographic analysis by revenue generation, which shows an exposure to non-UK economies of 59%.

### Geographic by revenue generation

| | 2016 | 2015 |
|---|---|---|
| United Kingdom | 41% | 37% |
| Continental Europe | 15% | 15% |
| North America | 22% | 16% |
| Asia | 18% | 26% |
| Other countries | 4% | 6% |

### Asset class

The following chart shows the distribution of net assets by asset class. Listed securities represented 39% of net assets at the year end and unlisted investments (companies and funds) in total accounted for 58%.

### Asset class distribution

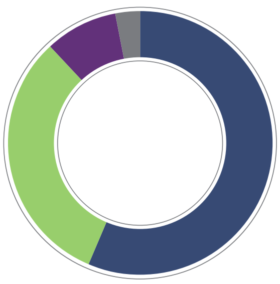
| | 2016 | 2015 |
|---|---|---|
| Listed equities | 39% | 41% |
| Private companies | 39% | 31% |
| Private equity funds | 11% | 12% |
| Quoted market funds | 8% | 7% |
| Cash and other | 3% | 9% |

Over the year, there was a substantial shift in allocation from cash and listed equities to private companies. This was due principally to the acquisitions of Seven Investment Management and Gala Bingo, partially offset by the sale of TGE Marine.

### Currency

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

### Currency exposure



| | 2016 | 2015 |
|---|---|---|
| Pound sterling | 56% | 53% |
| US dollar | 32% | 29% |
| Euro | 9% | 12% |
| Other currencies | 3% | 6% |

The changes in currency exposures over the year principally reflected portfolio changes. In particular, the sale of TGE Marine and European Income & Growth pool investments, the acquisitions of Seven Investment Management and Gala Bingo in the UK and fund investment in the US resulted in reduced euro and increased sterling and US dollar exposures.

# Portfolio summary

Holdings over 1% of net assets at 31 March 2016 were as follows:

| Name | Pool | Geography[1] | Business | Value £m | Net assets % |
|---|---|---|---|---|---|
| Park Holidays | Unquoted | UK | Caravan parks operator | 150.4 | 9.1 |
| Cobehold | Unquoted | Belgium | Investment company | 111.2 | 6.8 |
| Gala Bingo | Unquoted | UK | Bingo operator | 92.3 | 5.6 |
| Seven Investment Management | Unquoted | UK | Investment management | 73.6 | 4.5 |
| Capital Today China Growth fund | Funds | China | Private equity fund | 59.2 | 3.6 |
| The Sloane Club | Unquoted | UK | Residential club | 58.8 | 3.6 |
| Choice Care Group | Unquoted | UK | Care homes provider | 54.0 | 3.3 |
| AG Barr | Quoted | UK | Soft drinks | 50.1 | 3.0 |
| Bristow Group | Quoted | US | Helicopter services | 38.6 | 2.4 |
| British American Tobacco | Quoted/I&G | UK | Tobacco | 36.6 | 2.2 |
| Macquarie Asia New Stars fund | Funds | Asia | Quoted market fund | 32.6 | 2.0 |
| Flowserve | Quoted | US | Industrial engineering | 30.0 | 1.8 |
| Close Brothers | Quoted | UK | Financial services | 29.2 | 1.8 |
| Polar Capital | Quoted | UK | Fund manager | 28.3 | 1.7 |
| Arlington AVM Ranger fund | Funds | US | Quoted market fund | 28.1 | 1.7 |
| Latshaw Group | Unquoted | US | Manufacturing | 26.7 | 1.6 |
| Microsoft | Quoted | US | Infrastructure technology | 25.9 | 1.6 |
| Jardine Matheson | Quoted | Singapore | Industrial engineering | 25.1 | 1.5 |
| Oracle | Quoted | US | Infrastructure technology | 24.5 | 1.5 |
| Bowers & Wilkins | Unquoted | UK | Audio equipment | 24.0 | 1.5 |
| Aberdeen US PE funds | Funds | US | Funds of funds | 23.0 | 1.4 |
| Spirax Sarco | Quoted | UK | Steam engineering | 22.9 | 1.4 |
| PVAM Perlus Microcap fund | Funds | US | Quoted market fund | 22.5 | 1.4 |
| NTAsian funds | Funds | Asia | Quoted market funds | 21.6 | 1.3 |
| Union Pacific | Quoted | US | Railroad operator | 20.7 | 1.3 |
| Satellite Information Services | Unquoted | UK | Broadcasting services | 20.0 | 1.2 |
| LondonMetric Property | Quoted | UK | Property investment | 18.9 | 1.1 |
| Livingbridge funds | Funds | UK | Private equity funds | 18.1 | 1.1 |
| Hill & Smith | Quoted | UK | Infrastructure products | 17.9 | 1.1 |
| Nestlé | Quoted | Switzerland | Packaged foods | 17.6 | 1.1 |
| JF Lehman funds | Funds | US | Private equity funds | 16.8 | 1.0 |
| Other investments | | | | 378.9 | 23.0 |
| Investment portfolio | | | | 1,598.1 | 97.2 |
| Cash and other items[2] | | | | 46.2 | 2.8 |
| Net assets | | | | 1,644.3 | 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 £11.1m 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.

**-7.0%**

return over the year
27% of NAV at 31 March 2016

| | £m |
|---|---|
| Opening value | 447.7 |
| Investments | 156.9 |
| Realisations | (112.9) |
| Reclassifications | 5.4 |
| Revaluation | (47.8) |
| Closing value | 449.3 |
| Investment income | 13.9 |

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 positions. 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 long term accumulation of value, consistent with our target returns and risk.

The pool started the year with investments valued at £447.7m and ended with a value of £449.3m, with £49.4m of net investment (2015 – £55.6m net divestment) substantially offset by net valuation losses of £47.8m. In total, £156.9m was invested and £112.9m was realised. New investments included £35.0m in Flowserve, £25.0m in Union Pacific, £10.9m in Thermo Fisher Scientific and £10.3m in Unilever. Also, we added a further £21.7m to British American Tobacco and £17.1m to Bristow Group. Realisations included £34.8m from Quintain Estates, £19.2m from selling down Close Brothers, £15.4m from selling down Avanti Communications and £13.0m from Weir Group.

Including £13.9m of income, the Quoted pool recorded a negative return of 7.0%, following last year's positive return of 3.5%.

The greatest effect on pool performance in the year was the significant loss of value of £39.3m from Bristow Group, where its share price was significantly impacted by the declining oil price. This is an investment from which we sold down £35.2m in the year ended 31 March 2014, at market highs, and we took the opportunity of the current market volatility to reinvest in the current year. Balancing our exposure to the broader commodity-related cycle, we exited our holding in Weir Group and invested in Flowserve, which we feel offers a broader range and diversity of markets. Our increased investment in British American Tobacco reflects our confidence in the long term value supported by a proven dividend income.

### Significant investments

| | | | | | | | | Income/(expense) recognised in the year | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Business | Geography | First invested | Equity held % | Residual cost £m | Value £m | Pool % | Revenue £m | Capital £m | Total return % |
| AG Barr | Soft drinks | UK | 1977 | 8.1 | 1.1 | 50.1 | 11.1 | 1.2 | (7.6) | (11.3) |
| Bristow Group | Helicopter services | US | 1991 | 8.1 | 41.9 | 38.6 | 8.6 | 1.1 | (39.3) | (58.6) |
| Flowserve | Industrial engineering | US | 2015 | 0.7 | 35.0 | 30.0 | 6.7 | 0.4 | (5.0) | (13.8) |
| Close Brothers | Financial services | UK | 1987 | 1.5 | 5.1 | 29.2 | 6.5 | 1.4 | (7.7) | (13.5) |
| Polar Capital | Fund manager | UK | 2001 | 8.6 | 0.5 | 28.3 | 6.3 | 2.0 | (0.2) | 6.4 |
| British American Tobacco | Tobacco | UK | 2015 | <0.1 | 24.6 | 28.2 | 6.3 | 1.0 | 3.7 | 23.1 |
| Microsoft | Infrastructure technology | US | 2014 | <0.1 | 17.8 | 25.9 | 5.8 | 0.5 | 7.4 | 43.6 |
| Jardine Matheson | Industrial engineering | Singapore | 2011 | 0.1 | 21.0 | 25.1 | 5.6 | 0.6 | (0.8) | (0.7) |
| Oracle | Infrastructure technology | US | 2014 | <0.1 | 22.0 | 24.5 | 5.5 | 0.3 | (0.3) | (0.3) |
| Spirax Sarco | Steam engineering | UK | 2011 | 0.9 | 12.7 | 22.9 | 5.1 | 1.2 | 0.7 | 8.7 |

The table above shows the top ten investments in the pool at 31 March 2016.

# Income & Growth pool

The Income & Growth pool comprises a portfolio of 24 investments in international blue chip businesses of global scale and market presence. The pool targets a net yield of 4.5%.

Over the year, the Income & Growth pool invested £142.6m and realised £135.8m. Net dividend income during the year was £8.6m, representing a net yield of 4.1% on the average invested capital.

The Income & Growth pool was created in March 2011. Over the five years of its existence, the Income &Growth pool has produced a return of 41.8%, giving an annualised rate of 7.2%, and provided a total £33.4m of income to Caledonia.

The Income & Growth pool has been affected by the volatility in global equity markets over the year. However, the underlying strength of the investment companies, supported by strong dividend income has seen the pool outperform the FTSE All-Share for the year, with a negative total return of 0.4%, compared with a FTSE loss of 3.9%.

During the year, the Income & Growth pool has refined its investments, with the goal of increasing yield and reducing volatility. The number of holdings has been reduced from 40 to 24 and the geographical weighting has been shifted to companies domiciled in the UK or with revenues generated in the UK, thereby reducing the impact of volatile foreign exchange markets on income and returns. The focus has been on companies with a resilient earnings model, high cash flow generation and a high and growing dividend yield. All holdings are of similar size, around £7m to £9m in value at the year end.

**-0.4%**

return over the year
12% of NAV at 31 March 2016

| | £m |
|---|---|
| Opening value | 202.1 |
| Investments | 142.6 |
| Realisations | (135.8) |
| Reclassifications | (5.4) |
| Revaluation | (9.4) |
| Closing value | 194.1 |
| Investment income | 8.6 |

## Sectors

| | 2016 | 2015 |
|---|---|---|
| Oil and gas | 4% | 4% |
| Basic materials | – | 3% |
| Industrials | 13% | 9% |
| Consumer goods | 18% | 20% |
| Health care | 8% | 14% |
| Consumer services | 12% | 9% |
| Telecommunications | 8% | 7% |
| Utilities | 13% | 4% |
| Financials | 24% | 30% |

## Regions

| | 2016 | 2015 |
|---|---|---|
| United Kingdom | 50% | 17% |
| Continental Europe | 24% | 43% |
| North America | 21% | 23% |
| Asia Pacific | 5% | 17% |

## Significant investments

| Name | Business | Country | Value £m | Pool % | Income/(expense) recognised in the year: Revenue £m | Income/(expense) recognised in the year: Capital £m | Total return % |
|---|---|---|---|---|---|---|---|
| APA Group | Natural gas infrastructure | Australia | 8.9 | 4.6 | 0.3 | 0.4 | 8.4 |
| Altria Group | Tobacco | US | 8.9 | 4.6 | 0.3 | 2.2 | 37.4 |
| General Electric | Conglomerate | US | 8.8 | 4.5 | 0.2 | 2.4 | 36.2 |
| SES | Satellite operator | Luxembourg | 8.6 | 4.4 | 0.2 | (0.9) | (8.8) |
| Imperial Brands | Tobacco | UK | 8.4 | 4.3 | 0.3 | 1.6 | 34.2 |

The table above shows the top five investments in the pool at 31 March 2016.

# 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.

**+15.2%**

return over the year
39% of NAV at 31 March 2016

| | £m |
|---|---|
| Opening value | 510.3 |
| Investments | 171.5 |
| Realisations | (88.6) |
| Reclassifications | (0.3) |
| Revaluation | 53.4 |
| Closing value | 646.3 |
| Investment income | 25.8 |

The year has seen significant market opportunities for the portfolio, with two new investments in Seven Investment Management and Gala Bingo and the sale of TGE Marine. The pool NAV increased over the year, from £510.3m to £646.3m, after £82.9m of net investment and net valuation gains of £53.4m, most significantly from the Park Holidays investment, which has performed strongly. Including £25.8m of income, the Unquoted pool achieved a return over the year of 15.2%, building on a return of 19.2% last year and 17.7% in 2014.

On 7 September 2015, we invested £73.6m for 93.6% of Seven Investment Management, the UK provider of discretionary fund management, retail investment fund and platform services to UK investors.

On 28 September 2015, we disposed of our 67.9% holding in TGE Marine, the German gas engineering business, for £78.7m to Mitsui Engineering & Shipbuilding. This investment delivered a lifetime IRR of 39% and a money return of 3.5x over nine years.

On 19 December 2015, following a change of control approval from the Gambling Commission and finalisation of a £155m senior debt facility, we invested £92.3m for 98.9% of the equity of Gala Bingo, the UK's largest retail bingo operator, in a transaction valuing the business at £241m.

The pool performance has again been strong across the portfolio, primarily reflecting the strong market positions and cash generative nature of the investments. This has provided an excellent mitigation to the volatility of broader quoted equity markets.

### Significant 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 | Total return % |
|---|---|---|---|---|---|---|---|---|---|---|
| Park Holidays | Caravan parks operator | UK | 2013 | 85.7 | 81.4 | 150.4 | 23.3 | 12.1 | 49.3 | 63.3 |
| Cobehold | Investment company | Belgium | 2004 | 8.7 | 43.7 | 111.2 | 17.2 | 1.7 | 19.0 | 22.8 |
| Gala Bingo | Bingo operator | UK | 2015 | 98.9 | 92.3 | 92.3 | 14.3 | – | – | – |
| Seven Investment Management | Investment management | UK | 2015 | 93.6 | 73.6 | 73.6 | 11.4 | 1.0 | – | 1.9 |
| The Sloane Club | Residential club | UK | 1991 | 100.0 | 37.2 | 58.8 | 9.1 | 1.2 | 5.1 | 11.8 |
| Choice Care Group | Care homes provider | UK | 2013 | 97.4 | 54.0 | 54.0 | 8.4 | 1.5 | – | 3.0 |
| Latshaw Group | Manufacturing | US | 2012 | n/a | 11.8 | 26.7 | 4.1 | – | (6.7) | (19.8) |
| Bowers & Wilkins | Audio equipment | UK | 2011 | 20.0 | 24.1 | 24.0 | 3.7 | 0.8 | – | 3.4 |
| Satellite Information Services | Broadcasting services | UK | 2005 | 22.5 | 16.7 | 20.0 | 3.1 | – | (0.6) | (2.9) |

The table above shows pool holdings of over 1% of net assets at 31 March 2016.

# 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.

**+5.9%**
return over the year
19% of NAV at 31 March 2016

| | £m |
|---|---|
| Opening value | 327.7 |
| Investments | 77.6 |
| Realisations | (113.6) |
| Revaluation | 16.7 |
| Closing value | 308.4 |
| Investment income | 1.9 |

At the year end, fund commitments, including commitments to funds held in a subsidiary investment entity, amounted to £244.1m (2015 – £120.1m).

The Funds pool performed well over the year, achieving a total return of 5.9%, following a total return of 45.2% in the previous year. The Capital Today China fund continued to perform well with a return of 6.6% and, at the same time, continued its programme of realisation of its highly successful JD.com investment, following that company's IPO last year.

The nature of the longer term investment process within the Funds pool requires the continuous origination of, 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. Over the year, the returns from the investments in mature funds, including those managed by Capital Today, Greenhill Capital, CBPE Capital, Livingbridge and JF Lehman, more than offset the expected early losses from net investments in the Macquarie, NTAsian, and New Silk Road funds.

During the year, we committed to a number of new private equity funds. In the Asia Pacific region, we committed \$50m (£34.8m) to Axiom Asia IV, a fund of funds, \$12m (£8.3m) to Decheng Capital II, investing in early and growth stage life sciences companies in China, and \$30m (£20.9m) to PAG Asia II, a pan-Asia buyout fund. In the US, we committed \$50m (£34.8m) to the Aberdeen US PE VI fund of funds, \$30m (£20.9m) to CenterOak Fund 1, focused in control-oriented investments in middle market companies, \$30m (£20.9m) to JFL Equity Investors IV, investing in companies in the defence, aerospace and maritime industries, and \$25m (£17.4m) to Stonepeak Infrastructure II, which has a conservative yet opportunistic approach to infrastructure investing. In Canada, we committed C\$35m (£18.8m) to Ironbridge III, focusing on buyout investments in the Canadian lower-mid market.

In addition, we made a number of investments in quoted market funds. We invested \$10m (£6.4m) in the NTAsian Emerging Leaders fund, specialising in undiscovered small cap companies, \$20m (£13.3m) in the Macquarie Asia New Stars fund, aiming to capture capital growth of small and mid-sized companies in Asia, \$20m (£13.2m) in the Arlington AVM Ranger fund, investing in US equities, and \$10m (£7.0m) in the PVAM Perlus Microcap fund, also investing in US equities.

Realisations in the year totalled £113.6m, comprising £42.4m from the sale of securities and fund interests and £71.2m from fund distributions. Included in the sale of securities and fund interests were £14.6m from the redemption of shares in the Newton Asian Income fund, £13.0m from the PVAM Perlus Microcap fund and £10.6m from the Ocean Dial Gateway to India fund. Fund distributions included £49.6m from the Capital Today China fund, resulting from sales of part of its holding in JD.com.

## Significant investments

| | | | | | | | | Income/(expense) recognised in the year | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Business | Geography | First invested | Equity held % | Residual cost £m | Value £m | Pool % | Revenue £m | Capital £m | Total return % |
| Capital Today China Growth fund | Private equity fund | China | 2006 | n/a | – | 59.2 | 19.2 | 0.4 | 5.2 | 6.6 |
| Macquarie Asia New Stars fund | Quoted market fund | Asia | 2014 | n/a | 32.4 | 32.6 | 10.6 | – | (2.4) | (9.2) |
| Arlington AVM Ranger fund | Quoted market fund | US | 2014 | n/a | 25.8 | 28.1 | 9.1 | – | (0.6) | (2.5) |
| Aberdeen US PE funds | Funds of funds | US | 2013 | n/a | 18.6 | 23.0 | 7.5 | – | 2.3 | 13.8 |
| PVAM Perlus Microcap fund | Quoted market fund | US | 2010 | n/a | 10.5 | 22.5 | 7.3 | – | (1.2) | (5.9) |

The table above shows the top five investments in the pool at 31 March 2016.

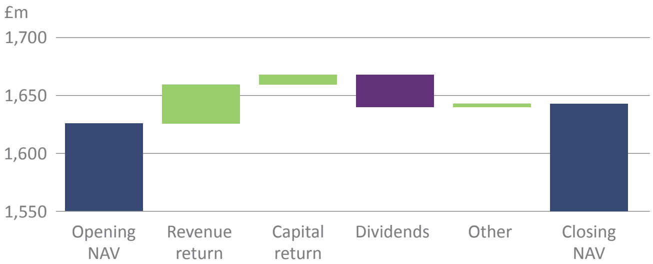
# Financial review

The strength of the company's balance sheet has continued to reflect our longer term risk managed approach to capital accumulation. Sustained growth in revenue supports a record of 49 consecutive years of dividend growth.

Caledonia's net asset value is significantly exposed to global equity markets as a whole and the current year has seen significant uncertainty and consequent volatility in the markets. Nevertheless, our balanced exposure to those worldwide markets, through our pool structure and our exposure to both quoted and unquoted equity, has mitigated much of this. Our portfolio, whilst focused on long term value accumulation achieved a total return of 4.1%, compared with the FTSE All-Share loss of 3.9%.

Caledonia's net asset value increased to £1,644.3m at 31 March 2016, from £1,626.9m 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 long term capital growth. For the year ended 31 March 2016, the total return was £42.8m (2015 – £205.9m), of which £34.2m (2015 – £32.8m) derived from income and £8.6m (2015 – £173.1m) from capital.

## Revenue performance

Investment income in the year of £50.7m (including £0.5m from unallocated investments) was 7.4% higher than last year's £47.2m (including £0.4m from unallocated investments). The Quoted and Unquoted pools contributed £2.5m and £2.7m respectively more than in 2015 and the Funds pool £1.7m less. The Quoted pool more than replaced the loss of income from the sales of Dewan Housing and Close Brothers with dividends from new investments in British American Tobacco, Union Pacific and Flowserve, combined with increased distributions from Spirax Sarco and LondonMetric. The Unquoted pool replaced reduced dividends following disposals from the Latshaw Group and of our TGE Marine investment with an increased £12.1m of dividends from Park Holidays. The Funds pool did not see a repeat of its income distributions from the Livingbridge and CBPE Capital funds this year.

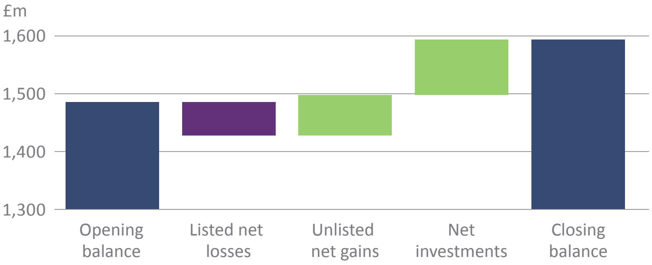
Investment income represented a net yield on the monthly average portfolio value of 3.3%, the same as last year.

## Capital performance

Net gains on investments totalled £12.6m (2015 – £179.9m), including £0.4m of losses on unallocated investments (2015 – £0.4m of net gains). Overall, investments generated £174.4m of gross gains, offset by £161.9m of gross losses. The principal individual gain was £49.3m from Park Holidays, arising from an external valuation of the properties and excellent trading results. Cobehold increased in value by £19.0m, based on the manager's valuation. In addition, TGE Marine and Quintain Estates recorded gains of £13.9m and £11.3m as a result of their sales in the year. Against these gains, Bristow Group recorded a loss of £39.3m, reflecting the declining oil price and consequent reduction in exploration, and Sterling Industries recorded a loss of £24.4m, as a result of a slowdown in the areas of manufacturing utilising Sterling's specialised services.

Overall, across the entire portfolio our investment structure provided a good diversified balance to volatile markets, with listed investments recording valuation losses of £57.4m and unlisted investments £69.9m of valuation gains.

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 – up to 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, illustrating that only 8% of the portfolio value is subject to a directors' valuation in the year:

Portfolio by valuation source

| | |
|---|---|
| Quoted price | 40% |
| External fund manager | 28% |
| External valuer | 14% |
| Directors' valuation | 8% |
| Recent transaction | 10% |

## Expenses

Caledonia has revised its policy of allocating expenses between revenue and capital in order more closely to adhere to AIC guidance and broader market practice. In addition to allocating transaction costs and external performance fees, share-based payment expenses are now allocated to capital. Caledonia's share-based compensation is directly linked to investment performance and is therefore properly viewed as an expense against gains on investments included in capital.

Caledonia has also revised its ongoing charges methodology better to reflect the purpose of the calculation as a measure of the costs of running funds in the absence of any purchases or sales of investments and assuming that markets remained static throughout the period. In particular, costs relating to compensation schemes that are directly linked to investment performance are now excluded.

Our ongoing charges ratio for the year was 1.01% (2015 revised – 0.96%). The ongoing charges ratio is calculated on an industry standard basis, comprising published management expenses over the monthly average NAV.

Overall, the company's revenue management expenses were slightly higher than last year at £16.2m (2015 – £14.3m). This primarily reflected the increased costs of the company's temporary office accommodation while the head office building is being refurbished.

## 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 49 consecutive years.

We paid an interim dividend of 14.3p per share on 7 January 2016 and a second interim dividend of 38.3p per share on 1 April 2016. The total dividend for the year of 52.6p is an increase of 4.0% on last year.

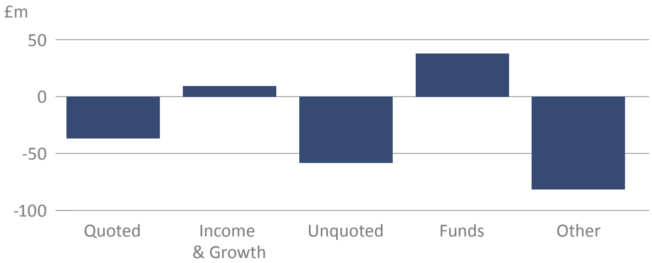
Including the second interim dividend, not accrued in the accounts at 31 March 2016, the dividends to be paid out of revenue earnings for the year ended 31 March 2016 totalled £29.0m, which was more than covered by the net revenue for the year of £34.2m.

## Cash flows, liquidity and facilities

Over the year, we moved from opening net cash of £131.0m to net cash of £22.9m, principally due to net portfolio investments.

The total cash decrease over the year of £108.1m is analysed by pool as follows:

Net cash movement by pool




At 31 March 2016, the company had undrawn committed facilities of £125m, expiring in April 2018. In addition, its treasury subsidiary had £50m of undrawn 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 2015). 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.

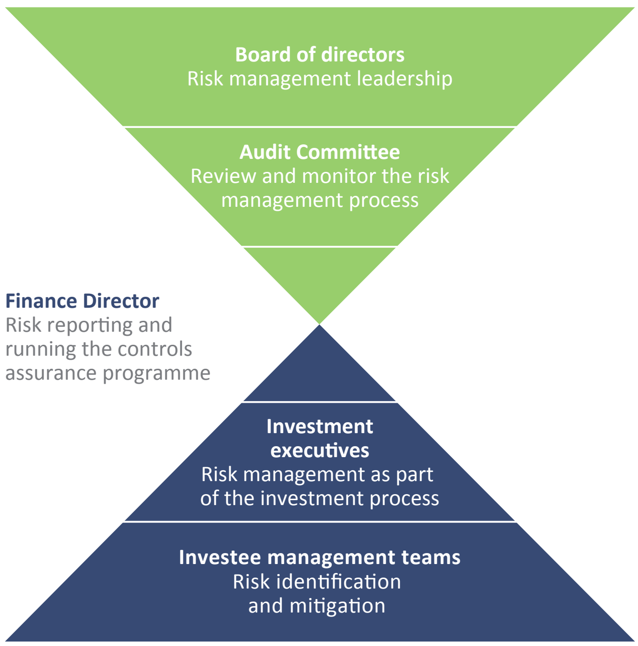
# Risk management

Effective risk management is a key component of the company's investment 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.

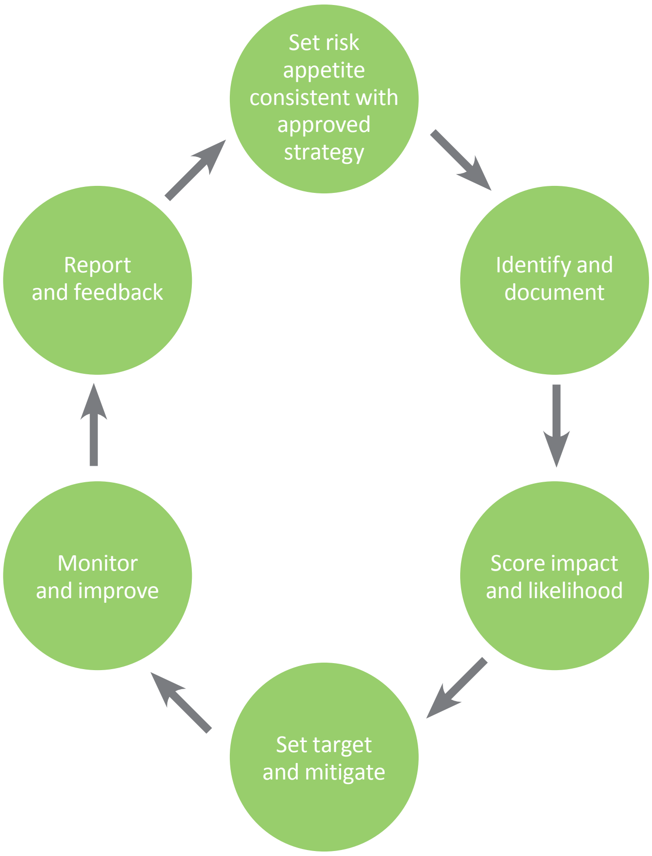
The business risk report considers the wider business environment of the group, including business continuity planning, IT and cyber security risks, regulatory risks and financial control risks. Caledonia manages business risk through a number of integrated processes and procedures operating throughout 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.




## 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 investments and realisations for optimising shareholder value.

### Market

Risk of losses in value of investments arising from sudden and significant 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. Caledonia operates across a number of jurisdictions and in an industry that has been subject to increasing regulatory oversight.

| Mitigation | Key developments | Risk level change |
|---|---|---|
| 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 reviews its investment strategy annually, taking into consideration the current and potential future investing environment and discussions with executives. The investment strategy is reviewed and approved by the board. | ⇔ |
| 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. | Caledonia has continued actively to recruit new members to its investment teams and has expanded the range of tools used in the investment assessment process. | ⇔ |
| 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. | An active year has seen Caledonia reinvest much of the asset value taken out of markets in 2015, taking opportunities that short term volatility and uncertainty provides to invest in strong long term businesses. | ⇩ |
| 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. | We have continued to manage our investment process to ensure we minimise the need to access our available facilities.<br>At 31 March 2016, we had net cash of £22.9m and undrawn committed borrowing facilities of £175m, which 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. | A temporary relocation of offices from Cayzer House to Stratton House was achieved, with no interruption to operations or IT systems.<br>The board has reviewed and approved our business continuity plans during the year. | ⇔ |
| 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 | 9 | 1 | 10 |
| Senior managers | 8 | 3 | 27 |
| All employees | 31 | 23 | 43 |

## 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.

During the year, Caledonia, and its subsidiaries, completed their compliance with the Environment Agency's Energy Savings Opportunity Scheme, assessing and reporting its energy usage and identifying cost-effective energy savings opportunities. This has encouraged a number of initiatives throughout our unquoted subsidiaries.

For Caledonia, the bulk of its energy saving will come from the refurbishment of Cayzer House, which will replace the systems for maintaining the office environment as well as replacing the fabric of the building with modern, more energy efficient, materials.

Other measures undertaken include:

- the use of electronic communications to save paper, printing consumables and energy
- 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 reporting 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 | 38 | Tonnes $CO_2e$ |
| Scope 2 (indirect emissions) | • Electricity purchased for own use | 230 | Tonnes $CO_2e$ |
| Scope 3 (indirect emissions) | • Business travel | 253 | Tonnes $CO_2e$ |
| Total | | 521 | Tonnes $CO_2e$ |
| Key performance indicator | Scope 1, 2 and 3 normalised to full time employee equivalent | 10 | 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.

Mr Kent brings to the board considerable senior board level experience and detailed knowledge of banking, corporate finance and asset management.

## 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 and is also a member of the Nomination Committee. He has held board positions at numerous Caledonia investee companies and is currently 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.

Mr Wyatt brings to the board corporate finance and investment expertise, broad senior management experience and team leadership skills.

## 3
## Stephen King
### Finance Director

He joined Caledonia in 2009 as Finance Director. He was Group Finance Director of De La Rue from 2003 to 2009, prior to which he was Group Finance Director of Midland Electricity and before that held senior financial positions at Seeboard, Lucas Industries and Lonhro. He is currently a non-executive director and Chairman of the Audit Committees of Bristow Group and TT Electronics and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr King brings to the board extensive financial oversight and risk management experience.

## 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 and has held board positions at numerous Caledonia investee companies. He is currently Chairman of The Henderson Smaller Companies Investment Trust and a non-executive director of Polar Capital Holdings.

Mr Cayzer-Colvin brings to the board broad senior management experience and investment expertise.

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

Appointed a non-executive director of Caledonia in 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 co-founder of IMM Associates and Chairman of Hermes Investment Management.

Mr Stewart brings to the board extensive experience of international business and asset management, both in the UK and in Asia and emerging markets.

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## 6
## Stuart Bridges
### Independent 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 is Group Finance Director of ICAP, which he joined in 2015 after some 16 years as Chief Financial Officer of Hiscox. 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 Finance Committee of The Royal Institution.

Mr Bridges brings to the board a wide knowledge of both the insurance and investment markets, as well as financial oversight expertise.

## 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 a member of the Nomination Committee, Chairman of The Sloane Club and Senior Independent Non-Executive Director of LondonMetric Property. In the past he has held board positions at numerous Caledonia investee companies.

The Hon C W Cayzer brings to the board broad commercial experience and also extensive knowledge of the commercial property sector.

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

A Belgian national, he was appointed a non-executive director of Caledonia in 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.

Mr Boël brings to the board industrial and investment experience, particularly in Europe, as well as a deep understanding of the management dynamics of family-controlled businesses.

## 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 has served on a number of boards in the financial service sector, including St James's Place, Provident Financial, MAI and International Personal Finance, and in the media sector, including United Business Media and PR Newswire Europe. He is currently non-executive Chairman of ICAP and a non-executive director of Non-Standard Finance.

Mr Gregson brings to the board extensive senior board level experience, as well as experience of managing relationships with the media, regulators and the institutional investor community.

## 10
## Shonaid Jemmett-Page
### Independent Non-Executive Director

Appointed a non-executive director of Caledonia in 2015, she is a member of the Governance, Nomination and Remuneration Committees. She spent the first 20 years of her career at KPMG in London and Tokyo, rising to the position of Partner, Financial Services. In 2001, she moved to Unilever, where she was Senior Vice President, Finance and Information for Asia, based in Singapore, before returning to the UK as Finance Director for Unilever's global non-food business. In 2009, she joined CDC Group as Chief Operating Officer, a position she held until 2012. Since then, she has focused on non-executive appointments and is currently Non-executive Chairman of Origo Partners, Deputy Chairman of MS Amlin and a non-executive director of GKN and Greencoat UK Wind.

Mrs Jemmett-Page brings to the board extensive financial oversight and international business experience, in particular in the Far East.

# 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 nine scheduled meetings during the year. Attendance of the directors was as follows:

| Director | Meetings attended | Meetings eligible to attend |
|---|---|---|
| R D Kent | 9 | 9 |
| W P Wyatt | 9 | 9 |
| S A King | 9 | 9 |
| J M B Cayzer-Colvin | 9 | 9 |
| H Y H Boël | 8 | 9 |
| S J Bridges | 8 | 9 |
| Hon C W Cayzer | 8 | 9 |
| C H Gregson | 9 | 9 |
| S C R Jemmett-Page[1] | 6 | 6 |
| D C Stewart | 8 | 9 |
| R B Woods[2] | 9 | 9 |

1. Mrs Jemmett-Page was appointed a director on 1 July 2015.
2. Mr Woods retired from the board on 31 March 2016.

### 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 ('Code') issued in September 2014 for the duration of the reporting period.

The company has complied throughout the year with all of the provisions of the Code, other than provision D.1.1., which requires that schemes for performance-related remuneration should include provisions that would enable the company to recover sums paid ('clawback') or withhold any sums ('malus') and specify the circumstances in which it would be appropriate to do so. As explained in the Directors' remuneration report, malus provisions were introduced into Caledonia's performance share scheme and deferred bonus plan in 2014 and were included in the directors' remuneration policy approved by shareholders at the annual general meeting in that year. The provision in the Code requiring malus and clawback did not become operative until after the directors' remuneration policy had been approved and the Remuneration Committee has been advised that it would be necessary to seek shareholder approval of a change in the remuneration policy for clawback provisions to be included in the company's incentive plans. Accordingly, the Remuneration Committee has resolved to incorporate clawback provisions into Caledonia's incentive plans as part of the next scheduled remuneration policy renewal in 2017, in line with the GC100 guidance.

A copy of the Code is available on the website of the Financial Reporting Council at https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf.

### 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 defines the company's culture and sets the company's values and standards to ensure 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 investment 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 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 2014, the election of those directors determined by the board to be independent under the 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 family 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 26 and 27.

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.

Since August 2015, Mr Bridges has been Group Finance Director of ICAP, where Mr Gregson is non-executive Chairman. The board does not consider that Mr Bridges' role has 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.

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 31 to 49.

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 fortnightly 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 2016, 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 2016 evaluation process were presented in a report to the board. The conclusion was that the board operated in a cohesive and constructive manner, with open debate and an appropriate level of challenge to management proposals. Actions identified to improve the board's processes and effectiveness included the addition to each board agenda of a formal list of outstanding action points carried forward from previous meetings to ensure all are appropriately concluded, an explicit annual review and, if necessary, restatement of the board's risk appetite and enhanced analysis of risk within each of the investment pools to optimise returns. It was also agreed that the board should undertake an annual review of business security, including cyber risk.

### 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 Chairman and other non-executive directors are also available to attend some of these meetings, if requested. Any views put forward by shareholders are reported back to the board, which periodically also receives presentations from the company's brokers on shareholder feedback and the general market perception of the company. In addition, the annual general meeting provides a forum for shareholders to meet the directors, both formally and informally.

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

### Relations with controlling shareholders

As at 18 May 2016, being the latest practicable date prior to the publication of this annual report, the Cayzer family concert party ('Cayzer Concert Party') held 48.49% of Caledonia's voting rights.

Under 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. Under the terms of its agreement, Cayzer Trust has undertaken 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, during the period under review and up to 18 May 2016, 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

19 May 2016

# 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.

### Work of the Nomination Committee

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

- consideration of the contributions and effectiveness of the non-executive directors seeking election or re-election at the 2015 annual general meeting, prior to giving recommendations for their elections or re-elections.

Rod Kent
Chairman of the Nomination Committee

19 May 2016

### 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) | 2 | 2 |
| H Y H Boël | 1 | 2 |
| S J Bridges | 1 | 2 |
| Hon C W Cayzer | 2 | 2 |
| C H Gregson | 1 | 2 |
| S C R Jemmett-Page[1] | 1 | 1 |
| D C Stewart | 2 | 2 |
| R B Woods[2] | 1 | 2 |
| W P Wyatt | 2 | 2 |

1. Mrs Jemmett-Page was appointed a member of the committee on 1 July 2015.
2. Mr Woods retired from the committee on 31 March 2016.

# 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.

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 2016, in May and November 2015 and in March 2016. Subsequent to the year end, it met in May 2016 to consider the significant issues in relation to the 2016 annual report.

The external auditor, KPMG, the Chief Executive, the Finance Director, the Company Secretary and 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.

## 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 | 2 | 3 |
| D C Stewart | 3 | 3 |

## 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 2015 was the 2015 annual report and financial statements and the 2015 half-year results respectively, including evaluation of the going concern statements therein.

The March 2016 meeting considered principally the audit planning for the 2016 annual report, including in particular the requirements of the 2014 revision of The UK Corporate Governance Code and other disclosure requirements.

In its May 2016 meeting, the Audit Committee reviewed the form and content of the 2016 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 and the viability statement. The Audit Committee recommended the 2016 annual report to the board.

The significant issues the Audit Committee considered in relation to the 2016 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, the viability statement and compliance with the annual report 'fair, balanced and understandable' provisions of the 2014 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 meetings (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 meetings 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 and viability
The Audit Committee considered the funding 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.

The Audit Committee also assessed the viability of the company. They agreed to provide a viability statement for a period of three years for the reasons set out in the statement on page 51. In May 2016, the Audit Committee conducted a series of stress tests that considered the impact of severe market downturn scenarios on shareholders' funds, the debt facility, investment income and also the potential loss of investment trust status. The outcome of this activity led the Audit Committee to recommend to the board to make the statement on page 51.

### 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 53, 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 2016 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 review of the US limited partnership investment structure. No significant areas of weakness were identified. The Audit Committee agreed the control review work plan for 2016.

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.

### New subsidiary investments
The Audit Committee recognised the increased regulatory risk associated with the investments in the year in Seven Investment Management and Gala Bingo, both of which are regulated entities. The company will closely monitor the controls in place in these entities.

### 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 a pre-determined threshold.

### 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 21 July 2016.

## 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

19 May 2016

# 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) | 3 | 3 |
| S J Bridges | 2 | 3 |
| S C R Jemmett-Page[1] | 1 | 1 |
| R B Woods[2] | 3 | 3 |

1. Mrs Jemmett-Page was appointed a member of the committee on 1 July 2015.
2. Mr Woods retired as a member of the committee on 31 March 2016.

### 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 2015
- 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 family concert party ('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, on behalf of the board, of the statements of compliance with the independence provisions of Listing Rules relating to premium listed companies with controlling shareholders.

Charles Gregson
Chairman of the Governance Committee

19 May 2016

# 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) | 4 | 4 |
| S C R Jemmett-Page[1] | 1 | 1 |
| D C Stewart | 4 | 4 |
| R B Woods[2] | 4 | 4 |

1. Mrs Jemmett-Page was appointed a member of the committee on 1 July 2015.
2. Mr Woods retired as a member of the committee on 31 March 2016.

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 by the Chairman of the Remuneration Committee and the Remuneration policy 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 2016.

The report reproduces the principal elements of the remuneration policy which was approved by shareholders at the 2014 annual general meeting and which provides the current framework within which we incentivise and reward our senior executive team and pay fees to our non-executive board members. No changes to this policy are proposed at this year's annual general meeting, although the policy is due for renewal in 2017 and therefore one of the key tasks for the Remuneration Committee for the year ahead will be to review Caledonia's current remuneration policies and practices to ensure that they remain fully aligned with the company's strategy and that they reinforce and contribute to our overall objective of creating sustained value for shareholders over the long term.

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 2016 and how we intend to approach remuneration for the 2017 financial year. Detailed disclosure and explanations of the remuneration paid to directors in the year ended 31 March 2016 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 21 July 2016.

### Remuneration for the year ended 31 March 2016

Against a background of volatile markets in which the FTSE All-Share Total Return index ('FTSE index') fell by 3.9%, Caledonia's net asset value per share total return ('NAVTR') was 2.6%, slightly below the minimum 3% threshold set by the Remuneration Committee for bonus purposes. Accordingly, none of the executive directors received any bonus on the basis of the company's performance. The Funds pool, led by Jamie Cayzer-Colvin, achieved a total return of 5.9%, but again this was below the minimum threshold of 6% set for this pool and therefore he received no bonus for pool performance. The Funds pool has however continued to make significant progress in identifying, and gaining access to, high quality funds in Asia and the US and in building a pipeline of potential future fund commitments. The Remuneration Committee therefore felt it appropriate to award Mr Cayzer-Colvin a bonus of 48.25% of basic salary in relation to his pool and personal objectives. The Remuneration Committee also determined to award Will Wyatt and Stephen King 45% of basic salary in respect of the achievement of individual objectives set for them at the beginning of the year.

The year to 31 March 2016 also represented the end of the three year performance measurement period for all of the matching share awards granted in 2013 under the company's deferred bonus plan and half of the awards granted in that year under its performance share scheme. For the deferred bonus plan matching 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 24.5% and the Gilts index by 14.9% over the three year period, and accordingly these awards have vested in full.

For the awards granted under the performance share scheme, half were to be measured against the Gilts index over three years and half against the FTSE index over five years, with the same graduated vesting scale applying as described for the deferred bonus plan matching awards above. The half of the awards measured against the Gilts index have accordingly vested in full and those to be measured against the FTSE index will be tested in two years' time.

# Directors' remuneration report continued

## Annual statement by the Chairman of the Remuneration Committee

### Remuneration for the year ending 31 March 2017

Looking ahead to the 2017 financial year, basic salaries of executive directors, other than Mr Wyatt, have been increased with effect from 1 April 2016 by 1.0%, broadly in line with inflation, which was the same as the standard increase given to all of the company's staff. Mr Wyatt's basic salary has not been increased and therefore remains the same as in 2015. 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 2016 full year results announcement in line with our normal grant cycle. These will be subject to the same performance measures used for the 2015 award grants, which are summarised in the remuneration policy table on pages 39 and 40.

### Malus and clawback

In 2014, 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, nor 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 decided last year to see how market practice in relation to clawback developed before making a decision as to whether to introduce it to Caledonia's performance related incentive schemes.

Twelve months on, it is clear that increasingly listed companies are adopting, or committing to adopt, both malus and clawback provisions and accordingly our Remuneration Committee has resolved to introduce clawback into Caledonia's performance related incentive schemes. However, in view of the need for shareholders' approval, it proposes to do so as part of the next scheduled remuneration policy renewal in 2017, in line with the GC100 guidance.

Charles Gregson
Chairman of the Remuneration Committee

19 May 2016

# 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 2016 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 reflect the new performance measures adopted by the Remuneration Committee since the original policy was approved. 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 38 to 44 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 | 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 were subject to a performance condition which compared 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 was measured against the FTSE All-Share Total Return index ('FTSE index'), also over three years. Awards vested 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 was no re-testing of either performance target and, to the extent a performance target was not met, the relevant award would 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 were used to reduce volatility. To the extent that the performance targets were 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. The nil-cost options granted in the 2013 financial year were tested by reference to Caledonia's NAVTR over the three years to 31 March 2015. Maximum vesting was achieved against both benchmark indices.

For nil-cost options granted in the 2014 financial year, the performance criteria were as above, except that one-half of the shares comprised in an award would 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. Those shares measured against the Gilts index were tested by reference to Caledonia's NAVTR performance for the three years to 31 March 2016 and achieved maximum vesting.

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.

# Directors' remuneration report continued

## Remuneration policy

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 were 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 granted in the 2016 and subsequent financial years are 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.

*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; Audit Committee chairman £5,600; Remuneration Committee chairman £4,900; Senior Independent Director/ Governance Committee chairman £5,100; Basic non-executive director's fee £39,900; Audit Committee member £2,300; Remuneration Committee member £1,600<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 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.

# Directors' remuneration report continued

## 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.

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.

# Directors' remuneration report continued

## 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 2016 and describes how Caledonia's remuneration policy will be implemented for the 2017 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 2016 and a comparison with the previous financial year.

| | Salary | | Taxable benefits[1] | | Short term incentives[2] | | Long term incentives[3] | | Pension related benefits | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| W P Wyatt | 512 | 506 | 19 | 19 | 230 | 506 | 786 | 1,154 | 101 | 100 | 1,648 | 2,285 |
| S A King | 363 | 359 | 2 | 3 | 164 | 359 | 558 | 819 | 56 | 55 | 1,143 | 1,595 |
| J M B Cayzer-Colvin | 307 | 304 | 19 | 18 | 148 | 304 | 472 | 692 | 50 | 51 | 996 | 1,369 |

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:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Compulsorily deferred £'000 | Cash £'000 | Total £'000 | Compulsorily deferred £'000 | Cash £'000 | Total £'000 |
| W P Wyatt | – | 230 | 230 | 253 | 253 | 506 |
| S A King | – | 164 | 164 | 179 | 180 | 359 |
| J M B Cayzer-Colvin | – | 148 | 148 | 152 | 152 | 304 |

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 2016 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'), which for bonus purposes was taken as 3%, or actual RPI if greater, 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, with payments commencing on achievement of a total return of 6%, rising to a maximum pay-out against a total return of 13.5% and pool objectives, by measures 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 2.6% over the year and therefore below the minimum RPI target set by the Remuneration Committee of 3.0%. Accordingly no bonus was awarded for the company performance related element. The Fund pool's return over the year was 5.9%, below the minimum payment trigger of 6% and therefore no bonus was awarded to Mr Cayzer-Colvin for this element. In recognition of the continued progress made by the Funds pool in identifying, and gaining access to, high quality private equity funds in Asia and the US and building a pipeline of potential new fund commitments, the Remuneration Committee awarded Mr Cayzer-Colvin 33.25% out of a maximum 35% for attainment of his pool objectives. Based on an assessment of their individual performance objectives over the year, the Remuneration Committee awarded Mr Cayzer-Colvin his maximum bonus for that component of 15% and Mr Wyatt and Mr King 45% out of their maximum of 50%.

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 | nil | 50 | nil | 50 | nil | 25 |
| Pool | n/a | n/a | n/a | n/a | nil | 25 |
| *Objectives* | | | | | | |
| Pool | n/a | n/a | n/a | n/a | 33.25 | 35 |
| Individual | 45 | 50 | 45 | 50 | 15 | 15 |
| Total | 45 | 100 | 45 | 100 | 48.25 | 100 |

3. **Long term incentives**
The long term incentive awards whose performance measurement period ended during the year were all of the matching share awards granted in 2013 under the company's deferred bonus plan and half of the awards granted in that year under the performance share scheme. The vesting of the awards under the deferred bonus plan was dependent on the performance of the company's NAVTR over the three financial years ended 31 March 2016 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. Under the performance share scheme, half of the shares comprised in the awards granted in 2013 were to be measured against the Gilts index over three years and the other≈half against the FTSE index over five years, with graduated vesting and use of average figures being on the same basis as for the deferred bonus plan awards as described above.
The company's NAVTR increased by 34.7% over the three year performance period, compared with increases of 10.2% for the FTSE index and 19.8% for the Gilts index. Accordingly, both of the performance targets for the deferred bonus plan matching awards granted in 2013 and the Gilts index referenced performance share scheme awards granted in that year vested in full.
The amounts shown in the table above under long term incentives therefore comprised the value of the vested deferred bonus plan matching awards and performance share scheme awards granted in 2013, based on the company's share price at 31 March 2016 of 2285p, together with the value of dividends and associated tax credits that would have accrued on the vested shares during the performance measurement period and also the value of dividend equivalents that would have accrued on the compulsory deferred bonus plan awards granted in 2013, that gave rise to the matching share awards. These are analysed as follows:

| | Value of long term incentive awards £'000 | Value of dividend equivalents £'000 | Total £'000 |
|---|---|---|---|
| W P Wyatt | 696 | 90 | 786 |
| S A King | 494 | 64 | 558 |
| J M B Cayzer-Colvin | 417 | 55 | 472 |

### Chairman and non-executive directors

Fees and other remuneration paid to the Chairman and the non-executive directors during the year ended 31 March 2016 and the previous year were as follows:

| | Fees | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| R D Kent | 185 | 185 |
| H Y H Boël[1] | – | – |
| S J Bridges[2] | 46 | 46 |
| Hon C W Cayzer[3] | 100 | 100 |
| C H Gregson | 50 | 47 |
| S C R Jemmett-Page[4] | 31 | – |
| D C Stewart[5] | 44 | 2 |
| R B Woods | 42 | 42 |

1. Mr Boël 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 until his employment with Hiscox terminated on 31 August 2015.
3. The Hon C W Cayzer's fees for 2016 and 2015 included £60,000 paid by a subsidiary in respect of his services as Chairman of The Sloane Club.
4. Mrs Jemmett-Page was appointed a director on 1 July 2015.
5. Mr Stewart was appointed a director on 17 March 2015.

## 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 | |
|---|---|---|---|---|---|---|
| | 2016 £ | 2015 £ | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| W P Wyatt | – | – | 101,141 | 100,139 | 101,141 | 100,139 |
| S A King | – | – | 55,819 | 55,265 | 55,819 | 55,265 |
| J M B Cayzer-Colvin | 26,310 | 31,022 | 24,071 | 19,472 | 50,381 | 50,494 |

### 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 2016 | a | 190,768 |
| Accrued pension at 31 March 2015 | b | 184,434 |
| Increase in accrued pension during the year | c | 6,334 |
| Transfer value of accrued pension at 31 March 2016 | d | 3,840,816 |
| Transfer value of accrued pension at 31 March 2015 | e | 3,653,745 |
| Change in transfer value over the year | f | 187,071 |

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 share awards made under the deferred bonus plan.

| Scheme | Type of award | Basis of award | Face value of award £'000 | Share price at grant | Shares comprised in award[1] | Receivable if minimum performance achieved[2] % | End of performance period |
|---|---|---|---|---|---|---|---|
| **W P Wyatt** | | | | | | | |
| Performance Share Scheme | Nil-cost option | 125% of salary | 640 | 2435p | 26,260 | 10 | 31.03.20 |
| Deferred Bonus Plan | Compulsory award | % of bonus in excess of 50% | 253 | 2435p | 10,400 | 100 | 31.03.18 |
| Deferred Bonus Plan | Matching award | 1:1 | 253 | 2435p | 10,400 | 10 | 31.03.18 |
| Total scheme interests awarded | | | 1,146 | | 47,060 | | |
| **S A King** | | | | | | | |
| Performance Share Scheme | Nil-cost option | 125% of salary | 454 | 2435p | 18,633 | 10 | 31.03.20 |
| Deferred Bonus Plan | Compulsory award | % of bonus in excess of 50% | 179 | 2435p | 7,379 | 100 | 31.03.18 |
| Deferred Bonus Plan | Matching award | 1:1 | 180 | 2435p | 7,379 | 10 | 31.03.18 |
| Total scheme interests awarded | | | 813 | | 33,391 | | |
| **J M B Cayzer-Colvin** | | | | | | | |
| Performance Share Scheme | Nil-cost option | 125% of salary | 384 | 2435p | 15,756 | 10 | 31.03.20 |
| Deferred Bonus Plan | Compulsory award | % of bonus in excess of 50% | 152 | 2435p | 6,240 | 100 | 31.03.18 |
| Deferred Bonus Plan | Matching award | 1:1 | 152 | 2435p | 6,240 | 10 | 31.03.18 |
| Total scheme interests awarded | | | 688 | | 28,236 | | |

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 awards under the deferred bonus plan are set out under the statement of directors' share scheme interests below.

# Directors' remuneration report continued

## Annual report on directors' remuneration

### 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.

| | | Fees | |
|---|---|---|---|
| Name | Position | 2016 £'000 | 2015 £'000 |
| S A King | Non-executive director, TT Electronics plc | 48 | 47 |
| J M B Cayzer-Colvin | Non-executive Chairman, The Henderson Smaller Companies Investment Trust plc | 33 | 29 |

### 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 scheme 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. All of the executive directors have attained the minimum guideline shareholding as at 31 March 2016. The values of the relevant shareholdings of each executive director as at 31 March 2016, calculated by reference to Caledonia's closing share price on that date of 2285p, and the percentage level by which the value of the minimum guideline shareholding has been achieved were as follows:

| | Value of shareholding £m | Attainment of guideline % |
|---|---|---|
| W P Wyatt | 25.8 | 2,522 |
| S A King | 1.1 | 193 |
| J M B Cayzer-Colvin | 9.2 | 1,978 |

#### 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 2016 were as follows:

| | Beneficial | | Non-beneficial | |
|---|---|---|---|---|
| | 2016 No | 2015[1] No | 2016 No | 2015[1] No |
| R D Kent | 10,000 | 10,000 | – | – |
| W P Wyatt[2] | 1,083,654 | 1,060,365 | 28,418 | 28,293 |
| S A King | 15,889 | 4,054 | – | – |
| J M B Cayzer-Colvin[2] | 374,320 | 364,314 | 65,953 | 65,953 |
| H Y H Boël | – | – | – | – |
| S J Bridges | 5,222 | 5,112 | – | – |
| Hon C W Cayzer[2] | 40,092 | 40,092 | 14,500 | 21,500 |
| C H Gregson | 610 | 610 | – | – |
| S C R Jemmett-Page[3] | – | – | – | – |
| D C Stewart | 4,072 | – | – | – |
| R B Woods | 2,000 | 2,000 | – | – |

1. Or date of appointment, if later.
2. Mr Wyatt's beneficial interests included 972,066 shares (2015 – 953,066 shares) held by The Dunchurch Lodge Stud Company, a private family company controlled by Mr Wyatt and certain of his connected persons, and his 2015 beneficial interests included 9,000 shares in which The Hon C W Cayzer held a non-beneficial interest. The Hon C W Cayzer's beneficial interests included 4,200 shares (2015 – 4,200 shares) in which Mr Wyatt and Mr Cayzer-Colvin had non-beneficial interests and his non-beneficial interests included 12,500 shares (2015 – 12,500 shares) in which Mr Wyatt also had a non-beneficial interest.
3. Mrs Jemmett-Page was appointed a director on 1 July 2015.

On 1 April 2016, Mr Bridges acquired a further 87 shares in the company as a result of a standing election to reinvest dividends received on his shareholding. There have been no other changes in the directors' interests shown above notified up to the date of this report.

#### Directors' share scheme interests

The interests of directors as at 31 March 2016 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 29.05.09 (exercise price: 1446p) | 1446p | – | – | 12,707 | 12,707 |
| | | | – | – | 12,707 | 12,707 |
| | *Performance share scheme awards* | | | | | |
| | Granted 28.05.12 (nil-cost) | 1267p | – | 15,776 | – | 15,776 |
| | Granted 12.06.13 (nil-cost) | 1802p | 17,137 | – | 17,138 | 34,275 |
| | Granted 27.11.14 (nil-cost) | 2294p | 27,598 | – | – | 27,598 |
| | Granted 26.05.15 (nil-cost) | 2435p | 26,260 | – | – | 26,260 |
| | | | 70,995 | 15,776 | 17,138 | 103,909 |

| | | Share price at date of award | Unvested with performance conditions[1] | Unvested without performance conditions[2] | Vested but unexercised[3] | Total |
|---|---|---|---|---|---|---|
| | *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 |
| | Granted 26.06.15 (nil-cost) | 2435p | – | 10,400 | – | 10,400 |
| | | | – | 21,702 | 13,310 | 35,012 |
| | *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 |
| | Granted 26.06.15 (nil-cost) | 2435p | 10,400 | – | – | 10,400 |
| | | | 21,702 | – | 13,310 | 35,012 |
| | Total share scheme interests | | 92,697 | 37,478 | 56,465 | 186,640 |

During the year, Mr Wyatt exercised executive share options and performance share scheme awards over a total of 38,342 shares at a pre-tax gain of £790,166.

| | | | | | | |
|---|---|---|---|---|---|---|
| S A King | *Performance share scheme awards* | | | | | |
| | Granted 28.05.12 (nil-cost) | 1267p | – | 11,194 | – | 11,194 |
| | Granted 12.06.13 (nil-cost) | 1802p | 12,160 | – | 12,160 | 24,320 |
| | Granted 27.11.14 (nil-cost) | 2294p | 19,582 | – | – | 19,582 |
| | Granted 26.06.15 (nil-cost) | 2435p | 18,633 | – | – | 18,633 |
| | | | 50,375 | 11,194 | 12,160 | 73,729 |
| | *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 |
| | Granted 26.06.15 (nil-cost) | 2435p | – | 7,379 | – | 7,379 |
| | | | – | 15,398 | 9,444 | 24,842 |
| | *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 |
| | Granted 26.06.15 (nil-cost) | 2435p | 7,379 | – | – | 7,379 |
| | | | 15,398 | – | 9,444 | 24,842 |
| | Total share scheme interests | | 65,773 | 26,592 | 31,048 | 123,413 |

During the year, Mr King exercised performance share scheme awards over 22,389 shares at a pre-tax gain of £543,829.

| | | | | | | |
|---|---|---|---|---|---|---|
| J M B Cayzer-Colvin | *Executive share options* | | | | | |
| | Granted 29.05.09 (exercise price: 1446p) | 1446p | – | – | 12,707 | 12,707 |
| | | | – | – | 12,707 | 12,707 |
| | *Performance share scheme awards* | | | | | |
| | Granted 28.05.12 (nil-cost) | 1267p | – | 9,466 | – | 9,466 |
| | Granted 12.06.13 (nil-cost) | 1802p | 10,282 | – | 10,283 | 20,565 |
| | Granted 27.11.14 (nil-cost) | 2294p | 16,558 | – | – | 16,558 |
| | Granted 26.06.15 (nil-cost) | 2435p | 15,756 | – | – | 15,756 |
| | | | 42,596 | 9,466 | 10,283 | 62,345 |
| | *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 |
| | Granted 26.06.15 (nil-cost) | 2435p | – | 6,240 | – | 6,240 |
| | | | – | 13,021 | 7,986 | 21,007 |
| | *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 |
| | Granted 26.06.15 (nil-cost) | 2435p | 6,240 | – | – | 6,240 |
| | | | 13,021 | – | 7,986 | 21,007 |
| | Total share scheme interests | | 55,618 | 22,487 | 38,961 | 117,066 |

During the year, Mr Cayzer-Colvin exercised executive share options and performance share scheme awards over a total of 25,720 shares at a pre-tax gain of £483,528.

# Directors' remuneration report continued

## Annual report on directors' remuneration

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 were tested against the FTSE index and one-third against the Gilts index. In each case the performance period was a period of three years commencing with the financial year in which the awards are granted and both targets were met in full. For the nil-cost options awarded on 12 June 2013, one-half of the shares comprised in an award were measured against the Gilts index over three years and the other half against the FTSE index over five years. The shares measured against the Gilts index have met their target in full.

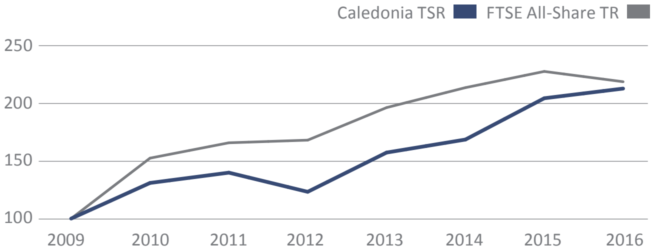
   For nil-cost options granted to Mr Wyatt and Mr King on 27 November 2014 and 26 June 2015, shares will vest on a graduated basis, with vesting commencing at 10% if the company achieves an annualised NAVTR of 3%, rising incrementally to 100% vesting on achievement of an annualised NAVTR of 10%. For Mr Cayzer-Colvin, who is head of the Funds pool, 60% of his performance share scheme awards granted on 27 November 2014 and 26 June 2015 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 for these grants will be measured against Caledonia's NAVTR as above. For the 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. For the nil-cost options granted on 26 June 2015, the relevant performance conditions will be tested over three years for one-third of the shares comprised in an award and over five years for the remaining two-thirds of the shares comprised in an award.

   ***Deferred bonus plan matching awards***
   The performance targets for the matching awards granted on 12 June 2013 and 6 June 2014 are the same as those for nil-cost options granted under the performance share scheme on 28 May 2012. For the matching awards granted on 26 June 2015, shares will vest on a graduated basis, with vesting commencing at 20% if the company achieves an annualised NAVTR measured over three years of 4%, rising incrementally to 100% vesting on achievement of an annualised NAVTR of 10%. Shares that vest must be called within 12 months of vesting.
2. **Other exercise conditions**
   ***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, 27 November 2014 and 26 June 2015, shares that vest following the 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 seven financial years ending on 31 March 2016. 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 seven years to 31 March 2016, prepared on the same basis as in the single total figure in the table on page 44, and the percentage of the maximum potential short and long term incentives received in those years.

TSR growth over seven years




| | Year ended 31 March | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011[1] | 2011[1] | 2012 | 2013 | 2014 | 2015 | 2016 |
| Chief Executive | T C W Ingram | W P Wyatt | W P Wyatt | W P Wyatt | W P Wyatt | W P Wyatt | W P Wyatt |
| Total remuneration (£'000) | 215 | 669 | 585 | 1,077 | 1,196 | 2,285 | 1,648 |
| Short term incentives vested as a percentage of maximum (%) | – | 67.5 | – | 100.0 | 100.0 | 100.0 | 45.0 |
| Long term incentives vested as a percentage of maximum (%) | 1.5 | – | 50.0 | – | 10.1 | 100.0 | 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.

## Percentage change in remuneration of Chief Executive

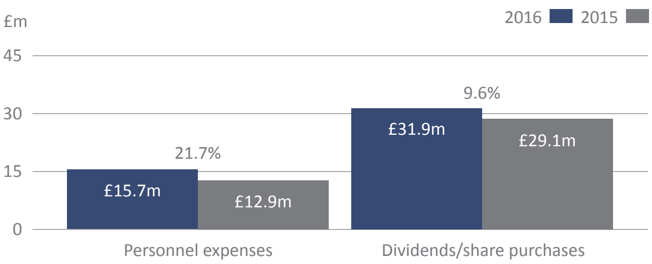
The following table shows the percentage change in the basic salary, value of taxable benefits and short term incentives paid to the Chief Executive in the year to 31 March 2016 against the previous financial year, compared with the average percentage changes in those components of pay of Caledonia's other staff on a per capita basis. Caledonia's senior executives, including the Chief Executive, received a standard increase in basic salary of 1.0%, although other grades of staff were awarded a standard increase of 3.0%. The average per capita percentage change for staff taxable benefits reduced over the year principally due to lower rates and extended cover options negotiated for the company's private medical insurance plan, which enabled some members of staff to benefit from lower renewal premiums. The Chief Executive was awarded a bonus of 45% of basic salary, based on the company's performance and individual objectives, compared with the maximum entitlement in the previous year. The average per capita percentage change in staff bonuses reflected a variety of factors, such as company performance, pool performance, individual objectives and increases in the basic salaries on which the bonus awards were based.

| | Chief Executive change % | Staff average per capita change % |
|---|---|---|
| Basic salary | 1.0 | 3.0 |
| Taxable benefits | 0.5 | (4.5) |
| Short term incentives | (54.6) | (38.5) |

## 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 purchases.

Relative importance of spend on pay




## Statement of implementation of remuneration policy in the 2017 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 2017.

### Basic salaries of executive directors

In respect of the 2017 financial year, the Remuneration Committee has maintained the Chief Executive's basic salary at the same level as the 2016 financial year and has awarded the other executive directors inflation-based increases in basic salary of 1.0%, as follows:

| | Salary for year to 31 March 2017 £ | Salary for year to 31 March 2016 £ |
|---|---|---|
| W P Wyatt | 511,550 | 511,550 |
| S A King | 366,610 | 362,980 |
| J M B Cayzer-Colvin | 310,000 | 306,930 |

### 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 the fee scale is unchanged since that date, as follows:

| | Fees for years to 31 March 2017 and 2016 £ |
|---|---|
| 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 and long term incentive schemes

No changes to the company's annual bonus or long term incentive schemes are anticipated for the 2017 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 support the company's strategy and deliver long term shareholder value by attracting and retaining talent and rewarding 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 Shonaid Jemmett-Page. Mr Gregson and Mr Stewart served throughout the year and Mrs Jemmett-Page served from the date of her appointment as a directoron 1 July 2015. Robert Woods also served as a member of the Remuneration Committee until his retirement from the board on 31 March 2016.

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 2015 Directors' remuneration report and emerging practice in relation to the adoption of clawback provisions by other UK listed companies. 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 16 July 2015, the proxy votes lodged for the resolution relating to directors' remuneration were as follows:

| | Number | % |
|---|---|---|
| *To approve the 2015 directors' remuneration report (other than the directors' remuneration policy)* | | |
| Votes in favour | 37,495,633 | 99.6 |
| Votes against | 152,545 | 0.4 |
| Total votes cast | 37,648,178 | |
| Votes withheld | 4,770 | |

This report was approved by the board on 19 May 2016 and signed on its behalf by:

Charles Gregson
Chairman of the Remuneration Committee

# Other governance matters

## Dividends

An interim dividend of 14.3p per share (2015 – 13.8p) was paid on 7 January 2016 and a second interim dividend of 38.3p per share (2015 – final dividend of 36.8p) was paid on 1 April 2016, giving total dividends for the year of 52.6p per share (2015 – 50.6p). The directors do not recommend the payment of a final dividend.

## 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 Ltd, a wholly-owned subsidiary of Caledonia.

At 31 March 2016, 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 2016, 3,000 shares were held by a group company. As stated above, all voting rights are suspended on these shares. The company did not purchase any of its ordinary shares the company's issued share capital as at 18 May 2016, 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 2016, 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 | 19,671,536 | 35.5% |
| 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 2016, the trust held 245,097 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 16 July 2015, shareholders granted to the directors authority to allot ordinary shares up to a nominal amount of £923,016, 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 £923,017, 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 £138,452 other than pro rata to existing ordinary shareholders. These authorities last until 16 October 2016 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 16 July 2015, shareholders also granted authority for the company to make market purchases of up to 5,538,100 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 16 October 2016 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 16 October 2016 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-seventh annual general meeting of the company will be held at the Royal Over-Seas League, Park Place, St James's Street, London SW1A 1LR on Thursday, 21 July 2016 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 26 and 27. All of the directors served throughout the year, other than Mrs S C R Jemmett-Page who was appointed on 1 July 2015. In addition, Mr R B Woods served as a director until his retirement from the board on 31 March 2016.

### 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.

In accordance with 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 6 and the investment review on pages 10 to 17. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 18 and 19. 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 and other liquid 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 a period of at least twelve months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Viability statement
The directors have assessed the viability of the company over the three years to March 2019, taking account of the company's position, its investment strategy, and the potential impact of the relevant principal risks set out on pages 21 to 23. In making this statement, the board is satisfied that the company operates an effective risk management process and confirms that it has conducted a robust assessment of the principal risks facing the company. This includes those that would threaten its strategic objectives, its business as usual state, its business model, and its future performance, solvency or liquidity. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2019.

In making this assessment, the directors took comfort from the results of a series of stress tests that considered the impact of a number of severe market downturn scenarios and loss of investment trust status on the company's financial position and, in particular, its ability to settle projected liabilities of the company as they fall due. The directors determined that a three year period to March 2019 is an appropriate period for which to provide this statement given the company's long term investment objective and the resilience demonstrated by the stress testing and the relatively low working capital requirements.

### 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 33 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 45. 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 50. 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 30. 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 26 and 27 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 25 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<br>Chief Executive | Stephen King<br>Finance Director |
| 19 May 2016 | 19 May 2016 |

# 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 2016 set out on pages 56 to 74. 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 2016 and of the group's profit for the year then ended;
- the group 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 £967.2m (2015 – £850.2m)**
**Risk vs 2015 ◀▶**
*Refer to page 32 (Audit Committee report), page 60 (accounting policy) and page 64 (financial disclosures).*

The risk

58.5% (2015 – 50.9%) of the group's total assets (by value) is held in investments where no quoted market price is available. Unlisted investments comprise investments in equity, investment property and funds. 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. Investment properties are subject to annual independent valuation and measured accordingly. 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.
- Attending 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 determine whether they are indicative of bias or error in the group's approach to valuations.
- Challenging the investment manager on key judgments 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 has been used to value any holding, we obtained an understanding of the circumstances surrounding the transaction 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 £642.0m (2015 – £648.6m) Risk vs 2015 ◀▶**
*Refer to page 33 (Audit Committee report), page 60 (accounting policy) and page 64 (financial disclosures).*

The risk

The group's portfolio of listed equity investments makes up 38.3% (2015 – 38.8%) of the total assets by value 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 judgment because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response

Our procedures over the 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 percent of investments in the portfolio to externally quoted prices; and
- agreeing 100 percent 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 £16.75m (2015 – £25.1m), determined with reference to a benchmark of total group assets, of which it represents 1%, reflecting industry consensus levels (2015 – 1.5%).

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £0.84m (2015 – £1.25m) 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 part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance statement set out on pages 28 to 30 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 on the disclosures of principal risks
Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of risk management on pages 21 to 23, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. 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 position and 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' statements, set out on page 51, in relation to going concern and longer-term viability; and
- the part of the Corporate governance statement on pages 28 to 30 relating to the company's compliance with the eleven provisions of the 2014 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 53, 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

19 May 2016

# Group statement of comprehensive income

## for the year ended 31 March 2016

| | Note | 2016 Revenue £m | 2016 Capital £m | 2016 Total £m | 2015 Revenue £m | 2015 Capital £m | 2015 Total £m |
|---|---|---|---|---|---|---|---|
| *Revenue* | | | | | | | |
| Investment income | 1 | 50.7 | – | 50.7 | 47.2 | – | 47.2 |
| Other income | 1 | 0.7 | – | 0.7 | 0.5 | – | 0.5 |
| Gains and losses on fair value investments | 8 | – | 12.5 | 12.5 | – | 179.9 | 179.9 |
| Gains on fair value property | 9 | – | 0.2 | 0.2 | – | 0.3 | 0.3 |
| Total revenue | | 51.4 | 12.7 | 64.1 | 47.7 | 180.2 | 227.9 |
| Management expenses | 2 | (16.2) | (7.4) | (23.6) | (14.3) | (4.6) | (18.9) |
| Other non-recurring expenses | | (3.0) | – | (3.0) | (2.6) | – | (2.6) |
| Performance fees | | – | (0.1) | (0.1) | – | (1.1) | (1.1) |
| Guarantee obligation provided | 15 | – | – | – | – | (0.7) | (0.7) |
| Profit before finance costs | | 32.2 | 5.2 | 37.4 | 30.8 | 173.8 | 204.6 |
| Treasury interest receivable | 3 | 0.2 | – | 0.2 | 0.3 | – | 0.3 |
| Finance costs | 4 | (1.8) | – | (1.8) | (1.6) | – | (1.6) |
| Exchange movements | | 0.4 | – | 0.4 | 1.2 | – | 1.2 |
| Profit before tax | | 31.0 | 5.2 | 36.2 | 30.7 | 173.8 | 204.5 |
| Taxation | 5 | 3.2 | 1.7 | 4.9 | 2.1 | 1.1 | 3.2 |
| Profit for the year | | 34.2 | 6.9 | 41.1 | 32.8 | 174.9 | 207.7 |
| *Other comprehensive income items never to be reclassified to profit or loss* | | | | | | | |
| Actuarial gain/(loss) on defined benefit pension schemes | 24 | – | 2.3 | 2.3 | – | (2.7) | (2.7) |
| Tax on other comprehensive income | 5 | – | (0.6) | (0.6) | – | 0.9 | 0.9 |
| Total comprehensive income | | 34.2 | 8.6 | 42.8 | 32.8 | 173.1 | 205.9 |
| | | | | | | | |
| Basic earnings per share | 7 | 62.0p | 12.5p | 74.5p | 59.5p | 317.5p | 377.0p |
| Diluted earnings per share | 7 | 60.8p | 12.3p | 73.1p | 58.6p | 312.5p | 371.1p |

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 60 to 74 are an integral part of these financial statements.

# Statement of financial position
## at 31 March 2016

| | Note | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|---|
| *Non-current assets* | | | | | |
| Investments held at fair value through profit or loss | 8 | 1,609.2 | 1,498.8 | 1,604.7 | 1,496.2 |
| Investments in subsidiaries held at cost | 8 | – | – | 0.8 | 0.8 |
| Property, plant and equipment | 9 | 25.7 | 19.1 | – | – |
| Deferred tax assets | 10 | 2.8 | 2.4 | – | – |
| Employee benefits | 24 | 3.2 | 1.9 | – | – |
| Non-current assets | | 1,640.9 | 1,522.2 | 1,605.5 | 1,497.0 |
| *Current assets* | | | | | |
| Trade and other receivables | 11 | 8.3 | 7.3 | 22.4 | 5.5 |
| Current tax assets | 5 | 2.0 | 0.4 | 2.3 | 1.2 |
| Cash and cash equivalents | 12 | 23.8 | 140.0 | 23.8 | 138.7 |
| Current assets | | 34.1 | 147.7 | 48.5 | 145.4 |
| Total assets | | 1,675.0 | 1,669.9 | 1,654.0 | 1,642.4 |
| *Current liabilities* | | | | | |
| Bank overdrafts | 12 | (0.9) | – | – | – |
| Trade and other payables | 14 | (14.1) | (16.0) | (7.9) | (11.7) |
| Employee benefits | 24 | (1.9) | (2.4) | – | – |
| Provisions | 15 | (9.0) | (10.4) | (9.0) | (9.0) |
| Current liabilities | | (25.9) | (28.8) | (16.9) | (20.7) |
| *Non-current liabilities* | | | | | |
| Interest-bearing loans and borrowings | 13 | – | (9.0) | – | – |
| Employee benefits | 24 | (4.5) | (5.0) | – | – |
| Deferred tax liabilities | 10 | (0.3) | (0.2) | – | – |
| Non-current liabilities | | (4.8) | (14.2) | – | – |
| Total liabilities | | (30.7) | (43.0) | (16.9) | (20.7) |
| Net assets | | 1,644.3 | 1,626.9 | 1,637.1 | 1,621.7 |
| *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 | | 1,333.7 | 1,325.1 | 1,335.0 | 1,328.6 |
| Retained earnings | | 325.0 | 313.2 | 316.5 | 304.5 |
| Own shares | | (20.2) | (17.2) | (20.2) | (17.2) |
| Total equity | | 1,644.3 | 1,626.9 | 1,637.1 | 1,621.7 |
| Undiluted net asset value per share | 17 | 2944p | 2952p | | |
| Diluted net asset value per share | 17 | 2890p | 2906p | | |

The financial statements on pages 56 to 74 were approved by the board and authorised for issue on 19 May 2016 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 60 to 74 are an integral part of these financial statements.

# Statement of changes in equity

## for the year ended 31 March 2016

| | 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 2014 | 3.2 | 1.3 | 1.3 | 1,152.6 | 304.4 | (17.2) | 1,445.6 |
| *Total comprehensive income* | | | | | | | |
| Profit for the year | – | – | – | 174.9 | 32.8 | – | 207.7 |
| Other comprehensive income | – | – | – | (1.8) | – | – | (1.8) |
| Total comprehensive income | – | – | – | 173.1 | 32.8 | – | 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 | 1,325.1 | 313.2 | (17.2) | 1,626.9 |
| *Total comprehensive income* | | | | | | | |
| Profit for the year | – | – | – | 6.9 | 34.2 | – | 41.1 |
| Other comprehensive income | – | – | – | 1.7 | – | – | 1.7 |
| Total comprehensive income | – | – | – | 8.6 | 34.2 | – | 42.8 |
| *Transactions with owners of the company* | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | |
| Exercise of options | – | – | – | – | – | 0.7 | 0.7 |
| Share-based payments | – | – | – | – | 5.8 | – | 5.8 |
| Own shares purchased | – | – | – | – | – | (3.7) | (3.7) |
| Dividends paid | – | – | – | – | (28.2) | – | (28.2) |
| Total transactions with owners | – | – | – | – | (22.4) | (3.0) | (25.4) |
| Balance at 31 March 2016 | 3.2 | 1.3 | 1.3 | 1,333.7 | 325.0 | (20.2) | 1,644.3 |
| **Company** | | | | | | | |
| 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 | – | – | – | 174.7 | 31.4 | – | 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 | 1,328.6 | 304.5 | (17.2) | 1,621.7 |
| Profit and total comprehensive income | – | – | – | 6.4 | 34.4 | – | 40.8 |
| *Transactions with owners of the company* | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | |
| Exercise of options | – | – | – | – | – | 0.7 | 0.7 |
| Share-based payments | – | – | – | – | 5.8 | – | 5.8 |
| Own shares purchased | – | – | – | – | – | (3.7) | (3.7) |
| Dividends paid | – | – | – | – | (28.2) | – | (28.2) |
| Total transactions with owners | – | – | – | – | (22.4) | (3.0) | (25.4) |
| Balance at 31 March 2016 | 3.2 | 1.3 | 1.3 | 1,335.0 | 316.5 | (20.2) | 1,637.1 |

The accounting policies and notes to the financial statements on pages 60 to 74 are an integral part of these financial statements.

# Statement of cash flows
## for the year ended 31 March 2016

| | Note | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|---|
| *Operating activities* | | | | | |
| Dividends received | | 48.3 | 45.0 | 48.3 | 45.0 |
| Interest received | | 1.3 | 3.6 | 0.7 | 2.6 |
| Cash received from customers | | 0.2 | 0.5 | – | – |
| Cash paid to suppliers and employees | | (20.7) | (18.8) | (28.9) | (18.2) |
| Taxes received | | 0.5 | 0.3 | 0.5 | 0.3 |
| Taxes paid | | (0.4) | – | (0.4) | – |
| Group tax relief received | | 2.5 | 1.7 | 3.3 | 2.0 |
| Net cash flow from operating activities | | 31.7 | 32.3 | 23.5 | 31.7 |
| *Investing activities* | | | | | |
| Purchases of investments | | (548.0) | (240.4) | (545.2) | (239.2) |
| Proceeds from disposal of investments | | 450.5 | 372.7 | 455.1 | 358.7 |
| Purchases of property, plant and equipment | | (6.6) | (0.5) | – | – |
| Net cash flow from/(used in) investing activities | | (104.1) | 131.8 | (90.1) | 119.5 |
| *Financing activities* | | | | | |
| Interest paid | | (1.5) | (1.6) | (1.1) | (1.2) |
| Dividends paid to owners of the company | | (28.2) | (27.3) | (28.2) | (27.3) |
| Proceeds from bank borrowings | | 170.0 | 20.0 | 30.0 | – |
| Repayment of bank borrowings | | (179.0) | (51.0) | (30.0) | (20.0) |
| Loan receipts from subsidiaries | | 7.1 | 15.1 | 97.6 | 9.0 |
| Loan payments to subsidiaries | | (10.1) | (11.6) | (113.6) | (7.9) |
| Exercise of share options | | 0.7 | 1.2 | 0.7 | 1.2 |
| Purchase of own shares | | (3.7) | (1.8) | (3.7) | (1.8) |
| Net cash flow used in financing activities | | (44.7) | (57.0) | (48.3) | (48.0) |
| Net increase/(decrease) in cash and cash equivalents | | (117.1) | 107.1 | (114.9) | 103.2 |
| Cash and cash equivalents at year start | | 140.0 | 32.9 | 138.7 | 35.5 |
| Cash and cash equivalents at year end | 12 | 22.9 | 140.0 | 23.8 | 138.7 |

The accounting policies and notes to the financial statements on pages 60 to 74 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 2nd Floor Stratton House, 5 Stratton Street, London W1J 8LA. 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 19 May 2016.

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 51. 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, ongoing management expenses are included in revenue reserves, whereas performance fees and share-based payment expenses – costs relating to compensation schemes that are linked directly to investment performance – are included in capital 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 IFRS 10, in the consolidated financial statements as if they arose in that company. Own shares held by the employee share trust as at the reporting date are accounted for as if they were treasury shares.

*National Insurance on share option scheme gains and performance share and deferred bonus awards*
National Insurance payable on the exercise of certain employee share options and performance share awards at the date of exercise and deferred bonus awards at the date of call 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 20.

# 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
- fees and share-based payment expenses linked to investment performance
- 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

| | 2016 £m | 2015 £m |
|---|---|---|
| *Income from portfolio investments* | | |
| Dividends from UK listed companies | 12.9 | 9.8 |
| Dividends from overseas listed companies | 9.0 | 9.9 |
| Dividends from unlisted companies | 25.9 | 17.6 |
| Distributions from limited partnerships | 1.2 | 7.8 |
| Interest on debt instruments | 0.6 | 1.3 |
| Scrip dividends | 0.6 | 0.4 |
| | 50.2 | 46.8 |
| *Income from unallocated investments* | | |
| Dividends from unlisted companies | – | 0.4 |
| Interest on debt instruments | 0.5 | – |
| | 50.7 | 47.2 |

### Other income

| | 2016 £m | 2015 £m |
|---|---|---|
| Property income | 0.2 | 0.5 |
| Settlement contribution | 0.5 | – |
| | 0.7 | 0.5 |

## 2. Expenses

### Management expenses

| | 2016 £m | 2015 £m |
|---|---|---|
| *Income statement revenue column* | | |
| Personnel expenses | 8.9 | 8.9 |
| Depreciation | 0.2 | 0.3 |
| Auditor's remuneration | 0.2 | 0.2 |
| Other administrative expenses | 7.8 | 5.5 |
| Directors' fees and disbursements recharged | (0.9) | (0.7) |
| Management fees and recharges | (0.2) | (0.4) |
| Other expenses | 0.2 | 0.5 |
| | 16.2 | 14.3 |
| *Income statement capital column* | | |
| Personnel expenses | 6.8 | 4.0 |
| Transaction costs | 0.6 | 0.6 |
| | 7.4 | 4.6 |
| | 23.6 | 18.9 |

### Further information

*Auditor's remuneration*

Fees payable to KPMG LLP were as follows:

| | 2016 £m | 2015 £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*

| | 2016 £m | 2015 £m |
|---|---|---|
| *Income statement revenue column* | | |
| Wages and salaries | 7.0 | 7.2 |
| Compulsory social security contributions | 1.0 | 0.9 |
| Contributions to defined contribution plans | 0.5 | 0.6 |
| Defined benefit pension plans expense (note 24) | 0.4 | 0.2 |
| | 8.9 | 8.9 |
| *Income statement capital column* | | |
| Equity-settled share-based payments (note 23) | 5.8 | 3.3 |
| National Insurance on share awards | 1.0 | 0.7 |
| | 6.8 | 4.0 |
| | 15.7 | 12.9 |

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

| | 2016 No | 2015 No |
|---|---|---|
| Average number of employees | 50 | 46 |

## 3. Treasury interest receivable

| | 2016 £m | 2015 £m |
|---|---|---|
| Interest on bank deposits | 0.2 | 0.2 |
| Group facility fees | – | 0.1 |
| | 0.2 | 0.3 |

## 4. Finance costs

| | 2016 £m | 2015 £m |
|---|---|---|
| Interest on bank loans and overdrafts | 1.8 | 1.6 |

## 5. Taxation

### Recognised in comprehensive income

| | 2016 £m | 2015 £m |
|---|---|---|
| *Current tax income* | | |
| Current year | 0.4 | 0.7 |
| Adjustments for prior years | 3.6 | 1.9 |
| | 4.0 | 2.6 |
| *Deferred tax income* | | |
| Origination and reversal of temporary differences | 0.9 | 0.6 |
| Total tax income | 4.9 | 3.2 |

### Reconciliation of effective tax expense

| | 2016 £m | 2015 £m |
|---|---|---|
| Profit before tax | 36.2 | 204.5 |
| Tax expense at the domestic rate of 20% (2015 – 21%) | (7.2) | (42.9) |
| Non-deductible expenses | (0.5) | (0.7) |
| Losses for the year unrelieved | (4.1) | (1.2) |
| Non-taxable gains on investments | 2.5 | 37.7 |
| Non-taxable UK dividend income | 6.5 | 4.1 |
| Tax exempt revenues | 3.3 | 3.8 |
| Other temporary differences | 0.8 | 0.5 |
| Over-provided in prior years | 3.6 | 1.9 |
| Tax income | 4.9 | 3.2 |

# Notes to the financial statements

Recognised in other comprehensive income

| | 2016 £m | 2015 £m |
|---|---|---|
| *Deferred tax income/(expense)* | | |
| On actuarial (gains)/losses on defined benefit pension schemes | (0.5) | 0.5 |
| On share options and awards | (0.1) | 0.4 |
| | (0.6) | 0.9 |

Current tax assets

Current tax assets of £2.0m in the group and £2.3m in the company represented tax loss relief surrender for settlement (2015 – £0.4m in the group and £1.2m in the company).

## 6. Dividends

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | p/share | £m | p/share | £m |
| Final dividend for the year ended 31 March 2015 (2014) | 36.8 | 20.3 | 35.7 | 19.7 |
| Interim dividend for the year ended 31 March 2016 (2015) | 14.3 | 7.9 | 13.8 | 7.6 |
| | 51.1 | 28.2 | 49.5 | 27.3 |
| | | | | |
| Second interim dividend for the year ended 31 March 2016 | 38.3 | 21.1 | – | – |

The second interim dividend has not been included as a liability in these financial statements. This dividend was paid on 1 April 2016. The ex-dividend date was 3 March 2016.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2016 are the interim and second interim dividends for that year, amounting to £29.0m (2015 – interim and final £27.9m).

## 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:

| | 2016 £m | 2015 £m |
|---|---|---|
| Revenue | 34.2 | 32.8 |
| Capital | 6.9 | 174.9 |
| Total | 41.1 | 207.7 |

The weighted average number of shares was as follows:

| | 2016 000's | 2015 000's |
|---|---|---|
| Issued shares at the year start | 55,381 | 55,411 |
| Effect of shares cancelled | – | (16) |
| Effect of shares held by the employee share trust | (225) | (296) |
| Basic weighted average number of shares in the year | 55,156 | 55,099 |
| Effect of performance shares, share options and deferred bonus awards | 1,035 | 873 |
| Diluted weighted average number of shares in the year | 56,191 | 55,972 |

## 8. Investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| *Investments held at fair value through profit or loss* | | | | |
| Investments listed on a recognised stock exchange | 642.0 | 648.6 | 642.0 | 648.6 |
| Unlisted investments | 967.2 | 850.2 | 962.7 | 847.6 |
| | 1,609.2 | 1,498.8 | 1,604.7 | 1,496.2 |
| *Investments held at cost* | | | | |
| Service subsidiaries | – | – | 0.8 | 0.8 |
| | 1,609.2 | 1,498.8 | 1,605.5 | 1,497.0 |

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 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 |
| Reclassifications | – | 4.5 | (4.5) | – |
| Purchases at cost | 299.5 | 226.9 | 22.2 | 548.6 |
| Disposal proceeds | (248.7) | (194.6) | (7.4) | (450.7) |
| Gains/(losses) on investments | (57.4) | 67.5 | 2.4 | 12.5 |
| Balance at 31 March 2016 | 642.0 | 891.5 | 75.7 | 1,609.2 |
| | | | | |
| **Company** | | | | |
| 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 |
| Reclassifications | – | 4.5 | (4.5) | – |
| Purchases at cost | 299.5 | 232.7 | 19.4 | 551.6 |
| Disposal proceeds | (248.7) | (200.4) | (6.2) | (455.3) |
| Gains/(losses) on investments | (57.4) | 67.2 | 2.4 | 12.2 |
| Balance at 31 March 2016 | 642.0 | 906.6 | 56.9 | 1,605.5 |

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 subsidiaries' debt to equity conversion. In the prior year, reclassifications represented an investee de-listing and the reorganisation of a portfolio of US private equity funds.

## 9. Property, plant and equipment

Group

| | Property £m | Under constru-ction £m | Office equip-ment £m | Total £m |
|---|---|---|---|---|
| *Cost* | | | | |
| 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 |
| Acquisitions | 3.8 | 2.7 | 0.1 | 6.6 |
| Balance at 31 March 2016 | 23.8 | 3.2 | 1.1 | 28.1 |
| *Depreciation* | | | | |
| 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) |
| Depreciation charge | (0.2) | – | – | (0.2) |
| Eliminate depreciation | 0.2 | – | – | 0.2 |
| Balance at 31 March 2016 | – | – | (0.9) | (0.9) |
| *Revaluation* | | | | |
| Balance at 31 March 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) |
| Revaluation in the year | 0.2 | – | – | 0.2 |
| Eliminate depreciation | (0.2) | – | – | (0.2) |
| Balance at 31 March 2016 | (1.5) | – | – | (1.5) |
| *Carrying amounts* | | | | |
| At 31 March 2014 | 18.5 | – | 0.1 | 18.6 |
| At 31 March 2015 | 18.5 | 0.5 | 0.1 | 19.1 |
| At 31 March 2016 | 22.3 | 3.2 | 0.2 | 25.7 |

Property is measured at fair value and comprised freehold land and building. The freehold land and building was occupied for the early part of the year by the group and partly let out to third parties, following which the property was vacated pending refurbishment. Costs of refurbishment were capitalised as assets under construction.

## 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 |
|---|---|---|---|
| **2016** | | | |
| Employee benefits | 2.8 | (0.1) | 2.7 |
| Other items | – | (0.2) | (0.2) |
| | 2.8 | (0.3) | 2.5 |
| **2015** | | | |
| Employee benefits | 2.4 | – | 2.4 |
| Other items | – | (0.2) | (0.2) |
| | 2.4 | (0.2) | 2.2 |

*Movement in temporary differences during the year*

| | Balance at year start £m | Compre-hensive income £m | Other compre-hensive income £m | Balance at year end £m |
|---|---|---|---|---|
| **2016** | | | | |
| Employee benefits | 2.4 | 0.9 | (0.6) | 2.7 |
| Other items | (0.2) | – | – | (0.2) |
| | 2.2 | 0.9 | (0.6) | 2.5 |
| **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 |

Group and company

*Unrecognised deferred tax assets*

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Tax losses | 5.8 | 2.4 |

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 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| Trade receivables | 6.2 | 4.8 | 6.0 | 4.6 |
| Non-trade receivables and prepayments | 2.0 | 1.9 | 0.4 | 0.9 |
| Other receivables | 0.1 | 0.6 | 16.0 | – |
| | 8.3 | 7.3 | 22.4 | 5.5 |

Other receivables included short term lending to subsidiaries.

## 12. Net cash and cash equivalents

| | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| Bank balances | 4.0 | 41.6 | 4.0 | 2.0 |
| Short term deposits | 19.8 | 98.4 | 19.8 | 136.7 |
| Cash and cash equivalents | 23.8 | 140.0 | 23.8 | 138.7 |
| Bank overdrafts | (0.9) | – | – | – |
| | 22.9 | 140.0 | 23.8 | 138.7 |

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

## 13. Interest-bearing loans and borrowings

| | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| *Non-current liabilities* | | | | |
| Unsecured bank loans | – | 9.0 | – | – |

# Notes to the financial statements continued

## 14. Trade and other payables

| | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| Trade payables | 0.6 | 0.7 | 5.5 | 9.8 |
| Non-trade payables and accrued expenses | 2.1 | 0.7 | 1.1 | 0.6 |
| Other payables | 11.4 | 14.6 | 1.3 | 1.3 |
| | 14.1 | 16.0 | 7.9 | 11.7 |

Other payables included short term lending by subsidiaries.

## 15. Provisions

Current liabilties

| | Bank guarantee £m | Solvency guarantee £m | Litigation £m | Total £m |
|---|---|---|---|---|
| Group | | | | |
| 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 |
| Utilised during the year | – | – | (1.4) | (1.4) |
| Balance at 31 March 2016 | – | 9.0 | – | 9.0 |
| Company | | | | |
| 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 and 2016 | – | 9.0 | – | 9.0 |

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 prior 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 prior year, the provision was increased based on a review of the obligations. There was no increase in provision during the current year.

The litigation provision related to a claim arising from the acquisition of a subsidiary in 2013. During the year the claim was settled in full, and the provision was used against costs incurred.

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 2014, 2015 and 2016 | 2.8 | 0.4 | 1.3 | 4.5 |

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

| | Ordinary shares 2016 000's | Ordinary shares 2015 000's | Deferred ordinary shares 2016 000's | Deferred ordinary shares 2015 000's |
|---|---|---|---|---|
| Balance at the year start | 55,381 | 55,411 | 8,000 | 8,000 |
| Shares cancelled | – | (30) | – | – |
| Balance at the year end | 55,381 | 55,381 | 8,000 | 8,000 |

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

As at 31 March 2016, the issued share capital of the company comprised 55,381,017 ordinary shares (2015 – 55,381,017) and 8,000,000 deferred ordinary shares (2015 – 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 Ltd, a wholly-owned group 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.

| | 2016 Net assets £m | 2016 Number of shares 000's | 2016 NAV p/share | 2015 Net assets £m | 2015 Number of shares 000's | 2015 NAV p/share |
|---|---|---|---|---|---|---|
| Undiluted | 1,623.2 | 55,136 | 2944 | 1,626.9 | 55,107 | 2952 |
| Adjustments | 0.5 | 1,057 | (54) | 1.2 | 924 | (46) |
| Diluted | 1,623.7 | 56,193 | 2890 | 1,628.1 | 56,031 | 2906 |

Net asset value per share is calculated in accordance with AIC guidance and, in particular, recognises dividends payable on the ex-dividend date. Net assets in 2016 are stated after deducting the second interim dividend of £21.1m, which had an ex-dividend date of 3 March 2016 and was paid on 1 April 2016.

## 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 | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Quoted pool | (33.9) | 16.9 | 449.3 | 447.7 |
| Income & Growth pool | (0.8) | 21.5 | 194.1 | 202.1 |
| Unquoted pool | 79.2 | 87.8 | 646.3 | 510.3 |
| Funds pool | 18.6 | 100.1 | 308.4 | 327.7 |
| Investment portfolio | 63.1 | 226.3 | 1,598.1 | 1,487.8 |
| Other investments | 1.0 | 1.6 | 11.1 | 11.0 |
| Total revenue/investments | 64.1 | 227.9 | 1,609.2 | 1,498.8 |
| Cash and cash equivalents | 0.2 | 0.3 | 22.9 | 140.0 |
| Other items | (28.1) | (23.7) | 42.9 | 31.1 |
| Reportable total | 36.2 | 204.5 | 1,675.0 | 1,669.9 |

### 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 |
|---|---|---|---|---|
| **2016** | | | | |
| Revenue | 58.1 | (20.2) | 26.2 | 64.1 |
| Non-current assets | 25.7 | – | – | 25.7 |
| **2015** | | | | |
| Revenue | 52.0 | 123.4 | 52.5 | 227.9 |
| Non-current assets | 19.1 | – | – | 19.1 |

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

### Major clients

The group is reliant on ten (2015 – 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 26) and associates (note 25) 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 35.5% of the voting shares of the company as at 31 March 2016 (2015 – 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 45.

The key management personnel compensation was as follows:

| | Group | |
|---|---|---|
| | 2016 £m | 2015 £m |
| Short term employee benefits | 2.4 | 2.5 |
| Equity compensation benefits | 2.1 | 1.6 |
| | 4.5 | 4.1 |

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

During the year, the group invoiced and received £0.1m (2015 – £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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount of transactions £m | Balance at year end £m | Amount of transactions £m | Balance at year end £m |
| *Comprehensive income items* | | | | |
| Dividends receivable on equity shares | 22.8 | – | 14.8 | – |
| Capital distributions receivable | 5.8 | – | 3.3 | – |
| Settlement contribution | 0.5 | 0.5 | – | – |
| Management fees payable | (20.6) | (4.9) | (19.9) | (9.2) |
| Taxation | 2.0 | – | 1.4 | – |
| *Financial position items* | | | | |
| Investments purchased | – | – | 5.5 | – |
| Investments sold | (0.3) | – | (31.6) | – |
| Equity subscribed | 2.5 | – | 1.7 | – |
| Capital contributions | 5.9 | – | 5.9 | – |
| Loans receivable | 24.5 | 67.5 | 38.5 | 43.0 |
| Loans payable | – | (1.3) | (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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount of trans-actions £m | Balance at year end £m | Amount of trans-actions £m | Balance at year end £m |
| *Company* | | | | |
| Dividends receivable on equity shares | 1.1 | – | 2.1 | – |
| Loans receivable | – | – | (39.5) | – |
| Taxation | 1.3 | – | 0.6 | – |
| *Other group companies* | | | | |
| Directors' fees receivable | 0.1 | – | 0.1 | – |

## 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 | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| *Investments* | | | | |
| Contracted but not called | 252.0 | 128.9 | 264.1 | 128.9 |
| Conditionally contracted | 30.6 | 29.7 | 30.6 | 29.7 |
| | 282.6 | 158.6 | 294.7 | 158.6 |

## 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.

## 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 | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Investments held at fair value through profit or loss | 1,565.3 | 1,465.4 | 1,580.5 | 1,480.8 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Increase in prices | 156.5 | 146.5 | 158.1 | 148.1 |
| Decrease in prices | (156.5) | (146.5) | (158.1) | (148.1) |

The sensitivity to equity and fund investments has increased during the year due to net investments and 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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Cash and cash equivalents | 2.9 | 0.5 | 2.8 | 0.5 |

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 | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Sterling depreciates (weakens) | (0.2) | – | (0.2) | – |
| Sterling appreciates (strengthens) | 0.2 | – | 0.3 | – |

The exposure to foreign currency has remained consistent in the year due to similar 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 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 held fixed rate, interest-bearing financial assets, with maturities of up to five years. In the prior year 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 | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| *Fixed rate* | | | | |
| Interest-bearing loans to subsidiaries | 5.4 | 2.6 | – | – |
| *Floating rate* | | | | |
| Investments in debt instruments | 25.0 | 16.2 | 25.0 | 16.2 |
| Interest-bearing loans to subsidiaries | 13.5 | 14.6 | – | – |
| Cash and cash equivalents | 22.9 | 140.0 | 23.8 | 138.7 |
| Interest-bearing loans and borrowings | – | (9.0) | – | – |

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 | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Decrease in interest rates | (0.1) | 0.5 | 0.1 | 0.4 |
| Increase in interest rates | 0.1 | (0.5) | (0.1) | (0.4) |

The group's and company's sensitivity to interest rates has changed in the year due to an increase in fixed interest loans, against a reduction 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.

The exposure to credit risk in financial assets was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Investments in debt instruments | 43.9 | 33.4 | 25.0 | 16.2 |
| Operating and other receivables | 8.3 | 7.3 | 22.4 | 5.5 |
| Cash and cash equivalents | 22.9 | 140.0 | 23.8 | 138.7 |
| | 75.1 | 180.7 | 71.2 | 160.4 |

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 £18.9m (2015 – £98.0m) and £19.8m (2015 – £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 bank facilities.

# Notes to the financial statements continued

Bank facilities were undrawn at 31 March 2016. The following table shows the group's prior year 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 |

## 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 (2015 – £175m).

The group's total capital at 31 March 2016 was £1,644.3m (2015 – £1,626.9m) and comprised equity share capital and reserves. The group was ungeared at the year end (2015 – 0.6%) and had a further £175m of undrawn 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 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| *Investments held at fair value* | | | | |
| Level 1 | 642.0 | 648.6 | 642.0 | 648.6 |
| Level 2 | 136.9 | 99.2 | 145.9 | 111.3 |
| Level 3 | 830.3 | 751.0 | 816.8 | 736.3 |
| | 1,609.2 | 1,498.8 | 1,604.7 | 1,496.2 |

In the year, group and company investments with a value of £45.3m were transferred from Level 3 to Level 2, as a result of quoted market fund valuations derived from observable market prices.

In the prior year, group and company investments with a value of £0.9m and £2.9m were transferred from Level 1 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 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| Balance at the year start | 751.0 | 709.3 | 736.3 | 693.3 |
| Reclassifications | (45.3) | 9.3 | (45.3) | 3.8 |
| Purchases | 204.4 | 40.1 | 204.4 | 40.1 |
| Disposal proceeds | (158.2) | (158.5) | (157.0) | (149.0) |
| Gains and losses on investments sold in the year | 110.7 | 32.6 | 110.7 | 32.5 |
| Gains and losses on investments held at the year end | (32.3) | 118.2 | (32.3) | 115.6 |
| Balance at the year end | 830.3 | 751.0 | 816.8 | 736.3 |

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

Significant unobservable inputs used 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 9 to 17 (2015 – 5 to 12), weighted average 10.4 (2015 – 8.3).
- 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 ranged from 23% to 30%, weighted average 26%.

The table below sets out information about Level 3 investments whose valuation is based on significant internally developed unobservable inputs and those externally developed, either using net assets or an external manager's NAV.

| Description/ valuation technique | Fair value £m | Unobservable input | Weighted average input | Input sensit-ivity +/- | Change in valu-ation +/- £m |
|---|---|---|---|---|---|
| *Internally developed* | | | | | |
| *Private companies* | | | | | |
| Price of recent investment | 166.0 | Multiple | 1.0x | 0.1x | 16.6 |
| Earnings | 89.1 | EBITDA multiple | 10.4x | 1.0x | 10.2 |
| | | Marketability discount | 26% | 1% | 3.4 |
| Net assets | 46.3 | Multiple | 1.0x | 0.1x | 4.6 |
| | 301.4 | | | | 34.8 |
| *Externally developed* | | | | | |
| *Private equity fund investments* | | | | | |
| Net asset value[1] | 320.0 | | | | |
| *Private companies* | | | | | |
| External valuation[2] | 208.9 | | | | |
| | 528.9 | | | | |
| | 830.3 | | | | |

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

In 2011, 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. For nil-cost option awards granted in 2015, one-third of the shares comprised in the awards may be exercised after three years, and two-thirds 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 were as follows, whereby all grants are settled by physical delivery of shares:

| Grant date | Entitlement | Vesting conditions | Number of shares |
|---|---|---|---|
| *Share options* | | | |
| 29.05.09 | Option grant to senior staff | Note 1 | 34,776 |
| | | | 34,776 |
| *Performance share scheme awards* | | | |
| 28.05.12 | Award grant to senior staff | Note 2 | 101,391 |
| 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 |
| 26.06.15 | Award grant to senior staff | Note 8 | 214,152 |
| | | | 707,988 |
| *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 |
| 26.06.15 | Voluntary award | Note 7 | 2,105 |
| 26.06.15 | Compulsory award | Note 5 | 49,223 |
| 26.06.15 | Matching shares | Note 9 | 51,328 |
| | | | 314,132 |

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.
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.
8. 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-third of the award and five years for the remaining two-thirds 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.
9. Three years of service with vesting on a graduated basis from 20% to 100% for annualised NAV total return of 4% to 10% measured over three years.

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

# Notes to the financial statements continued

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | 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 | 1560 | 75 | 1589 | 146 |
| Exercised during the year | 1660 | (40) | 1619 | (71) |
| Outstanding at the year end | 1446 | 35 | 1560 | 75 |

The options outstanding at 31 March 2016 have an exercise price of 1446p and a 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 were as follows:

| Years ended 31 March | 2016 £m | 2015 £m |
|---|---|---|
| Performance share awards granted in 2013 | 0.8 | 0.7 |
| Performance share awards granted in 2014 | 0.9 | 0.8 |
| Performance share awards granted in 2015 | 1.1 | 0.4 |
| Performance share awards granted in 2016 | 1.0 | – |
| Deferred bonus awards for 2011 | – | 0.2 |
| Deferred bonus awards for 2013 | 0.6 | 0.5 |
| Deferred bonus awards for 2014 | 0.8 | 0.7 |
| Deferred bonus awards for 2015 | 0.6 | – |
| | 5.8 | 3.3 |

## 24. Employee benefits

### Group

| | 2016 £m | 2015 £m |
|---|---|---|
| *Non-current assets* | | |
| Defined benefit pension asset | 3.2 | 1.9 |
| *Current liabilities* | | |
| Profit sharing bonus | (1.9) | (2.4) |
| *Non-current liabilities* | | |
| Defined benefit pension obligations | (2.8) | (3.8) |
| National Insurance on share options, performance shares and deferred bonus awards | (1.7) | (1.2) |
| | (4.5) | (5.0) |
| Total employee liabilities | (6.4) | (7.4) |

### Defined benefit pension obligations

The group makes contributions to two (2015 – 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.

| | 2016 £m | 2015 £m |
|---|---|---|
| Present value of funded obligations | 38.5 | 42.6 |
| Fair value of plan assets | (38.9) | (40.7) |
| Present value of net (assets)/obligations | (0.4) | 1.9 |

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Balance at the year start | 42.6 | 38.5 |
| Service cost | 0.3 | 0.3 |
| Interest cost | 1.3 | 1.6 |
| Actuarial (gain)/loss | (3.8) | 3.5 |
| Actual benefit payments | (1.9) | (1.3) |
| Balance at the year end | 38.5 | 42.6 |

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Balance at the year start | 40.7 | 38.9 |
| Expected return on assets | 1.2 | 1.7 |
| Actuarial gain/(loss) | (1.5) | 0.8 |
| Employer contributions | 0.4 | 0.6 |
| Actual benefit payments | (1.9) | (1.3) |
| Balance at the year end | 38.9 | 40.7 |

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Current service cost | 0.3 | 0.3 |
| Interest on obligations | 1.3 | 1.6 |
| Expected return on plan assets | (1.2) | (1.7) |
| | 0.4 | 0.2 |

Amounts recognised in other comprehensive income were as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Actuarial gains/(losses) arising from financial assumptions | 1.8 | (6.2) |
| Actuarial gains from demographic adjustments | 0.7 | 2.5 |
| Actuarial gains/(losses) from experience adjustments | (0.2) | 1.0 |
| Actuarial gains/(losses) in the year | 2.3 | (2.7) |

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Equities | 24.9 | 29.8 |
| Bonds | 6.3 | 5.6 |
| Cash | 7.7 | 5.3 |
| | 38.9 | 40.7 |

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:

| | 2016 % | 2015 % |
|---|---|---|
| Discount rate at the year end | 3.4 | 3.1 |
| Future salary increases | 4.1 | 4.1 |
| Future pension increases | 3.1 | 3.1 |
| RPI price inflation | 3.1 | 3.1 |

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 27.5 years (2015 – 27.7 years) for males and 28.0 years (2015 – 29.0 years) for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ending 31 March 2017 were £0.4m (2016 – £0.2m).

In the UK, the funding is set on the basis of a triennial funding valuation by the actuaries for which the assumptions may differ from those above. As a result of these valuations, the group and the scheme trustees agree a Schedule of Contributions, which sets out the required contributions from the employer and employees for current service. Where the scheme is in deficit, the Schedule of Contributions also includes required contributions from the employer to eliminate the deficit. The most recent triennial valuations were completed in 2015. A summary of the recent funding obligations and weighted average duration of the defined benefit obligations was as follows:

| | Obligations at 31 Mar 2015 £m | Weighted average duration at 31 Mar 2016 Years |
|---|---|---|
| Amber Industrial Holdings pension scheme | 12.6 | 15 |
| 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.

| | 2016 £m | 2015 £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% | 0.1 | 0.2 |
| Increase in life expectancy of one year | 1.2 | 1.5 |

### Risks

The pension 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.

## 25. Interests in associates

| Company | Share class | Holding % |
|---|---|---|
| Incorporated in England | | |
| B&W Group Ltd | Preferred | 20.0 |
| Bristow Aviation Holdings Ltd | Ordinary | 46.0 |
| Easybox Holdings Ltd | Preference | 100.0 |
| General Practice Holdings Ltd | Ordinary | 25.0 |
| General Practice Investment Corporation Ltd | Ordinary | 25.0 |
| | Preference | 100.0 |
| GPG No.7 Ltd | Ordinary | 23.2 |
| GPGL Ltd | Ordinary | 25.0 |
| GPI Nominee Ltd | Ordinary | 25.0 |
| Satellite Information Services (Holdings) Ltd | Ordinary | 22.5 |
| Registered in India | | |
| Marwadi Shares and Finance Ltd | Ordinary | 31.7 |
| Registered in United States | | |
| Broad Hollow LLC | Member | 30.5 |

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.

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Assets | 289.1 | 340.9 |
| Liabilities | (142.2) | (182.7) |
| Equity | 146.9 | 158.2 |
| Revenues | 367.9 | 369.6 |
| Profit/(loss) | 29.6 | (5.5) |

# Notes to the financial statements continued

## 26. Subsidiaries

| Company | Share class | Holding % |
|---|---|---|
| Incorporated in England | | |
| 7IM Holdings Ltd | Ordinary, Preference | 100.0 |
| Amber 2010 Ltd | Ordinary | 100.0[1] |
| Argo Flare Services Ltd | Ordinary | 100.0 |
| Bonningtree Ltd | Ordinary | 100.0 |
| Britannia Heatex Ltd | Ordinary | 100.0 |
| Brookshire Capital LLP | Member | 70.0[1] |
| Brookshire Trading Ltd | Ordinary | 100.0 |
| Buckingham Gate Ltd[2] | Ordinary | 100.0[1] |
| Caledonia CCIL Distribution Ltd | Ordinary | 100.0[1] |
| Caledonia Choice 2 Ltd | Ordinary | 100.0 |
| Caledonia Choice 3 Ltd | Ordinary | 100.0 |
| Caledonia Choice Ltd | Ordinary | 97.4[1] |
| | Preference | 100.0[1] |
| Caledonia Financial Ltd | Ordinary | 100.0[1] |
| Caledonia Group Services Ltd[2] | Ordinary | 100.0[1] |
| Caledonia Land & Property Ltd | Ordinary | 100.0[1] |
| Caledonia Lion Ltd | Ordinary | 85.7[1] |
| Caledonia Sterling Industries LLP | Member | 100.0[1] |
| Caledonia Sterling Ltd | Ordinary | 100.0[1] |
| Caledonia Thames Acquisitions Ltd | Ordinary | 100.0 |
| Caledonia Thames Group Ltd | Ordinary | 100.0 |
| Caledonia Thames Holdings Ltd | Ordinary | 93.6[1] |
| Caledonia Treasury Ltd[2] | Ordinary | 100.0[1] |
| Caledonia Venus Acquisitions Ltd | Ordinary | 100.0 |
| Caledonia Venus Group Ltd | Ordinary | 100.0 |
| Caledonia Venus Holdings Ltd | Ord A | 98.9[1] |
| Choice Care Group Ltd | Ord A, Ord B | 100.0 |
| Choice Holdings Ltd | Ord B, Ord C, Pfd ord | 100.0 |
| Choice Pathways Ltd | Ord B, Pfd ord | 100.0 |
| Cinque Ports Leisure Homes Ltd | Ordinary | 100.0 |
| Coghurst Hall Holiday Village Ltd | Ordinary | 100.0 |
| Community Homes of Intensive Care and Education Ltd | Ordinary | 100.0 |
| CP Acquisitionco Ltd | Ordinary | 100.0 |
| CP Equityco Ltd | Ordinary | 100.0 |
| Crewkerne Investments Ltd | Ordinary | 50.5 |
| Crumpwood Ltd | Ord A, B, C, Preference | 100.0 |
| Deveronside Trading Co Ltd | Ordinary | 100.0[1] |
| Easybox Self-Storage Ltd | Ordinary | 100.0[1] |
| Edinmore Estates Ltd | Ordinary | 100.0[1] |
| Edinmore Investments Ltd | Ordinary | 100.0[1] |
| Edinmore Properties Ltd | Ordinary | 100.0[1] |
| Edinmore Trading Ltd (in liquidation) | Ordinary | 100.0[1] |
| Evengain Ltd | Ordinary | 100.0 |
| Excel Support Services Ltd | Ord, Ord A, Ord B | 100.0 |
| Gala Bingo Holdings Ltd | Ordinary | 100.0 |
| Gala Bingo Ltd | Ordinary | 100.0 |
| Gala County Clubs Ltd | Ordinary | 100.0 |
| Gala Leisure (1998) Ltd | Ordinary | 100.0 |
| Gala Leisure Ltd | Ordinary | 100.0 |
| Garlandheath Ltd | Ordinary | 100.0 |
| Golden Sands Ltd | Ordinary | 100.0 |
| Harts Holiday Camps Ltd | Ordinary | 100.0 |
| Harts Holiday Village Ltd | Ordinary | 100.0 |
| Hotwork Combustion Technology Ltd | Ordinary | 100.0 |
| Ladycroft Ltd | Ordinary | 100.0 |
| Marlie Farm Holiday Village Ltd | Ordinary | 100.0 |
| OEG Holdings Ltd | Ordinary | 100.0 |
| Orchard End Ltd | Ordinary | 100.0 |
| Park Holidays UK Finance Ltd | Ordinary, Deferred | 100.0 |
| Park Holidays UK Ltd | Ordinary | 100.0 |
| Pump Centre Ltd (The) | Ordinary | 100.0 |
| Riverside One Ltd | Ordinary | 100.0 |
| S G Manton Ltd | Ordinary | 100.0 |
| Seven Investment Management LLP | Member | 95.0 |
| SI Pumps Ltd | Ordinary | 70.0 |
| Sloane Club Management Ltd (The) | Ordinary | 100.0[1] |
| Sloane Club Properties LLP | Member | 100.0[1] |
| South Devon Holiday Parks Ltd (The) | Ordinary | 100.0 |
| Sterling Argo Holdings Ltd | Ordinary | 100.0 |
| Sterling Bloom Holdings Ltd | Ordinary | 100.0 |
| Sterling Crewkerne Ltd | Ordinary | 100.0 |
| Sterling Industries Ltd | Ordinary | 100.0 |
| | Preference | 80.3[1] |
| Sterling PCC Holdings Ltd | Ordinary | 100.0 |
| Sterling SI Pumps Holdings Ltd | Ordinary | 100.0 |
| Sterling Skid Pipe Holdings Ltd | Ordinary | 100.0 |
| Sterling Thermal Technology Holdings Ltd | Ordinary | 100.0 |
| Sterling Thermal Technology Ltd | Ordinary | 100.0 |
| Thame Energy Systems Ltd | Ordinary | 100.0 |
| Truecare Group Ltd | Ord A1, A2, B1, B2, C2, Pfd ord C1 | 100.0 |
| Truecare Holdings Ltd | Ord B, Pfd ord | 100.0 |
| Union-Castle Mail Steamship Co Ltd (The) | Ord, Ord A | 100.0[1] |
| Urquhart Engineering Company Ltd | Ordinary | 100.0 |
| WSG Operating Company Ltd | Ordinary, Deferred | 100.0 |
| Zulu Self Storage Properties Ltd | Ordinary | 100.0[1] |
| Registered in Brazil | | |
| Bloom Produtos de Combustão do Brasil Ltda | Ordinary | 100.0 |
| Registered in China | | |
| Bloom Combustion Products (Shanghai) Co Ltd | Ordinary | 100.0 |
| PCC Environmental Equipment (Beijing) Ltd | Ordinary | 100.0 |
| Registered in Germany | | |
| Bloom Engineering (Europa) GmbH | Ordinary | 100.0 |
| Registered in India | | |
| Bloom Combustion (India) Pvt Ltd | Ordinary | 100.0 |
| Registered in Luxembourg | | |
| Easybox Sarl (in liquidation) | Ordinary, Preference | 100.0[1] |
| Registered in Netherlands | | |
| Caledonia BV | Ordinary | 100.0 |
| Coöperatieve Caledonia Netherlands Holding WA | Common | 100.0[1] |
| Registered in United States | | |
| Bloom Engineering (China) LLC | Member | 100.0 |
| Bloom Engineering Company Inc | Common | 100.0 |
| Caledonia Industrial & Services of Delaware LLC | Member | 100.0 |
| Process Combustion Corporation | Common | 100.0 |
| Skid Pipe Insulation LLC | Member | 100.0 |

1. Directly held by the company.
2. Included in the consolidation.

# Company performance record

The 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 % |
|---|---|---|---|---|---|---|---|---|
| 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 | 206.8 | 361.9 | 47.2 | 1,299 | 2299 | 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 |
| 2016 | 41.1 | 73.1 | 52.6 | 1,644 | 2890 | 2285 | 3.8 | 4.7 |

1. Profits, earnings and net assets from 2014 were from the group results, prepared in accordance with IASB *Investment Entities* amendments to IFRS 10 *Consolidated Financial Statements*. Pre-2014, 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 confirmation statements are sent 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 www.capitashareportal.com (by clicking on 'your dividend options' and following the on-screen instructions) or an application pack can be requested by telephone on 0871 664 0385 or +44 871 664 0385 if calling from outside the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9am and 5.30pm, Monday to Friday excluding public holidays in England and Wales.

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 0371 664 0445 or +44 371 664 0445 if calling from outside the United Kingdom. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 8am and 4.30pm, Monday to Friday excluding public holidays in England and Wales.

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 0371 664 0381 or +44 371 664 0381 if calling from outside the United Kingdom. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9am and 5.30pm, Monday to Friday excluding public holidays in England and Wales. 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 2017. 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

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Stephen A King (Finance Director)
Jamie M B Cayzer-Colvin

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Stuart J Bridges[1,2,4]
The Hon Charles W Cayzer[2]
Charles H Gregson (Senior Independent)[2,3,4]
Shonaid C R Jemmett-Page[2,3,4]
David C Stewart[1,2,3]

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

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