CALEDONIA INVESTMENTS

Annual report 2017

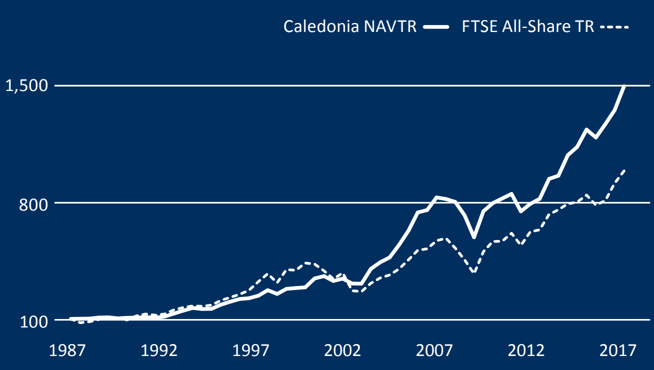
Year ended 31 March 2017

Welcome to Caledonia

Caledonia is a self-managed investment trust company with net assets of £1.9bn. 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 proven well-managed businesses that combine long term growth characteristics with an ability to deliver increasing levels of income. Our investments cover both listed and private markets in broadly equal proportions, a range of sectors and, in particular through our fund investments, a global reach.

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 a record of 50 years of increasing its annual dividends.

NAV total return growth since 1987



Sources

Company highlights

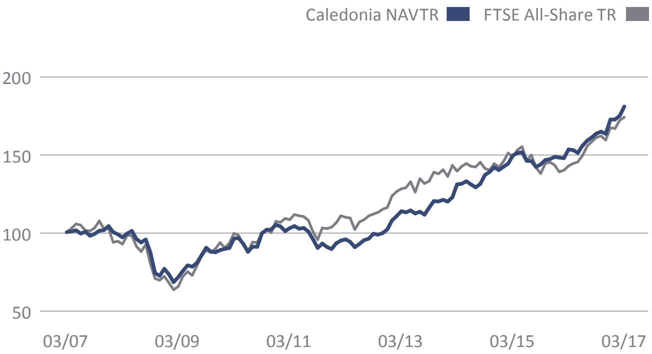
- Net asset value per share total return of 18.0%
- Continued ten year outperformance against the FTSE All-Share
- Annual dividend per share up 4.2% to 54.8p
- 50th consecutive year of annual dividend increases
- Special dividend of 100.0p

Results summary

	31 March 2017	31 March 2016	Change %
Net assets[1]	£1,899m	£1,644m	15.5
NAV per share	3395p	2890p	17.5
Annual dividend per share[2]	54.8p	52.6p	4.2
Special dividend per share	100.0p		

1. The 2016 net assets do not include an accrual for the second interim dividend paid of £21.1m on 1 April 2016, whereas this dividend was included in NAV per share.
2. The 2016 annual dividend included the interim paid and second interim dividend declared in the year.

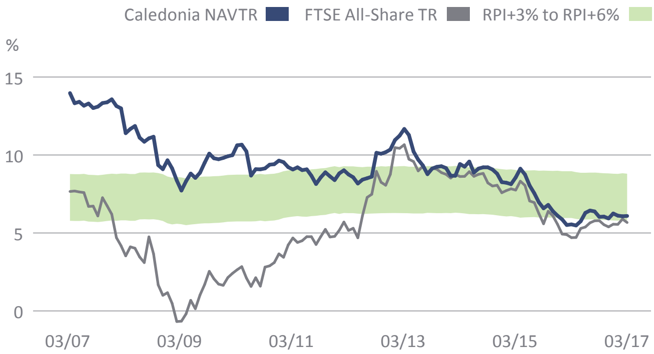
NAV total return growth over ten years



Performance

	1 year %	5 years %	10 years %
NAV total return (annualised)	18.0	13.6	6.1
NAV total return	18.0	89.4	80.6
Total shareholder return	21.1	108.9	63.3
Annual dividend growth	4.2	27.7	76.2

Annualised ten year rolling performance

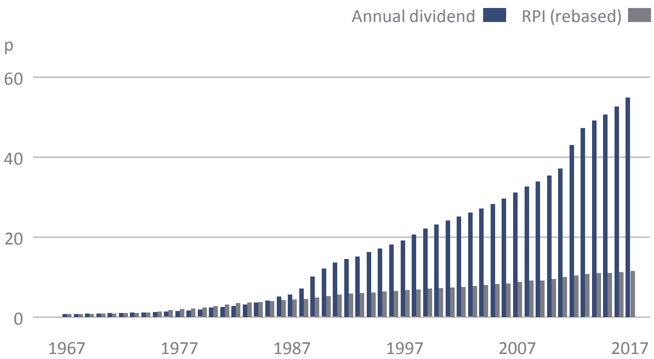


Pool performance

	Value £m	Return %
Quoted	467.9	20.6
Income	215.9	17.0
Unquoted	567.8	20.8
Funds	404.3	23.1
	1,655.9	
Cash and other[1]	242.9	
Net assets	1,898.8	18.0

1. Includes non-pool investments of £32.7m.

Annual dividend growth over 50 years



The measures below are deemed appropriate to assess the underlying operating results and enhance the comparability and understanding of the financial performance of Caledonia:

1. Net assets provides a measure of the value of the company to shareholders and is taken from the IFRS group net assets.
2. Net asset value ('NAV') per share is a measure of the value of the company per share, calculated by dividing net assets by the number of shares in issue, adjusting for shares held by the Employee Share Trust and for dilution by the exercise of share options and awards, detailed in note 16 of the financial statements. NAV per share takes account of dividends on the ex-dividend date.
3. NAV total return is a measure showing how the NAV per share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. NAV total return assumes that dividends are reinvested at the NAV per share on the ex-dividend date.
4. Annual dividends are dividends declared as part of the company's recurring dividend cycle and are typically paid out of earnings in a financial year. Annual dividend growth is the geometric progression ratio that provides a constant rate of increases over the period. Special dividends are non-recurring dividends declared separate from annual dividends.

Chairman's and Chief Executive's report

Results

Caledonia's net asset value per share total return ('NAVTR') was 18.0% for the year ended 31 March 2017, following 2.6% for the previous year. All four of the investment pools produced double digit returns. Investment income for the year was £47.3m, a fall of £3.4m compared with the unusually high level of the previous year. Additionally, following a number of portfolio realisations, in particular the successful sale of Park Holidays, the board is proposing a special dividend of 100p per share to be paid alongside an increased final dividend for the year. The latter would mark the 50th year of consecutive increases of our annual dividend. We are both proud of this achievement and determined to extend the record for many years to come.

Background to the year

The year under review was dominated by two important events. First, the vote by the United Kingdom to leave the European Union and second, the presidential election in the United States of America. These events were key drivers of both stock market and currency movements across the world. Caledonia's strategy of owning a balanced investment portfolio of both UK and overseas based companies and funds proved to be a sound hedge against what turned out to be a period of considerable volatility. Macro-economic factors, particularly the devaluation of sterling against most other currencies, produced a tail-wind for our portfolio, with currency gains contributing 6% of the 18% total return for the year. Private equity markets have also been buoyant, as demand for high quality businesses from funds with huge available resources have driven prices to levels not seen since before the financial crisis. We took advantage of this by selling several of our holdings, most notably Park Holidays, which netted £197m for Caledonia and gave us an overall return of three times the capital invested in 2013.

Caledonia's strategy and business model

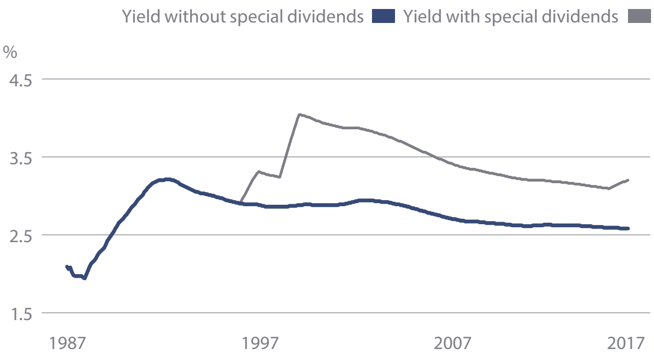
We aim to grow our shareholders' capital over the long term and to provide an increasing annual dividend, both in real terms. We are attracted to the higher returns provided by equity investments and particularly in the unlisted or private equity markets. However, we are aware of the portfolio limitations and risks presented by only investing in private equity markets. We therefore currently have half our net assets in listed companies, focusing on long term international compounding equities and income stocks, together with quoted market funds, which give us the balanced exposure that we seek in terms of geography, sectors and liquidity.

Quoted equities	Portfolio %	Target yield %	Private equity	Portfolio %	Target yield %
International compounders	25	2.5	Direct private investments	30	5.0
Income stocks	11	4.5	Private equity funds	12	–
Quoted funds	9	–			
Total	45			42	

One of the consequences of investing in larger private equity investments is that, when sold, large capital sums are returned on an irregular basis as demonstrated by the £207m of cash on our balance sheet at the year end.

Caledonia's objective is to ensure that its annual dividend payment is set at a level that is covered by income. However we recognise that shareholders are rewarded with a relatively low annual yield, which we address through the occasional payment of special dividends when appropriate. This year's proposed special dividend will have the effect of increasing the yield averaged over the past five years from 2.9% to 3.6%, and to 3.2% averaged from 1987, a period that included several business cycles and special dividends paid to shareholders, as illustrated in the following chart.

Dividend yield averaged from 1987



Geographic exposure

Caledonia takes a global approach to investment, actively seeking exposure to markets that grow faster and are less mature than the UK. We access these in two ways. First by investing in companies that themselves operate across the globe and second by selecting funds that specialise in the regions and sectors to which we wish to be exposed. In particular, we gain access to the US and Asian private equity markets via specialist funds operating there. These offer attractive returns, even after paying fees to the managers, and provide good diversification to the UK based majority owned businesses within our portfolio.

Geographic distribution

United Kingdom	38%
Continental Europe	11%
North America	25%
Asia	12%
Other countries	1%
Cash and other	13%

Risk

Our approach to risk stems from an understanding that shareholders' capital is a precious commodity which we are not required to grow at an unsustainable rate. Instead, we aim to produce steady rates of capital return over the long term, underpinned by increasing annual receipts of dividend. We therefore invest in companies that have strong competitive positions in their markets and can generate consistently high margins, which in turn drive strong returns on capital over long time periods. This capital is recycled into their businesses further driving growth. Valuations will fluctuate over time, but by being invested in companies that compound their earnings in this way and which are not at risk through excessive gearing, we are confident that our returns over the long term will be at least as good as the market, but with less risk.

We carefully review the composition of our portfolio to ensure that we are not overexposed to individual sectors, geographies or currencies. We also consider valuations, gearing and volatility as well as the continuing health of the underlying businesses and their sectors in assessing their place in the portfolio. We tend not to be a frequent buyer or seller of shares and the turnover of shares within our portfolio is very low compared with market funds.

Investment performance

The construction of the portfolio as described means that we do not seek to correlate our performance with the market. The board believes that it is better to compare returns with inflation to measure our short term performance. Over short periods we use a target range of RPI+3% to RPI+6%, but over ten years it is appropriate to benchmark our performance against the FTSE All-Share.

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	18.0	38.3	89.4	80.6
Annualised				
NAV total return	18.0	11.4	13.6	6.1
Retail Prices Index	3.1	1.9	2.3	2.8
Performance vs RPI	14.9	9.5	11.3	3.3
FTSE All-Share Total Return				5.7
Performance vs FTSE				0.4

Currency

The contribution of foreign currency gains to our overall return for the year was 6.0%, accounting for one-third of our overall return. We have intentionally positioned the portfolio to gain a balanced exposure to different currencies and geographies. In general, we do not think that it is wise to speculate as to the future movement of currencies, nor do we intend to reposition the portfolio to 'lock in' currency gains made this year. We will continue to maintain a balanced exposure to the world's leading economic zones (US, Asia and Europe) and their currencies over the long term.

Income and expenses

Investment income for the year was £47.3m, a fall of some 7% compared with the previous year. The reduction for the year is principally accounted for by the unusually high level of dividends received from the Unquoted pool portfolio last year. Underlying investment income remains in line with our expectations and we are confident our more recent acquisitions will compensate for the loss of income from the sale of Park Holidays.

Our ongoing charges ratio for the year was 1.07%, compared with 1.01% in 2016, reflecting slightly higher staff costs. This includes the costs of a direct unquoted market investment team.

Chairman's and Chief Executive's report continued

Balance sheet and cash

At the year end, our balance sheet was ungeared with a net cash position of £207m, compared with an opening balance of £23m. We are in the process of renewing our banking facilities to ensure that they remain appropriate for a company with net assets of £1.9bn. Whilst we have used these facilities sparingly in the past, it is important that we have the flexibility to cover larger transactions in the unquoted arena, the timing of which can be difficult to anticipate. They also provide an excellent way to take advantage of market downturns and ensure we have capital available for private equity fund drawdowns.

Review of portfolio

The investment pools returned 20.7% for the year under review. It was a year of net divestment, with £418m of sales excluding movements within the Income pool. Alongside the £197m received from the sale of Park Holidays, we received significant proceeds from the sales of Bowers & Wilkins, Close Brothers and Capital Today China, the Chinese private equity fund that backed JD.com from a start-up. Excluding movements within the Income pool, we invested £230m over the past year, including £74m in the Liberation Group, the Channel Islands and UK based pub and brewing company. In addition, over £100m was invested in our private equity and quoted market funds in Asia and the US.

	Value 2016 £m	Invest-ments £m	Realis-ations £m	Gains/ losses £m	Value 2017 £m	Income £m	Return %
Pool							
Quoted	449.3	42.0	(95.1)	71.7	467.9	10.7	20.6
Income	194.1	14.6	(15.1)	22.3	215.9	9.7	17.0
Unquoted	646.3	85.1	(243.4)	79.8	567.8	18.6	20.8
Funds	308.4	103.3	(79.4)	72.0	404.3	1.9	23.1
Total pools	1,598.1	245.0	(433.0)	245.8	1,655.9	40.9	20.7
Non-pool	11.1	2.1	(0.4)	19.9	32.7	6.4	(1.0)
Investments	1,609.2	247.1	(433.4)	265.7	1,688.6	47.3	20.2
Cash etc	35.1				210.2		
Net assets	1,644.3				1,898.8		18.0

1. Gains and losses included the reclassification from Unquoted to Non-pool of £26.7m relating to dividends received by a subsidiary investment entity.

As can be seen from the table above, all the investment pools made good and broadly similar contributions to our overall return. The table below compares actual with pre-forex returns, that is returns assuming no exchange rate movements over the year. In all cases bar the Funds pool, pre-forex returns for the year exceeded target returns. Despite the immature private equity portfolio and its exposure of over 90% to the US dollar, the Funds pool still managed a creditable pre-forex 10% return.

Pool	Actual return %	Pre-forex return %	Target return %
Quoted	20.6	13.1	10.0
Income	17.0	10.5	7.0
Unquoted	20.8	18.6	14.0
Funds	23.1	9.9	12.5

Asset allocation

The table below shows the strategic return and allocation targets for the investment pools:

	Annual return targets				
Pool	Income %	Capital %	Total %	Target allocation %	Current allocation %
Quoted	2.5	7.5	10.0	25-40	24.6
Income	4.5	2.5	7.0	15-20	11.4
Unquoted	5.0	9.0	14.0	35-45	29.9
Funds	–	12.5	12.5	15-20	21.3
Liquidity				(10)-10	12.8

The Funds pool was a net investor for the year. Both the Quoted and Unquoted pools were net divestors, which at the year end drove our cash deposits to 11% of NAV. As a consequence, both pools are at the lower end or below their strategic allocation ranges. The Income pool is also below its target, though we do not feel under pressure to rectify this with markets at current high valuations. We will deploy capital into businesses which fit our strategy when they are available at acceptable valuation levels. The Funds pool strategy includes a programme of commitments to invest in private equity funds. These are drawn down when the funds find suitable investments, though are reasonably predictable over the long run on a portfolio basis. This programme is still relatively immature, such that we predict that we will be net investors for a further three to four years before returns of capital start to match new drawdowns.

Overview of pool performance

Quoted (£468m, 25% of net assets)

We invest in high quality companies that have compounding business models and barriers to entry, and which make good use of capital. Experience shows that a concentrated and risk managed portfolio containing this type of company will deliver better risk adjusted returns than the market over the longer term.

The Quoted pool produced a return of 20.6% for the year. Strong investment gains were made by nearly all of the 18 core holdings that make up the portfolio. UK engineers Spirax Sarco and Hill & Smith were beneficiaries of the fall in sterling but also produced excellent underlying results, which were reflected in strong share price performance over the year. Hill & Smith has finally gained the recognition of the market for its consistent growth in earnings and high margins. The US holdings, such as Microsoft, Philip Morris, Becton Dickinson and Flowserve, were notable performers, as was Jardine Matheson, which operates predominantly in Southeast Asia.

We sold our holdings in Close Brothers and LondonMetric Property, amongst others. Close Brothers remains a high quality and well run bank but we believe that the valuation and point in the cycle gave reasons for concern. We first invested in Close Brothers in 1987 and it became an outstanding creator of value for Caledonia's shareholders, producing an IRR over 30 years of 16.4%. Bristow Group, the US helicopter operator, had another year of poor investment returns. The oil and gas industry is currently in a cyclical downturn and, despite the company's search and rescue contracts, helicopter usage remains low. Two new holdings were instigated this year, but valuations remain high so other targeted companies in which we would like to invest continue to trade outside our price ranges.

Income (£216m, 11% of net assets)

A portfolio of global equities that produces a reliable and increasing income stream.

The Income pool produced a creditable return of 17.0% for the year, including a 4.8% dividend yield. Despite the increase in capital value which has led to a fall in the market yield, we have increased the running yield on the portfolio to 4.8% from 4.2% in the previous year. The portfolio consists of 22 companies and has produced an annualised return of 7.9% over the past two years and 9.6% since inception in 2011. The Brexit vote impacted a number of the portfolio companies that have businesses which operate solely in the UK, such as Royal Mail and Greene King. These are well balanced however by US and European holdings.

Unquoted (£568m, 30% of net assets)

We invest in unlisted businesses which require capital and an investor with a balance sheet who is able to provide a long term perspective. We invest in both majority and minority positions.

PARK HOLIDAYS

The Unquoted pool performance of 20.8% for the year comprised a capital return of 17.7% and an income return of 3.1%. The undoubted highlight was the sale of our 81.5% stake in Park Holidays to Intermediate Capital Group. We received cash proceeds of £197m which, when added to dividends received, represented 2.9x our original investment and an IRR of 44%. This company was a good fit with our investment criteria, was run by a very capable team of experienced managers and was one that, in normal circumstances, we might have held for considerably longer. However, we judged that the strong profits growth during the period of our ownership combined with high valuations for quality companies were compelling reasons to sell. We also sold our holding in Bowers & Wilkins and a number of smaller legacy assets during the year. Total sale proceeds and income received was £262m for the year.

Chairman's and Chief Executive's report continued

We made one new investment – Liberation Group in July 2016. We invested an initial £71m for a 97.9% equity stake (management own the remainder), valuing the company at £118m in total. Liberation Group is a pub, restaurant and drinks business with its roots in the Channel Islands. In 2015, it purchased the Butcombe brewery together with a number of pubs in South West England. It had 100 pubs in total on acquisition and the strategy is to expand the number of pubs on the mainland from the Bath/Bristol area to the south west along the axis of the A303. We were attracted to the combination of a solid asset backed business in which we can continue to invest capital at a good rate of return in the future. It is managed by an experienced team from the industry and they have hit the ground running, buying nine pubs since our acquisition.

The existing Unquoted pool portfolio has traded broadly in line with budget during the year. Of particular note is the performance of Seven Investment Management, which has increased assets under management and profits ahead of budget, and Gala Bingo, which has traded in line with our expectations at the time of the acquisition 18 months ago. Cobepa produced a strong investment return for the year and, being euro denominated, we also saw a currency uplift. It is currently Caledonia's largest holding, albeit diversified through a portfolio of 14 businesses. Choice Care, the care homes operator, has almost completed a carefully managed expansion plan, adding about a third to its capacity. We are very aware of the danger of expanding too quickly and overstretching the capability to deliver top quality care, which remains, above all else, the number one priority. The pricing environment remains tough, with local authorities under great pressure to cut spending however, despite this, new bed spaces are being filled at acceptable margins. Sterling Industries is starting to see some recovery in its core markets of iron and steel and oil and gas, but had a difficult year with profits down sharply.

We reviewed well over 200 investment opportunities during the year, making two offers with one new investment and two follow-on investments. There is a significant amount of capital in the market chasing a small supply of high quality deals, which has inevitably led to increased valuations. We believe in buying the right business for the right price and try to use the competitive advantage over private equity funds brought by investing our own balance sheet (and thereby not being constrained by the period of time over which we can own a business), which management teams often find appealing.

Funds (£404m, 21% 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 produced an excellent return for the year of 23.1%. Quoted market funds, focused on Asia and the US, represented 42% of pool assets at the year end. We deployed capital into Asia when sentiment was very much against the region two years ago and the 31% return this year has vindicated this decision. It remains one of the few areas of the world that is not fully valued. The money is looked after by five different managers across the two regions in a mixture of strategies.

The private equity portfolio continues to grow with £79m invested this year into a portfolio now valued at £235m. We received £53m of distributions from private equity funds following portfolio sales, although half of this came from further sales of JD.com by Capital Today China. We have total outstanding commitments of £293m, about 80% of which we expect to be drawn down over the next seven or eight years depending on the nature of the cycle. The programme is anchored by several fund of funds relationships, especially in Asia, which has a nascent private equity market. We believe this to be a sensible risk mitigant, as well as a good way to stay fully informed of, and close to, the market.

Dividend

The board is recommending to shareholders a final dividend of 39.9p per share, giving a total for the year of 54.8p per share, an increase of 4.2% over 2016. This will be the 50th year of unbroken annual increases. The dividend is a vital component of our return to shareholders and, as explained earlier, the strategy of the company is focused on its maintenance and gradual increase. The proposed final dividend will amount to £29.1m.

The board is also proposing to pay a special dividend of 100p per share alongside the final dividend, at an amount of £54.9m. As explained earlier, the board considers it appropriate to augment the long term yield offered to investors through the payment of occasional special dividends when the company's long term business model delivers cash in excess of its strategic investment plans.

Discount

Over the year, the share price rose by 20% and the discount of the share price to NAV per share ranged between 13% and 26%. We review the valuations of our unquoted holdings in September and March each year and announce the NAV per share figures shortly after the relevant month end, which means that our discount can fluctuate in the few days in between until the share price adjusts to the updated NAV per share figures.

We did not buy back any shares during the year, but will again seek the necessary permissions from shareholders at the AGM to do so should they offer particular value.

Board

Rod Kent, who has been a member of the board since 2011 and Chairman since 2012, has decided to step down at the AGM. The company, shareholders and past management of Caledonia owe him an unrepayable debt of gratitude for his outstanding contribution over many, many years.

Rod first came into contact with Caledonia in the early 1980s when British & Commonwealth ('B&C') was its largest investment. He advised the company on its exit from B&C in 1987 and ensured that the proceeds from the sale were received in a form that was as good as cash. This proved prescient when B&C sadly went into administration in 1990 following the disastrous purchase of Atlantic Computers.

Caledonia had become a significant investor in Close Brothers, where Rod was managing director, in 1987 and increased its stake further over the next few years. Close Brothers became the cornerstone of Caledonia's investment success over the next 25 years and, combined with his continuing advice, the company has continued to thrive. He joined the board of Caledonia in 2011 and succeeded James Loudon as Chairman in 2012. We wish Rod the very best for a long, happy and peaceful retirement. David Stewart will succeed Rod as Chairman at the AGM in July.

Outlook

The valuations of equities, bonds, property and non-conventional assets have been driven to high levels by unusually low interest rates. Markets look to be reaching the final leg of a sustained bull run with valuations now looking stretched. The Federal Reserve has increased US interest rates twice recently, taking the first tentative steps towards normalising monetary policy in the world's largest economy. There are signs that the Bank of England is thinking along similar lines albeit with the additional complication of Brexit to negotiate. If monetary stimulus is removed and the cost of capital increases, there will be an equal and opposite effect on valuations. Despite this threat and events such as the Brexit vote in the UK, markets have held firm probably in part due to the promises Mr Trump made in his campaign to become President of the US. Caledonia's modus operandi is not to attempt to time market falls, but it guides our thinking in ensuring that our risk profile is appropriate for this stage in the cycle.

We continue to be invested in companies that will generate reliable cash flows in all market circumstances. Our long term outlook also makes us wary of excessive debt, which can be the downfall of a good business in a downturn of the economic cycle. We currently have a cushion of cash on the balance sheet which confirms our conservative stance, but is also there to take advantage of opportunities that we identify. We remain confident that we will be able to meet our shareholders' requirements for capital growth and income in the future, without needing to expose their capital to undue risk.

Rod Kent	Will Wyatt
Chairman	Chief Executive

The Chairman's and Chief Executive's report on pages 2 to 7 and additional reports on pages 8 to 33 comprise the Strategic report of the company. The Strategic report was approved by the board on 25 May 2017 and signed by Mr Wyatt on its behalf.

Business model and strategy

What we do

Caledonia is an investment trust company, strategically managed through four complementary pools of capital: Quoted, Income, Unquoted and Funds.

Pools	Activity	Investments
Quoted £468m Net assets, 25% of NAV	Equity holdings in listed companies with proven long term returns, global reach and strong market presence.	18 core holdings
Income £216m Net assets, 11% of NAV	A global listed equity portfolio with a reliable and growing annual income stream – targeting a net yield of 4.5% pa and providing a source of readily accessible liquidity.	22 holdings 4.8% net yield
Unquoted £568m Net assets, 30% of NAV	Direct equity investment in unquoted companies, mainly in the UK, typically targeting majority ownership where our team can provide a long term stable financial partnership to proven management teams looking to grow established businesses.	13 companies £260m value of top three trading companies
Funds £404m Net assets, 21% of NAV	Investment in a portfolio of funds in both quoted and unquoted markets, focused on the US and Asia to provide Caledonia with significant geographical diversity.	21 private equity fund managers 5 quoted market fund managers

What we do	Strategic allocation	Risk management
• We identify investment opportunities through research, focusing on mature, long term businesses with significant market presence, strong balance sheets and good returns on capital. • Our primary focus is on the UK and US markets.	**25-40%** of net assets	• We manage risk throughout the portfolio, paying particular attention to concentration, volatility, geographical exposure and liquidity.
• We identify investment opportunities through research, focusing on large-cap companies of global scale and market presence, offering above market yields and growth expectations. • We build a balanced portfolio of similar size stakes across a broad range of sectors and regions.	**15-20%** of net assets	• We manage risk throughout the portfolio, paying particular attention to the corporate drivers of investment yield and growth. This requires a detailed understanding of the longer term investment models of the businesses and their cash flow profiles.
• We identify investment opportunities through our extensive network of contacts, focusing on established UK businesses led by successful management teams. • We conduct extensive due diligence on the business and management team. • We take board seats in all significant private company investments.	**35-45%** of net assets	• We manage risk and monitor investments through board seats on all unquoted investments. • We structure our investments to provide robust cash flows to pay annual and special dividends and to manage liquidity risk. • We manage exposure to market cycles to identify optimal times to invest and divest.
• We search for and build relationships with successful fund managers, whom we monitor for an extensive period before committing funds. • We focus on US and Asian markets and commitments in the $20m-$50m range. • We balance exposure to managers and vintage by replacing maturing with early stage funds.	**15-20%** of net assets	• We manage risk throughout the portfolio, with particular attention to future commitment levels and liquidity, manager concentration and foreign exchange exposures. • We actively monitor manager continuity, performance and style.

Business model and strategy

How we create value

Our business model

Caledonia's family backing, long term reputation, contact network and proprietary capital differentiates our investment proposition and underpins our ability to deliver long term capital growth and increasing annual dividends for shareholders.

Our resources and relationships

The Caledonia team

We aim to recruit and retain high quality investment executives to maintain deal flow and investment continuity, who understand and are able to execute Caledonia's investment philosophy.

Business network

Essential to support our business, our reputation as a supportive and constructively involved long term investor enables us to develop our network of business contacts. They assist us to identify opportunities and carry out due diligence, as well as being invaluable to the management of our investee companies.

Strong balance sheet

Our strong balance sheet, with no permanent corporate debt, allows us the flexibility to invest in both private equity and quoted opportunities over a longer (ten year) timeframe, significantly reducing the investment cycle risk.

Reputation

Caledonia's heritage can be traced back to the shipping empire established by Sir Charles Cayzer in 1878 and still benefits from the backing of the Cayzer family. Caledonia has been listed on the London Stock Exchange since 1960, has been an investment company since 1987 and an investment trust company since 2003.

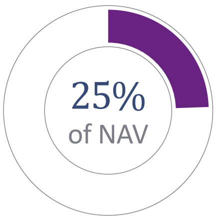
Identify and invest in assets that will meet our return objectives

Invested through allocations of capital to four market pools, balanced to provide long term risk mitigated returns

Quoted pool

Invests in companies with established business models, strong balance sheets, good returns on capital and strong cash flows

Target return: 10%

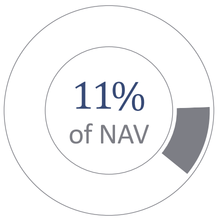


20.6%
Return

Income pool

Invests in liquid global equities that produce a reliable and increasing income stream

Target return: 7%



17.0%
Return

Investment process

Our investment process is tailored to the nature of each pool. Investment opportunities are identified through our business network and company research. An initial review will identify opportunities with characteristics which meet our strategic risk/return appetite.

Our strategic objectives

1. Deliver FTSE All-Share outperformance over ten years and shorter term returns between RPI+3% and RPI+6%
2. Pay an increasing annual dividend
3. Manage investment risk consistent with long term wealth generation

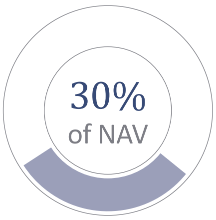
Develop our investment talent, research knowledge, relationships and brand

Invest in global quoted and unquoted equities and private equity and quoted market funds

Unquoted pool

Invests in established private companies with proven management teams, seeking long term capital growth

Target return: 14%

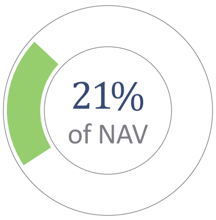


20.8%
Return

Funds pool

Invests in private equity and quoted market funds to provide exposure to regions and sectors where we are less able to invest directly

Target return: 12.5%



23.1%
Return

Extensive and ongoing business and financial due diligence is conducted, including using independent advisers, where appropriate, before a final investment decision is made. Investments are subject to continuous performance monitoring and regular risk reviews.

Manage investment risk

- Strategic investment allocation
- Investment timing
- Investment volatility
- Liquidity
- Geographical exposures
- Resources and relationships
- Reputation
- Investee leverage
- Regulation

Business model and strategy

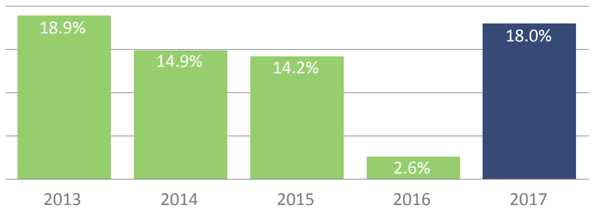
Key performance indicators

How we performed

Metric

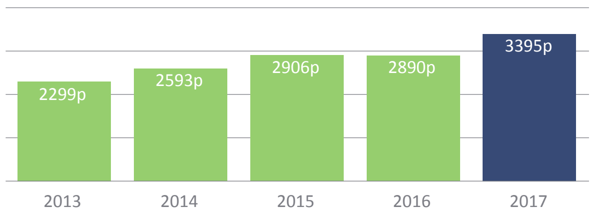
Net asset value total return ('NAVTR')

NAVTR is a measure of how the net asset value ('NAV') per share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. NAVTR is calculated as the increase in NAV per share plus the accretion from assumed dividend reinvestment over the period.



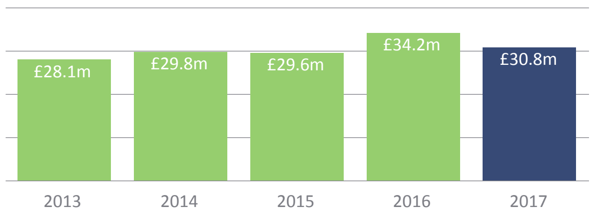
NAV per share

NAV per share is a measure of the value of the company per share, calculated by dividing net assets by the number of shares in issue, adjusting for shares held by the Employee Share Trust and for dilution by the exercise of share awards, detailed in note 16 of the financial statements.



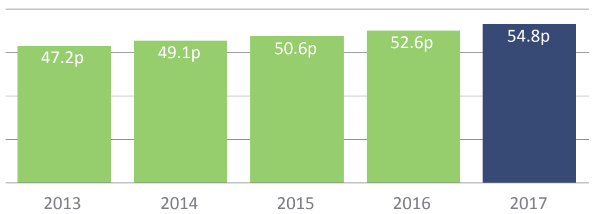
Net revenue

Net revenue comprises income from investments less management expenses and tax. It differs from comprehensive income in excluding gains and losses on investments and other items of a capital nature. This separation of profits and losses is of importance to investors in investment trust companies.



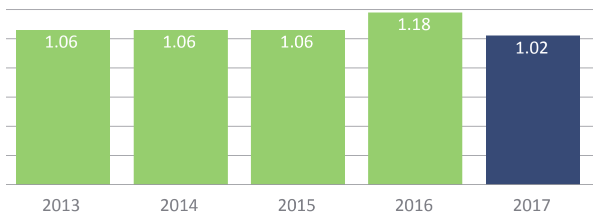
Annual dividend

Annual dividend is the per share amount payable to shareholders out of profits for the year, excluding any special dividends.



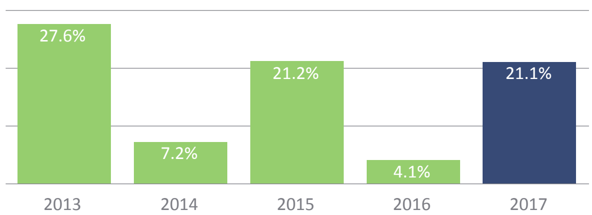
Dividend cover

Dividend cover is the ratio of net revenue (described above) to the annual dividend payable to shareholders out of profits for the year. It helps to indicate the sustainability of annual dividends.



Total shareholder return ('TSR')

TSR measures the return to our shareholders through the movement in the share price and dividends paid during the year.



The company uses the modified Deitz method as a measure of the performance of an investment or pool over the year. This method divides the gain or loss in value, net of external cash flows, by the average capital over the period of measurement.

2017 progress	Link to strategic objectives
• All investment pools performed strongly. • Continued outperformance of five and ten year FTSE All-Share TR index. • Unquoted pool total return of 20.8%, including successful sale of Park Holidays. • Quoted and Income pools total return of 20.6% and 17.0% respectively. • Funds pool returned 23.1%, with a significant contribution from global exposure.	1 2
• NAV per share continued to increase, gaining 17.5% to 3395p over the year.	1
• Revenue profit declined by 9.9% to £30.8m, reflecting the timing of one-off dividends from unquoted companies in 2016 and the sale in the year of the Park Holidays business.	2 3
• Increase of 4.2% in annual dividend for the year. • 50 years of consecutive annual dividend increases. • Special dividend of 100.0p per share.	2
• Annual dividend fully covered by portfolio income in the year.	2 3
• The TSR was 21.1% over the year, with dividends of 53.2p enhancing the 20.4% increase in share price over the year.	1 2

The company also uses internal rate of return (IRR), being the discount rate that makes the net present value of all cash flows from a particular investment equal to zero, and realisation multiples or money returns, being the cumulative returns from an investment divided by the total investment, as indicators of the performance of individual investments on exit.

Investment review

Performance and analysis

Over the year, our investment performance delivered an NAV total return of 18.0%.

In recent 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 for the year was 18.0%, which built on a total return of 2.6% in the previous year and 14.2% in 2015. 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 high levels of income. Our investments, including non-pool investments, produced a 20.2% return. After returns on net cash, together with management and other expenses, NAV total return was 18.0%.

The 20.2% investment return comprised increases in the valuation of our investments, together with the income that they yielded.

	Value 2016 £m	Invest-ments £m	Realis-ations £m	Gains/ losses £m	Value 2017 £m	Income £m	Return %
Pool							
Quoted	449.3	42.0	(95.1)	71.7	467.9	10.7	20.6
Income	194.1	14.6	(15.1)	22.3	215.9	9.7	17.0
Unquoted	646.3	85.1	(243.4)	79.8[2]	567.8	18.6	20.8
Funds	308.4	103.3	(79.4)	72.0	404.3	1.9	23.1
Total pools	1,598.1	245.0	(433.0)	245.8	1,655.9	40.9	20.7
Non-pool[1]	11.1	2.1	(0.4)	19.9[2]	32.7	6.4	(1.0)
Investments	1,609.2	247.1	(433.4)	265.7	1,688.6	47.3	20.2
Cash and other	35.1				210.2	0.4[3]	
Net assets	1,644.3				1,898.8		18.0

1. Non-pool investments comprised principally cash and receivables held by subsidiary investment entities.
2. Gains and losses included the reclassification from Unquoted to Non-pool of £26.7m relating to dividends received by a subsidiary investment entity.
3. Other income comprised rental income and interest on cash deposits.

Investment returns

The total return on our pool investments over the year was 20.7%, and over total investments, including non-pool subsidiary investment entities holding cash and receivables, was 20.2%. The principal contributors to this performance were as follows:

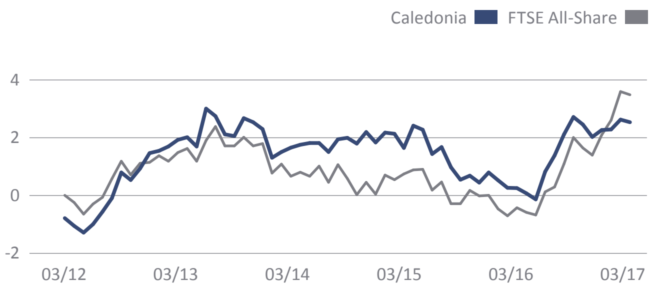
Name	Gain/(loss) £m	Income £m	Return £m	Return %
Park Holidays	73.2	–	73.2	59.1
Cobehold	19.4	2.1	21.5	19.6
Gala Bingo	11.9	3.2	15.1	16.4
Seven Investment Management	7.7	3.5	11.2	15.2
Arlington AVM Ranger fund	11.0	–	11.0	39.0
NTAsset funds	10.4	–	10.4	34.6
Income pool	22.3	9.7	32.0	17.0
Other investments	109.8	28.8	138.6	
Total investments	265.7	47.3	313.0	20.2

The overall return benefited significantly from the successful realisation of our investment in Park Holidays. We also saw a significant uplift in the valuation of Cobehold, Gala Bingo and the Arlington US and NTAsset Asian quoted market funds. Seven Investment Management contributed £7.7m in valuation gains and a substantial dividend of £3.5m.

Partially offsetting these gains, we recorded a small number, though individually insignificant, of valuation losses in legacy investments, including Sterling Industries and Avanti Communications, in difficult markets.

As a result of actively managing risk, Caledonia's one year risk/return ratio (measured using the Sharpe methodology) has generally remained favourable to that of the FTSE All-Share over the last five years. It is, however, notable that the FTSE Sharpe Ratio has moved very significantly in the last year and the historical return to risk ratio currently indicated may reflect an unsustainable pricing of risk.

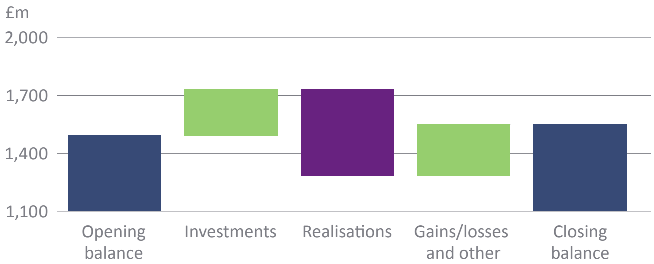
Sharpe Ratio



Investment movements

At the beginning of the year, the overall value of our investments was £1,609.2m. After £186.3m of net disposals and £265.7m of gains and losses, the investments value increased to £1,688.6m at the year end. The following chart illustrates the components of this movement:

Movement in the investment portfolio



Over half of our £247.1m investment in the year was in new situations, predominantly comprised of Liberation Group in the Unquoted pool and new fund drawdowns.

During the year, we realised £433.4m, almost half of which was accounted for by the sale of Park Holidays.

Net portfolio gains over the year totalled £265.7m, comprising £302.5m of gains and £36.8m of losses. Around one-quarter of the gross gains were generated by Park Holidays. Only a few investments recorded losses in the year and these primarily arose in smaller, legacy investments, including Sterling Industries and Avanti Communications. Overall, net gains were evenly spread across the pools except for Income, which generated around one-third of the net gains of the other pools, reflecting its smaller asset allocation and income mandate.

Investment review continued
Performance and analysis

Investments
Total investments during the year were £247.1m (2016 – £548.6m), summarised as follows:

Name	Pool	Cost £m
New investments		
Liberation Group	Unquoted	74.4
Overlook Partners fund	Funds	13.7
PAG Asia fund	Funds	10.6
Waters Corp	Quoted	10.3
Watsco Inc	Quoted	7.9
Other new investments		12.8
		129.7
Follow-on investments		
Philip Morris	Quoted	15.4
Aberdeen US PE funds	Funds	15.0
NTAsset funds	Funds	10.3
Brookshire Capital	Unquoted	10.0
Income pool	Income	14.6
Other follow-on investments		52.1
		117.4
Total investments		247.1

During the year, we made one substantial unquoted investment, being £71.0m for 97.9% of the equity in Liberation Group, the Jersey-based pubs and drinks business, owning and operating pubs and drinks distribution in the Channel Islands and brewing and pubs in Southern England. We invested a further £3.4m in Liberation Group to support its development plans.

Within the Funds pool, new investments included Overlook Partners, an Asian quoted market fund and PAG Asia, an Asian private equity fund. In addition, the Quoted pool invested £10.3m in Waters Corp, the US listed technology development company, and £7.9m in Watsco Inc, the US listed biotechnology company.

Follow-on investments included a further £15.4m in Philip Morris, the US listed tobacco company, £15.0m in Aberdeen US private equity funds, £10.3m in NTAsset Asian quoted market funds and £10.0m in Brookshire Capital, a UK commercial property investor.

The £14.6m invested through the Income pool reflected small adjustments, cementing last year's 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 realisations during the year totalled £433.4m (2016 – £450.7m), summarised as follows:

Name	Pool	Proceeds £m
Park Holidays	Unquoted	196.9
Close Brothers	Quoted	31.2
Capital Today China Growth fund	Funds	25.9
Bowers & Wilkins	Unquoted	24.0
Union Pacific	Quoted	21.8
Asia Landmark fund	Funds	20.1
LondonMetric Property	Quoted	18.2
Real Estate Investors	Quoted	11.1
Latshaw Group	Unquoted	10.6
Income pool	Income	15.1
Other realisations		58.5
Total realisations		433.4

Our most significant realisation was within the Unquoted pool, where we disposed of our 81.5% fully diluted holding in Park Holidays, the UK caravan parks operator, for £196.9m to Intermediate Capital Group. This investment delivered an IRR of 44% and a money multiple of 2.9x over three years. We also realised our investment in Bowers & Wilkins for £24.0m and received a £10.6m distribution from Latshaw Group, on the sale of one of its US manufacturing businesses.

In the Quoted pool, we sold our remaining holding in Close Brothers for £31.2m, with which we had been associated for 30 years. This long term investment provided an IRR of 16.4%. We also realised a total of £29.3m from the sale of our legacy, non-core investments in LondonMetric Property and Real Estate Investors.

In the Funds pool, we received £25.9m of distributions from the Capital Today China Growth fund on further sales of its holding in JD.com, the US listed Chinese internet retail company, and received £20.1m from the redemption of our investment in the Asia Landmark quoted market fund, after a one-third increase in value over the first half of the year.

Distribution analysis

Pools

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

Pool distribution

	2017	2016
Quoted pool	25%	27%
Income pool	11%	12%
Unquoted pool	30%	39%
Funds pool	21%	19%
Cash and other	13%	3%

The table shows a redistribution during the year from the Unquoted pool to cash, as a result of the sale of Park Holidays, partially offset by the acquisition of Liberation Group.

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

	2017	2016
United Kingdom	38%	52%
Continental Europe	11%	11%
North America	25%	22%
Asia	12%	11%
Other countries	1%	1%
Cash and other	13%	3%

The sale of Park Holidays, partially offset by the acquisition of Liberation Group, resulted in a significant decrease in our current United Kingdom exposure.

Similarly, the net investment in quoted securities and fund drawdowns in the US, as well as the significant increase in the value of US assets – enhanced by the weakening of sterling against the dollar – resulted in the increase in US exposure.

The changes in exposures noted were offset against cash and other assets, which increased from 3% of net assets last year to 13% at the year end.

At the end of the year, non-UK investments accounted for 49% of net assets (including net cash). However, much of our investment is in multinational companies, which generate a large proportion of their revenues overseas. The following chart estimates the geographic analysis by revenue generation, which shows an investment exposure to non-UK economies of 62% of net assets.

Geographic by revenue generation

	2017	2016
United Kingdom	25%	40%
Continental Europe	17%	14%
North America	22%	22%
Asia	18%	18%
Other countries	5%	3%
Cash and other	13%	3%

Investment review continued

Performance and analysis

Asset class

The following chart shows the distribution of net assets by asset class. Listed securities represented 36% of net assets at the year end and unlisted investments (companies and funds) in total accounted for 51%.

Asset class distribution

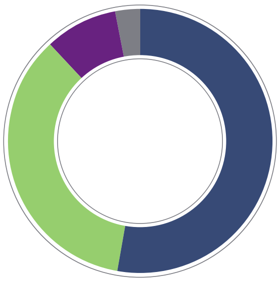
	2017	2016
Listed equities	36%	39%
Private companies	30%	39%
Private equity funds	12%	11%
Quoted market funds	9%	8%
Cash and other	13%	3%

Over the year, there was a substantial shift in allocation from private companies, and a more limited shift from listed equities, to cash. This was due principally to the sale of Park Holidays and Bowers & Wilkins, partially offset by the acquisition of Liberation Group, and the sale of some substantial listed equity holdings, including Close Brothers and Union Pacific.

Currency

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

Currency exposure



	2017	2016
Pound sterling	53%	56%
US dollar	35%	32%
Euro	9%	9%
Other currencies	3%	3%

The changes in currency exposures over the year principally reflected portfolio changes. In particular, the sale of Park Holidays, partially offset by the acquisition of Liberation Group, and the investment in and increase in value of US dollar investments.

Investments summary

Holdings over 1% of net assets at 31 March 2017 were as follows:

Name	Pool	Geography[1]	Business	Value £m	Net assets %
Cobehold	Unquoted	Belgium	Investment company	130.6	6.9
Gala Bingo	Unquoted	UK	Bingo operator	104.2	5.5
Seven Investment Management	Unquoted	UK	Investment management	81.3	4.3
Liberation Group	Unquoted	Jersey	Pubs and restaurants	74.4	3.9
The Sloane Club	Unquoted	UK	Residential club	61.4	3.2
Choice Care Group	Unquoted	UK	Care homes provider	54.6	2.9
AG Barr	Quoted	UK	Soft drinks	47.4	2.5
British American Tobacco	Quoted/Income	UK	Tobacco	47.3	2.5
NTAsset funds	Funds	Asia	Quoted market funds	42.3	2.2
Aberdeen US PE funds	Funds	US	Funds of funds	41.8	2.2
Arlington AVM Ranger fund	Funds	US	Quoted market fund	39.1	2.1
Macquarie Asia New Stars fund	Funds	Asia	Quoted market fund	38.2	2.0
Flowserve	Quoted	US	Industrial engineering	37.6	2.0
Bristow Group	Quoted	US	Helicopter services	36.2	1.9
Microsoft	Quoted	US	Infrastructure technology	35.4	1.9
Capital Today China Growth fund	Funds	China	Private equity fund	34.4	1.8
Jardine Matheson	Quoted	Singapore	Industrial engineering	32.5	1.7
Oracle	Quoted	US	Infrastructure technology	30.8	1.6
PVAM Perlus Microcap fund	Funds	US	Quoted market fund	30.4	1.6
Spirax Sarco	Quoted	UK	Steam engineering	30.0	1.6
Philip Morris	Quoted/Income	US	Tobacco	29.5	1.5
Polar Capital	Quoted	UK	Fund manager	25.5	1.3
Hill & Smith	Quoted	UK	Infrastructure products	25.2	1.3
JF Lehman funds	Funds	US	Private equity funds	25.1	1.3
Becton Dickinson	Quoted	US	Medical technology	22.1	1.2
Asia Alternatives funds	Funds	Asia	Funds of funds	20.8	1.1
Nestlé	Quoted	Switzerland	Packaged foods	20.8	1.1
Sports Information Services	Unquoted	UK	Broadcasting services	20.0	1.1
Thermo Fisher Scientific	Quoted	US	Biotechnology development	19.9	1.0
Overlook Partners fund	Funds	Asia	Quoted market fund	19.1	1.0
Other investments				398.0	21.0
Total pool investments				1,655.9	87.2
Non-pool investments				32.7	1.7
Cash and other items				210.2	11.1
Net assets				1,898.8	100.0

1. Geography is based on the country of listing, country of domicile for unlisted investments and underlying regional analysis for funds.

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.

+20.6%

return over the year
25% of NAV at 31 March 2017

	£m
Opening value	449.3
Investments	42.0
Realisations	(95.1)
Valuation gains/losses	71.7
Closing value	467.9
Investment income	10.7

The Quoted pool contains significant holdings in well managed publicly quoted 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 £449.3m and ended with a value of £467.9m, with £42.0m of investments and £95.1m of realisations (2016 – £156.9m and £112.9m respectively) and valuation gains and losses of £71.7m. New investments comprised £10.3m in Waters Corp and £7.9m in Watsco Inc, two US listed companies, and we added a further £15.4m to our holding in Philip Morris. Realisations included £31.2m from our remaining holding in Close Brothers, £21.8m from Union Pacific, £18.2m from LondonMetric Property and £11.1m from Real Estate Investors.

Including £10.7m of income, the Quoted pool recorded a return of 20.6%, following last year's negative return of 7.0%.

Most investments contributed to pool performance, with US stocks benefiting from the weakening of the pound after the Brexit referendum and the election of Donald Trump as US President.

Significant pool investments

Name	Business	Geography	First invest	Equity held %	Book cost £m	Value £m	Pool %	Income in the year: Revenue £m	Income in the year: Capital £m	Total return %
AG Barr	Soft drinks	UK	1977	7.0	1.0	47.4	10.1	1.2	4.0	11.6
Flowserve	Industrial engineering	US	2015	0.7	35.0	37.6	8.1	0.5	7.6	27.1
British American Tobacco	Tobacco	UK	2015	<0.1	24.6	36.5	7.8	1.2	8.3	33.9
Bristow Group	Helicopter services	US	1991	8.1	41.9	36.2	7.7	0.5	(2.4)	(5.0)
Microsoft	Infrastructure technology	US	2014	<0.1	17.8	35.4	7.6	0.7	9.6	40.1
Jardine Matheson	Industrial engineering	Singapore	2011	0.1	21.0	32.5	6.9	0.8	7.4	32.8
Oracle	Infrastructure technology	US	2014	<0.1	22.0	30.8	6.6	0.3	6.2	26.9
Spirax Sarco	Steam engineering	UK	2011	0.9	12.7	30.0	6.4	0.4	7.1	33.5
Other investments					122.7	181.5	38.8	5.1	23.9	
					298.7	467.9	100.0	10.7	71.7	20.6

Income pool

The Income pool comprises a portfolio of 22 investments in listed international blue chip businesses of global scale and market presence. The pool targets a net yield of 4.5%.

+17.0%

return over the year
11% of NAV at 31 March 2017

	£m
Opening value	194.1
Investments	14.6
Realisations	(15.1)
Valuation gains/losses	22.3
Closing value	215.9
Investment income	9.7

Over the year, the Income pool invested £14.6m and realised £15.1m. Net dividend income during the year was £9.7m, representing a net yield of 4.8% on the average invested capital.

The Income pool was created in March 2011. Over the six years of its existence, the pool has produced a return of 65.1%, giving an annualised rate of 8.7%, and provided a total £42.0m of income to Caledonia.

The Income pool has benefited substantially from the weakening of the pound after the Brexit referendum and the surge in the US equity market after the election of Mr Trump as US President. However, the portfolio's risk balance is on the cautious side.

In the previous year, the Income pool substantially refined its investments, with the goal of increasing yield and reducing volatility. The number of holdings was reduced and the geographical weighting 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 relatively strong growth in US stock values had shifted the balance at the year end. 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, at around £10m in value at the year end.

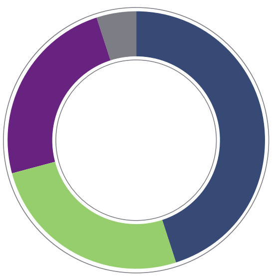
Significant pool investments

								Income in the year		
Name	Business	Geography	First invest	Equity held %	Book cost £m	Value £m	Pool %	Revenue £m	Capital £m	Total return %
Altria Group	Tobacco	US	2013	<0.1	5.5	11.7	5.4	0.3	2.7	35.1
SCOR SE	Reinsurance	France	2011	0.2	8.0	11.5	5.3	0.3	2.2	28.8
Philip Morris	Tobacco	US	2011	<0.1	6.1	11.1	5.1	0.4	2.7	38.6
Other investments					161.4	181.6	84.2	8.7	14.7	
					181.0	215.9	100.0	9.7	22.3	17.0

Sectors

	2017	2016
Oil and gas	5%	4%
Industrials	9%	13%
Consumer goods	20%	18%
Health care	9%	8%
Consumer services	11%	12%
Telecommunications	9%	8%
Utilities	14%	13%
Financials	23%	24%

Regions



	2017	2016
United Kingdom	45%	50%
Continental Europe	26%	24%
North America	24%	21%
Asia Pacific	5%	5%

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.

+20.8%

return over the year
30% of NAV at 31 March 2017

	£m
Opening value	646.3
Investments	85.1
Realisations	(243.4)
Transfer to non-pool investments	(26.7)
Valuation gains/losses	106.5
Closing value	567.8
Investment income	18.6

The year has seen significant changes to the Unquoted pool, with the investment in Liberation Group and the sales of Park Holidays and Bowers & Wilkins. The pool NAV decreased over the year, from £646.3m to £567.8m, after £85.1m of investments and £243.4m of realisations and valuation gains and losses of £106.5m, most significantly from the sale of Park Holidays. Including £18.6m of income, the Unquoted pool achieved a return over the year of 20.8%, building on a return of 15.2% last year and 19.2% in 2015.

On 8 September 2016, we invested £71.0m for 97.9% of Liberation Group, the Jersey-based pub, restaurant and brewery business, operating in the Channel Islands and South West England. We subsequently invested a further £3.3m.

On 8 February 2017, we disposed of our 81.5% holding in Park Holidays, the UK's third largest holiday parks operator for £196.9m to Intermediate Capital Group plc, in a transaction that valued the business at £362m. This investment delivered an IRR of 44% and a money return of 2.9x over three years.

On 3 May 2016, we disposed of our 20.0% holding in Bowers & Wilkins, the UK audio equipment manufacturer for £24.0m to EVA Automation Inc, a US technology company. This investment delivered an IRR of 3.6% and a money return of 1.2x over three years.

The pool performance has again been strong across the portfolio, reflecting the strong market positions and cash generative nature of the investments.

Significant pool investments

Name	Business	Geography	First invest	Equity held %	Book cost £m	Value £m	Pool %	Income in the year Revenue £m	Income in the year Capital £m	Total return %
Cobehold	Investment company	Belgium	2004	8.7	43.7	130.6	23.0	2.1	19.4	19.6
Gala Bingo	Bingo operator	UK	2015	98.9	92.3	104.2	18.4	3.2	11.9	16.4
Seven Investment Management	Investment management	UK	2015	93.6	73.6	81.3	14.3	3.5	7.7	15.2
Liberation Group	Pubs and restaurants	Jersey	2016	97.9	74.4	74.4	13.1	0.7	–	1.4
The Sloane Club	Residential club	UK	1991	100.0	37.2	61.4	10.8	1.8	2.6	7.4
Choice Care Group	Care homes provider	UK	2013	97.4	54.6	54.6	9.6	1.7	–	3.2
Park Holidays	Caravan parks operator	UK	2013	Sold				–	73.2	59.1
Other investments					40.8	61.3	10.8	5.6	(8.3)	
					416.6	567.8	100.0	18.6	106.5	20.8

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.

+23.1%

return over the year
21% of NAV at 31 March 2017

	£m
Opening value	308.4
Investments	103.3
Realisations	(79.4)
Valuation gains/losses	72.0
Closing value	404.3
Investment income	1.9

At the year end, undrawn fund commitments, including commitments to funds held in a subsidiary investment entity, amounted to £229.8m (2016 – £244.1m).

The Funds pool performed well over the year, achieving a total return of 23.1%, following a total return of 5.9% in the previous year. All of the established funds performed well over the year, with the US quoted market and private equity funds showing particularly good returns.

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 new fund investments.

During the year, we committed to a number of new private equity funds. In the Asia Pacific region, we committed $60m (£47.8m) to three new funds, and, in the US, $60m (£47.8m) to two new funds. In addition, we made investments in two Asian quoted market funds totalling $30m (£24.3m).

Realisations in the year amounted to £79.4m, comprising £26.4m from the redemption of securities and £53.0m from fund distributions. Included in the redemption of securities were £20.1m from the Asia Landmark fund and £6.3m from the Longleaf US UCITS fund. Fund distributions included £25.9m from the Capital Today China Growth fund, resulting from sales of part of its holding in JD.com.

Significant pool investments

Name	Business	Geography	First invest	Equity held %	Book cost £m	Value £m	Pool %	Income in the year: Revenue £m	Income in the year: Capital £m	Total return %
NTAsset funds	Quoted market funds	Asia	2014	n/a	30.7	42.3	10.5	–	10.4	34.6
Aberdeen US PE	Funds of funds	US	2013	n/a	41.1	41.8	10.3	–	6.9	23.5
Arlington AVM Ranger	Quoted market fund	US	2014	n/a	25.8	39.1	9.7	–	11.0	39.0
Macquarie Asia New Stars	Quoted market fund	Asia	2014	n/a	32.4	38.2	9.5	–	5.6	17.1
Capital Today China Growth	Private equity fund	China	2006	n/a	–	34.4	8.5	0.1	1.1	2.1
PVAM Perlus Microcap	Quoted market fund	US	2010	n/a	10.5	30.4	7.5	–	7.9	35.1
Other investments					153.6	178.1	44.0	1.8	29.1	
					294.1	404.3	100.0	1.9	72.0	23.1

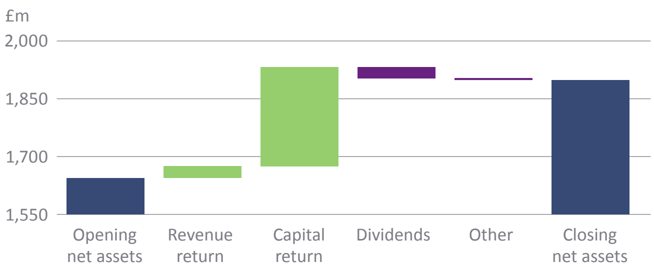
Financial review

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 50 consecutive years of annual dividend growth.

Caledonia's net assets are significantly exposed to global equity markets as a whole and the current year has seen significant volatility in the markets, in the aftermath of the UK's Brexit referendum and the election of Mr Trump as US President. Although our balanced exposure to worldwide markets, through our pool structure and our exposure to both quoted and unquoted equity, has helped manage risk, we have benefited from rising market values and sterling weakness. Our pool investments, whilst focused on long term value accumulation, achieved a return of 20.7%, compared with the FTSE All-Share Total Return of 22.0%. Including non-pool investments, comprising subsidiary investment entities holding cash and receivables, the return was 20.2%.

Caledonia's net assets increased to £1,898.8m at 31 March 2017, from £1,644.3m at the start of the year. The following chart analyses this increase:

Movement in net assets



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 2017, the total return was £288.1m (2016 – £42.8m), of which £30.8m (2016 – £34.2m) derived from income and £257.3m (2016 – £8.6m) from capital.

Revenue performance

Investment income in the year of £47.3m (including £6.4m from non-pool investments) was 6.7% lower than last year's £50.7m (including £0.5m from non-pool investments). In 2016, Park Holidays paid a dividend of £12.1m to Caledonia. In March 2016, Caledonia assigned its right to future dividends from Park Holidays to an investment subsidiary. In 2017, Park Holidays paid a pre-sale special dividend, of which £26.7m was paid to this investment subsidiary. This subsidiary is held at fair value and included in the net assets of the company, but was not consolidated and therefore the dividend income in the year did not reflect in the company's income. TGE Marine was sold in 2016, after contributing income of £5.4m.

These receipts in 2016, not repeated in 2017, were partially offset with a first time dividend in 2017 from Gala Bingo of £3.2m, an occasional dividend from Sports Information Services of £4.5m and a full year's dividend of £3.5m from Seven Investment Management, £2.5m higher than in 2016.

Income from non-pool investments of £6.4m comprised £5.0m from a subsidiary investment entity, from the proceeds of the Park Holidays dividend, and £1.4m in loan interest from another subsidiary investment entity.

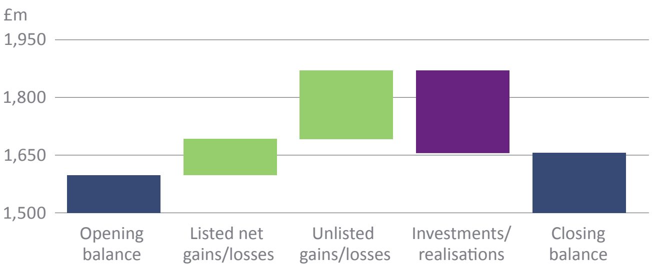
Investment income represented a net yield on the monthly average portfolio value of 2.5%, compared with 3.3% last year.

Capital performance

Valuation gains and losses on investments totalled £265.7m (2016 – £12.5m). Overall, the investment portfolio generated £302.5m of gains, offset by £36.8m of losses. The principal individual gain was £73.2m from Park Holidays, arising from its sale. Cobehold increased in value by £19.4m, based on the manager's valuation. Gala Bingo increased in value by £11.9m. The Arlington and NTAsset quoted marked funds rose in value by £11.0m and £10.4m respectively. Against these gains, Sterling Industries recorded a loss of £6.2m, reflecting slowdown in the areas of manufacturing utilising the company's specialised services.

Overall, across the entire portfolio our investment structure provided a good diversified balance to volatile markets, with listed and unlisted investments recording net valuation gains of £93.9m and £171.8m respectively.

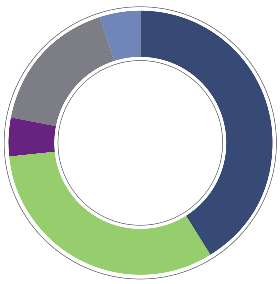
Movement in investment portfolio value



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 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 17% of the portfolio value is subject to directors' valuation in the year:

Portfolio by valuation source



Quoted price	41%
External fund manager	32%
External valuer	5%
Directors' valuation	17%
Recent transaction	5%

Expenses

Caledonia allocates expenses between revenue and capital in order more closely to adhere to the Association of Investment Companies' guidance and broader market practice. In addition to transaction costs and external performance fees, share-based payment expenses are 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's ongoing charges methodology reflects 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 remain static throughout the period. In particular, costs relating to compensation schemes that are directly linked to investment performance are excluded.

Our ongoing charges ratio for the year was 1.07% (2016 – 1.01%). The ongoing charges ratio is calculated on an industry standard basis, comprising published management expenses over monthly average net assets.

Overall, the company's revenue management expenses were higher than last year at £18.5m (2016 – £16.2m). This primarily reflected increased staff costs.

Financial review continued

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 50 consecutive years.

We paid an interim dividend of 14.9p per share on 5 January 2017 and have proposed a final dividend of 39.9p and a special dividend of 100.0p. The total annual dividend for the year of 54.8p is an increase of 4.2% on last year.

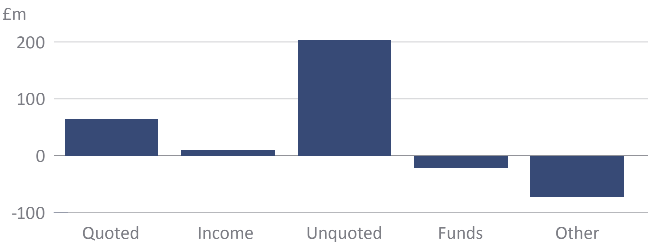
Including the proposed final dividend, the dividends to be paid out of revenue earnings for the year ended 31 March 2017 totalled £30.1m, which was more than covered by the net revenue for the year of £30.8m. The special dividend totalling £54.9m will be attributed to the capital reserve.

Cash flows, liquidity and facilities

Over the year, we moved from opening net cash of £22.9m to £207.3m at the year end, principally due to the excess receipts of £433.5m from the realisation of investments less the £256.2m paid for the purchase of investments.

The total cash increase over the year of £184.4m was analysed by pool as follows:

Net cash movement by pool



At 31 March 2017, the company had undrawn committed facilities of £175m, expiring in April 2018, including £50m in its treasury subsidiary. In addition, the company had £21.5m of undrawn overdraft 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.

To assist this, we maintain rolling three to five year committed bank facilities totalling £175m, which we periodically use to facilitate investment liquidity, without holding permanent debt outside our investment portfolio.

Stephen King
Finance Director
25 May 2017

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, the liquidity of the respective entities compared with the unlisted investment and other 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.

Valuation methodology continued

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.

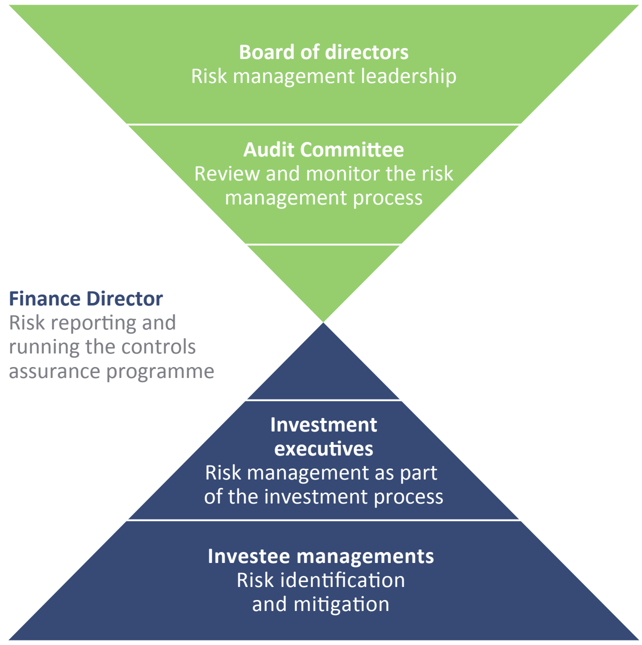
Risk management

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

Risk management reporting

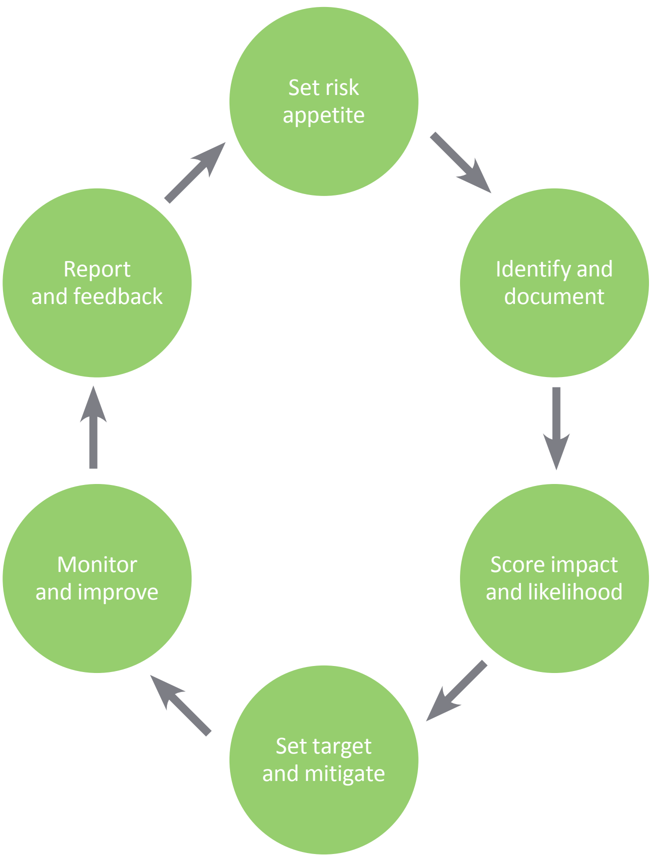
Caledonia manages and reports risk through two primary areas of focus – an overall business risk report and a portfolio investment risk report.

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.

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's principal market risks are therefore equity price volatility, foreign exchange rate movements and interest rate volatility. An explanation of these risks is included in note 21.

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 regulation.

Mitigation	Key developments	Risk level change
The company's business model and strategy are reviewed periodically, against market conditions and target returns. The performance of the company and its key risks are monitored regularly by management and the board.	Caledonia 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. Investment opportunities are subject to rigorous 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.	Pool managers have significantly developed their own risk management processes during the year. The board regularly reviews investment risk at both pool and company portfolio level.	↔
Market risks and sensitivities are reviewed weekly and actions taken to balance appropriately risk and return. A regular review of market and investment volatility and value at risk is conducted by the board. Reviews also consider investment concentration, currency and liquidity exposures.	Caledonia benefited from its global focus during the Brexit period, but has remained significantly invested in the UK, largely through the Unquoted pool. Caledonia liaises closely with advisers to ensure that it understands the landscape arising from the impending Brexit and how this might impact its business.	↓
Detailed cash forecasting for six months ahead is updated and reviewed weekly, including the expected drawdown of capital commitments. Loan facilities are maintained to provide appropriate liquidity headroom. 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. At 31 March 2017, following the sale of Park Holidays, we had net cash of £207m 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 to ensure effective operation. Appropriate remuneration and other policies are in place to encourage the retention of key staff. Business continuity plans are maintained, using an offsite facility.	We have operated from our temporary offices in Stratton House throughout the year and plan to move back to our refurbished property in Buckingham Gate in summer 2017. 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 trust 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 take board seats in our unquoted investments and use these to maintain close relationships 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	7	3	30
All employees	30	28	48

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.

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 • Air conditioning refridgerant loss • Company car use	20	Tonnes CO_2e
Scope 2 (indirect emissions)	• Electricity purchased for own use	41	Tonnes CO_2e
Scope 3 (indirect emissions)	• Business travel	429	Tonnes CO_2e
Total		490	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

1  2  3  4  5 

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 will be retiring from the board at the conclusion of the 2017 annual general meeting.

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 and committee member 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. He is also a director of Heritage of London Trust and the Bronze Oak Tree Project.

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, Chairman of Hermes Investment Management and a non-executive director of Hargreave Hale. Mr Stewart will succeed Mr Kent as Chairman at the conclusion of the 2017 annual general meeting.

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 Chief Financial Officer of Nex Group (previously 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, and is also a member of the Nomination Committee. 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

An 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 bioMérieux, in which Sofina is a shareholder.

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 Nex Group and 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 and 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 define the framework of the processes, controls and limits within which the company should operate and to establish a working culture that is clear and understandable to everyone involved in the management of the company.

Membership and attendance

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

Director	Meetings attended	Meetings eligible to attend
R D Kent	8	8
W P Wyatt	8	8
S A King	8	8
J M B Cayzer-Colvin	8	8
H Y H Boël[1]	7	8
S J Bridges	8	8
Hon C W Cayzer[1]	7	8
C H Gregson	8	8
S C R Jemmett-Page	8	8
D C Stewart	8	8

1. Mr Boël and The Hon C W Cayzer were each unable to attend one board meeting due to illness.

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 provisions B.6.2 and D.1.1. Provision B.6.2 requires that the evaluation of the boards of FTSE 350 companies should be externally facilitated at least every three years. The company last engaged an external facilitator for its 2014 board evaluation and therefore, to comply with the Code, should have done so again for its 2017 review. However, in view of the change of Chairman that will take effect from the conclusion of the 2017 annual general meeting, the board decided that more value would be gained by deferring external facilitation until after the chairmanship succession to enable the facilitator to consider the dynamic of the board under its new leadership. Accordingly, an external facilitator will be engaged for the 2018 board evaluation.

Provision D.1.1. requires that schemes for performance-related remuneration should include provisions that would enable the company to recover sums paid ('clawback') or withhold any sums due ('malus') and specify the circumstances in which it would be appropriate to do so. 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 2014 directors' remuneration policy had been approved and the Remuneration Committee had 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, in line with the GC100 guidance, the Remuneration Committee resolved to incorporate clawback provisions into Caledonia's incentive plans as part of the next scheduled remuneration policy renewal. Such provisions are therefore included in the 2017 directors' remuneration policy, for which shareholder approval is being sought at this year's annual general meeting.

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
- 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. They also have unlimited access to senior management should further information be required and presentations by investment pool managers and other senior executives are regularly given to the board. The board also attends an annual conference and dinner with the senior executives of Caledonia's unquoted portfolio companies, which include presentations on specific issues facing their businesses and give board members the opportunity to meet the management teams of the Unquoted pool investee companies, both formally and informally.

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.

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 34 and 35.

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, which 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 Chief Financial Officer of Nex Group (previously 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 Nex Group.

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 40 to 63.

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

Corporate governance report continued

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 fortnightly 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 although, as explained above, the scheduled 2017 external facilitation has been deferred for a year in view of the forthcoming change of Chairman at the 2017 annual general meeting. Accordingly, for the year ended 31 March 2017, 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.

The results of the 2017 evaluation process were presented in a report to the board. The conclusion was that the board operated well in terms of dynamics, different viewpoints, relevant knowledge and expertise. It was however recognised that it could be strengthened by specific knowledge of private equity investing, given the company's increased strategic allocation to the unquoted sector. Further development of the board's visibility of the governance and control environments within the larger unquoted portfolio companies was also identified as a key action point.

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 24 May 2017, being the latest practicable date prior to the publication of this annual report, the Cayzer family concert party ('Cayzer Concert Party') held 48.48% 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, and remain in place. 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 24 May 2017, 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
25 May 2017

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.

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)	3	3
H Y H Boël	3	3
S J Bridges[1]	2	3
Hon C W Cayzer[1]	2	3
C H Gregson	3	3
S C R Jemmett-Page[2]	2	3
D C Stewart[2]	2	3
W P Wyatt	3	3

1. Mr Bridges and The Hon C W Cayzer each absented themselves from one meeting which approved the renewal of their letters of appointment.
2. Mrs Jemmett-Page and Mr Stewart each absented themselves from one meeting which established a sub-committee to deal with the Chairmanship succession, for which both were candidates.

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 three times during the year and the work undertaken included:

- consideration of the contributions and effectiveness of the non-executive directors seeking re-election at the 2016 annual general meeting, prior to giving recommendations for their re-elections
- the renewal of expiring letters of appointment for certain of the non-executive directors
- consideration of potential candidates for the role of Chairman to succeed Mr Kent.

Subsequent to the year end, the Nomination Committee recommended to the board that Mr Stewart should succeed Mr Kent as Chairman, with effect from the conclusion of the 2017 annual general meeting. In making this recommendation, the Nomination Committee did not use an external search consultancy nor open advertising, as it considered that Mr Stewart's personal qualities and the breadth of his experience in asset management and international business made him the most suitable candidate for the role. An external search consultancy was however used for Mr Stewart's appointment as a non-executive director in 2015.

Rod Kent
Chairman of the Nomination Committee
25 May 2017

Audit Committee report

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

Membership and attendance

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

	Meetings attended	Meetings eligible to attend
S J Bridges (Chairman)	3	3
H Y H Boël[1]	2	3
D C Stewart	3	3

1. Mr Boël was unable to attend one meeting due to illness.

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 2017, in May and November 2016 and in March 2017. Subsequent to the year end, it met in May 2017 to consider the significant issues in relation to the 2017 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.

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 2016 was the 2016 annual report and financial statements and the 2016 half year results respectively, including evaluation of the going concern statement and, in the case of the annual report, the viability statement therein.

The March 2017 meeting considered principally the audit planning for the 2017 annual report, including in particular the requirements of the 2016 revision of the UK Corporate Governance Code and other disclosure requirements.

In its May 2017 meeting, the Audit Committee reviewed the form and content of the 2017 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 detail 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 2017 annual report to the board.

The significant issues the Audit Committee considered in relation to the 2017 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.

Audit Committee report continued

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 66. In May 2017, 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 66.

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. To assist in reaching this view, the Audit Committee considered a report prepared by management highlighting the positive and negative statements included in the annual report to ensure that they fairly reflected the results for the year. 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 68, 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 2017 meeting. The Audit Committee reviewed the effectiveness of the internal control environment and the structure in place to resolve identified weaknesses. The Audit Committee agreed the control review work plan for 2017.

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.

The Audit Committee recognised the increased regulatory risk associated with the investments in the prior 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 and an increased focus on unquoted investment valuations and process. 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.

In accordance with professional guidance, KPMG LLP changes the audit partner every five years. The current audit partner, Thomas Brown, was appointed in 2016.

The Audit Committee has decided that it will put the role of auditor out to tender at least every ten years, in accordance with the UK Corporate Governance Code and rules from the Competition and Markets Authority and EU legislation. Its current plan is to complete an audit tender in the financial year ended 31 March 2022, being ten years from the date of the last audit tender. The Audit Committee believes that the depth of knowledge of the company and its investments – in particular the majority owned unquoted investments – obtained by KPMG LLP over its tenure as auditor puts it in the best position to conduct an effective audit for members.

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.

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.

The Audit Committee reviewed and adopted a revised policy for the provision of non-audit services, meeting the requirements of the 2016 revision of the UK Corporate Governance Code and the FRC Revised Ethical Standard implementing the EU Audit Regulation and Directive and the requirements of the Competition and Markets Authority's final Order.

Certain non-audit services are prohibited and permitted services are subject to approval by the Finance Director and Audit Committee. Total fees payable for non-audit work carried out by the company's auditor are subject to limits.

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 – this was done in 2016 – 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 20 July 2017.

Private meetings

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

Statement of compliance

This report has been prepared in compliance with the Competition and Markets Authority Order 2014 on statutory audit services for large companies.

Stuart Bridges
Chairman of the Audit Committee
25 May 2017

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)	2	2
S J Bridges	2	2
S C R Jemmett-Page	2	2

Work of the Governance Committee

The Governance Committee met twice 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 2016
- 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 the Listing Rules relating to premium listed companies with controlling shareholders.

Charles Gregson
Chairman of the Governance Committee
25 May 2017

Directors' remuneration report

Annual statement by the Chairman of the Remuneration Committee

The Remuneration Committee ensures that remuneration arrangements remain closely aligned to Caledonia's business model and strategy, the ultimate aim of which is to grow the company's net assets and dividends paid to shareholders in real terms over the long term, whilst managing risk to mitigate volatility of returns.

Membership and attendance

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

	Meetings attended	Meetings eligible to attend
C H Gregson (Chairman)	5	5
S C R Jemmett-Page	5	5
D C Stewart	5	5

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 2017.

Remuneration policy

Caledonia's current policy on directors' remuneration was approved by shareholders in 2014 and therefore, in accordance with statute, must be put to shareholders for renewal at the 2017 annual general meeting. Over the past year, the Remuneration Committee has considered how well the current policy is linked to the company's strategy, whether alternative arrangements could be implemented to simplify our pay structures, whether the overall quantum of directors' pay is appropriate and whether the rewards receivable by management remain closely aligned with shareholder experience. This review has been conducted against an increasing public debate about executive pay and its future direction, both in political circles and in the investor community. Focus on this area is likely to continue and could result in significant changes in market practice on executive pay, although precisely how remains unclear. The Remuneration Committee believes that it is important for Caledonia, given its long term investment horizon, to maintain consistency in its remuneration framework, provided it remains fit for purpose. It will however continue to monitor the ongoing public debate and any future developments in executive pay.

The Remuneration Committee's review of the current policy confirmed that it remains closely aligned to Caledonia's business model and strategy, the ultimate aim of which is to grow the company's net assets and dividends paid to shareholders in real terms over the long term, whilst managing risk to mitigate volatility of returns. Specifically, the Remuneration Committee considers that the performance measures adopted for the short and long term incentive plans underpin the board's aim to deliver consistent annualised returns of between RPI+3% and RPI+6%, which history has shown should lead to outperformance of most equity markets, and in particular the FTSE All-Share Total Return index, over rolling ten year periods.

The Remuneration Committee is however sensitive to public concerns around executive pay, in particular in relation to complexity and quantum, and therefore is proposing the following refinements to the current policy for the 2017 renewal:

- the deferred bonus plan matching share arrangements will be discontinued, although any bonus in excess of 50% of basic salary will still be deferred into shares for a three year period and subject to the usual bad leaver forfeiture provision.
- to compensate for the loss of earnings potential under the deferred bonus matching scheme (which could deliver up to 75% of basic salary with maximum compulsory and voluntary deferral), the standard annual awards under the performance share scheme for executive directors will be increased from 125% of basic salary to 150%
- as previously indicated, clawback provisions which will, in certain circumstances, enable the company to recover amounts previously paid, will be introduced for all elements of variable pay, in addition to the malus arrangements (which enable the company to withhold amounts not yet paid) already in place.

Directors' remuneration report continued

Annual statement by the Chairman of the Remuneration Committee

The Remuneration Committee believes that these refinements will both simplify the company's remuneration structure and reduce the maximum amount of pay that could be earned by executive directors. By substituting performance share scheme awards for deferred bonus matching, a greater proportion of variable pay will be subject to a five year performance period, which now applies to two-thirds of shares awarded annually under the performance share scheme.

The Remuneration Committee has taken the opportunity to consult with some of Caledonia's larger shareholders and certain institutional investor representative bodies on the revised remuneration policy. No changes were requested, however the Remuneration Committee is nonetheless very grateful for the feedback received.

We hope therefore that the revised policy, as set out in full on pages 47 to 55 will receive your support at the annual general meeting on 20 July 2017.

Remuneration for the year ended 31 March 2017

The Annual report on directors' remuneration set out on pages 56 to 63 describes in detail how the current remuneration policy has been applied for the year ended 31 March 2017. However, I would like to highlight the following points:

Annual bonus

Strong performance over the year, at company, pool and individual level, resulted in maximum bonus awards for all executive directors.

Deferred bonus matching awards

The deferred bonus matching awards granted in 2014 reached the end of their three year performance period. In aggregate, 67% of the awards vested, as the two-thirds of the awards measured by reference to Caledonia's net asset value per share total return ('NAVTR') against the FTSE All-Share Total Return index over the period comfortably achieved maximum vesting, outperforming by 18.9%, whereas the one-third measured against the FTSE Actuaries UK Index-linked Gilts (all-stocks) Total Return index ('Gilts index') fell short of the minimum vesting level by 1.7% and therefore lapsed. The Remuneration Committee did consider whether the outcome of the Gilts index measure was anomalous given the extraordinary performance of the gilts market over the past three years due to the effects of quantitative easing and, more recently, the Brexit vote and therefore did not provide a fair measure of Caledonia's performance over the period. It concluded, however, that it would be inappropriate to change the performance target post-grant.

Performance share scheme awards

Half of the performance share scheme awards granted in 2014 reached the end of their performance period this year. Measured by reference to Caledonia's annualised NAVTR over the three year period, these achieved maximum vesting as the company's annualised NAVTR of 11.4% exceeded the 10% needed and the Funds pool's annualised total return (relevant for Jamie Cayzer-Colvin's awards) of 23.7% was well above the 13.5% needed for maximum vesting. The remaining half of the 2014 performance share scheme awards will be tested in 2019.

Remuneration for the year ending 31 March 2018

Looking ahead to the 2018 financial year, basic salaries of executive directors have been increased with effect from 1 April 2017 by 2.5%, broadly in line with inflation, which was the same as the standard increase given to all of the company's staff. Following a review of non-executive directors' fees in the self-managed investment trust sector and of FTSE 250 companies generally, the Remuneration Committee has decided that, on the appointment of the new Chairman at the annual general meeting in July, the Chairman's fee will be reduced from £184,500 to £150,000 per annum. The other non-executive directors' fees have not been changed.

Subject to shareholder approval of the revised remuneration policy, we plan to make performance share scheme and compulsory deferred bonus awards following the annual general meeting in July in line with the new policy described above. The performance share scheme awards will be subject to the same performance measures used for the 2016 award grants, which are summarised in the notes to the remuneration policy table on pages 50 and 51.

Charles Gregson
Chairman of the Remuneration Committee
25 May 2017

Remuneration policy

Implementation of the policy

The remuneration policy set out below describes the policies, principles and practices operated by the company for the remuneration of its directors. If approved by shareholders at the annual general meeting to be held on 20 July 2017, this policy will supersede the policy approved at the 2014 annual general meeting and take effect from that date and will then apply until a revised remuneration policy is approved by shareholders. The company does not expect to seek shareholder approval for a revised policy until the annual general meeting in 2020.

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

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 or which were incurred under the previous remuneration policy approved by shareholders at the 2014 annual general meeting. It is the company's policy to honour in full any pre-existing obligations that have been entered into prior to the effective date of this policy.

Objectives

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

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

Remuneration structure

Executive directors

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

Salary (fixed pay)	
Purpose and link to strategic objectives	To support the recruitment and retention of executive directors of the calibre required to manage and grow the company successfully.
Operation	Reviewed annually. The basic salaries of the executive directors on implementation of the policy will be: W P Wyatt: £524,500; S A King: £376,000; J M B Cayzer-Colvin: £317,750.
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. Year on year increases in basic salaries will not exceed inflation by more than 5%, other than in exceptional circumstances or where there is a change in role or responsibilities. No recovery or withholding provisions.
Performance measurement framework	Not applicable.

Directors' remuneration report continued

Remuneration policy

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. The executive directors are also covered by the company's directors' and officers' liability insurance policy and have the benefit of an indemnity under the company's articles of association. Where there is a valid business reason for doing so, the company may pay for the cost of spouses or partners accompanying directors on business trips and reimburse directors for hotel accommodation and travel expenses (including payment of any tax thereon). Executive directors are also eligible to receive other minor benefits and expenses payments (again including payment of any tax thereon).
Opportunity and recovery or withholding provisions	A taxable benefits package that is competitive with the marketplace. The value of taxable benefits provided, other than ad hoc items incurred in connection with Caledonia's business that may be deemed taxable benefits such as travel and other expenses, will not in aggregate exceed 10% of basic salary. No recovery or withholding provisions.
Performance measurement framework	Not applicable.

Short term incentives (variable pay)	
Purpose and link to strategic objectives	To reward performance on an annual basis against key financial, operational and individual objectives.
Operation	Discretionary annual bonus scheme and deferred bonus plan under which a proportion of bonus may be compulsorily deferred into shares. Bonus is not pensionable.
Opportunity and recovery or withholding provisions	The maximum potential bonus is 100% of basic salary. Any bonus over 50% of basic salary is compulsorily deferred into shares for a period of three years. 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 deferral or not to require any deferral. In order to be entitled to an annual bonus, an executive director must normally be in the group's employment and not under notice of termination (either given or received) at the time the bonus is paid. The Remuneration Committee has the right to cancel or reduce any cash bonus or deferred bonus shares granted after the effective date of this policy which have not yet been paid or vested, in the circumstances described under long term incentives below. The Remuneration Committee also has the right to recover all or part of cash bonus paid or deferred bonus shares and dividend equivalent amounts awarded after the effective date of this policy within the two years following date of payment or vesting as applicable, 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. To encourage long term retention of key executives.
Operation	Caledonia operates a performance share scheme under which participants are awarded nil-cost options over the company's shares. The performance share scheme replaced an executive share option scheme under which market value options were awarded to senior executives. The last awards under the executive share option scheme were made in 2010, although Mr Cayzer-Colvin retains options under this scheme which have yet to be exercised. Prior to the effective date of this policy, under the company's deferred bonus plan, matching share awards were granted in respect of compulsory and voluntary deferral of pre-tax bonus, some of which remain 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 150% of basic salary. On exercise of nil-cost options, participants will also receive an amount equivalent to the dividends and, if relevant, any associated tax credits that would have accrued on the shares during the relevant performance measurement period. 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. The Remuneration Committee also has the right, in respect of awards granted after the effective date of this policy, to recover all or part of the value of long term incentive awards and dividend equivalent amounts received within two years of the date that such awards vested and became exercisable, in the event of a material miscalculation of a participant's entitlement, a material misstatement or restatement of the company's financial results for the years to which the performance periods relate, or material personal misconduct that would justify summary dismissal, or result in significant reputational damage to the company, or have a material adverse effect on the company's financial position, or reflect a significant failure of the company's risk management or control. 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 Remuneration Committee considers that 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.

Directors' remuneration report continued

Remuneration policy

Performance measurement framework	For executive directors who are not directly responsible for a pool of capital, nil-cost options awarded under the 2011 performance share scheme are subject to the performance of the company's annualised diluted net asset value per share total return ('NAVTR') measured over three or five years. For executive directors directly responsible for a pool of capital, the nil-cost options are subject to a combination of the performance of the company's annualised NAVTR as above and the annualised total returns achieved by the relevant pool for which he or she is responsible, again measured over three or five years. Outstanding nil-cost options awarded in the 2014 financial year are subject to the performance of NAVTR relative to the FTSE All-Share Total Return index. Matching share awards previously granted under the deferred bonus plan and which are still in their performance measurement period are subject to the performance of the company's annualised NAVTR, measured over three years. The rules of each scheme provide discretion to the Remuneration Committee to amend the performance targets or impose different performance targets and to determine the appropriate proportion of any award subject to each performance measure. 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. The Remuneration Committee will retain the discretion to increase the percentage of salary relating to pension benefits from time to time in line with market conditions, up to a maximum of 30% of basic salary. No recovery or withholding provisions.
Performance measurement framework	Not applicable.

1. **Performance measures and targets**

Annual bonus

For the Chief Executive and the Finance Director, a maximum of 50% of bonus is determined by reference to company performance and 50% by reference to individual performance objectives. For executive directors responsible for a specific pool of capital, 25% of bonus is determined by reference to the company's performance, 25% to pool performance, 35% to pool objectives and 15% to individual performance objectives. In all cases, the company performance element is determined by reference to the relative performance of the company's NAVTR against RPI, with RPI 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 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.

Long term incentive plans

Performance share scheme

Outstanding nil-cost options granted prior to the 2014 financial year have all met their performance targets.

For nil-cost options granted in the 2014 financial year, one-half 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 half, NAVTR is measured against the FTSE All-Share Total Return index ('FTSE index'), over five years. Awards vest on a graduated basis, with 10% vesting on 0.5% outperformance of the relevant benchmark, rising on a straight line basis to maximum vesting on 3.5% outperformance. There is no re-testing of either performance target and, to the extent a performance target is not met, the relevant award lapses. For the purpose of calculating the performance measures, averages of the company's NAVTR and the two benchmark indices over the three months prior to the start and end of the performance period are used to reduce volatility. To the extent that the performance targets are met, awards may be exercised between the date of vesting and the tenth anniversary of the date of grant. Those nil-cost options 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 annualised NAVTR as above.

For nil-cost options granted in the 2015 financial year, one-half of the shares comprised in the awards will be measured over three years and the other half over five years. For the 2016 and 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. The nil-cost options granted in the 2015 financial year which were measured over three years were tested by reference to Caledonia's annualised NAVTR and, in the case of Mr Cayzer-Colvin, also the Funds pool's annualised total return, to 31 March 2017, achieved maximum vesting.

Deferred bonus plan matching awards
Matching awards granted prior to the 2016 financial year have all been performance tested. Matching awards granted in the 2016 financial year are subject to performance measurement by reference to Caledonia's annualised NAVTR 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%. 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, subject to a minimum of 3%, 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 relevant matching shares under the deferred bonus plan, the Remuneration Committee has chosen Caledonia's annualised NAVTR 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.

2. **New components introduced into the new remuneration policy**
   There are no new components included in the above policy table which were not a part of the remuneration policy previously operated for executive directors by the company.
3. **Changes to components included in the previous remuneration policy**
   The only changes to the previous remuneration policy are the removal of the availability of voluntary bonus deferral and the award of deferred bonus matching shares, an increase in the standard annual award under the performance share scheme from 125% of basic salary to 150% to compensate for the removal of deferred bonus matching and the introduction of clawback provisions for all elements of variable pay.
4. **How the remuneration policy for executive directors relates to remuneration of Caledonia group employees generally**
   Caledonia's executive directors' remuneration packages tend to be higher than those of other group employees, but also include a higher proportion of variable pay.

Directors' remuneration report continued

Remuneration policy

Chairman and non-executive directors

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

Component	Approach
Chairman's and non-executive directors' fees	The Chairman's fee is determined by the Remuneration Committee and the non-executive directors' fees are set by the board. These are reviewed periodically taking into account the responsibilities and time commitments required and non-executive director fee levels generally. The Chairman receives an annual fee, which includes his basic non-executive director's fee, but does not receive any other remuneration. Non-executive directors receive basic fees, which are subject to an aggregate annual limit for non-executive directors' ordinary remuneration contained in the articles of association, currently £350,000. In addition, special fees are paid for the chairmanship and membership of the Audit and Remuneration Committees and also for the role of Senior Independent Non-Executive Director and chairman of the Governance Committee. The fees of the Chairman and the non-executive directors on implementation of the policy will be as follows: Chairman £150,000; Basic non-executive director's fee £39,900 Audit Committee chairman £5,600; Audit Committee member £2,300 Remuneration Committee chairman £4,900; Remuneration Committee member £1,600 Senior Independent Director/ Governance Committee chairman £5,100
Additional fees payable for services to other group companies	Exceptionally, non-executive directors may receive fees from subsidiary companies for services provided to them. 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 secretarial support. The company may, where appropriate, pay for the cost of spouses or partners 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 necessary to ensure the recruitment of a 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.

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 company and director	Unexpired term
W P Wyatt	2 Jun 2005	12 months	12 months
S A King	19 Nov 2009	12 months	12 months
J M B Cayzer-Colvin	19 Apr 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.

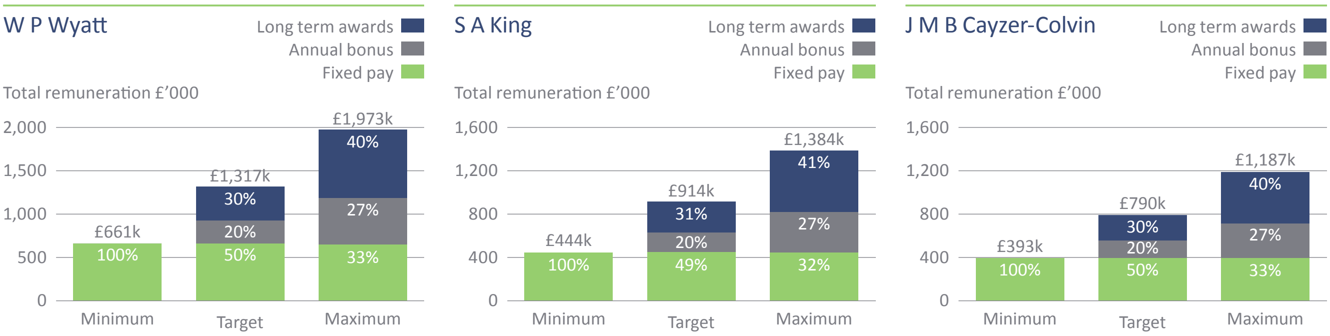
Directors' remuneration report continued

Remuneration policy

Illustration of the application of the remuneration policy for executive directors

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

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



1. Fixed pay – comprises basic salary and pension related benefits, based on basic salary for the financial year ending 31 March 2018 and other taxable benefits taken from the table of total emoluments paid to directors for the 2017 financial year included in the Annual report on directors' remuneration.
2. Annual bonus – based on basic salary for the year ending 31 March 2018.
3. Long term awards – for target performance and maximum receivable, an initial grant of 150% of basic salary for the year ending 31 March 2018 under the performance share scheme is assumed, as this is the policy maximum set by the Remuneration Committee, notwithstanding that the maximum permitted under the scheme rules is 200%. No share price growth is assumed for shares vesting under the performance share scheme, nor are any dividend equivalents that might accrue on share awards included.

Policy on payments for loss of office

Executive directors

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

The termination provisions in executive directors' current service contracts are described above in the section on executive directors' service contracts. It is the Remuneration Committee's intention that all future executive directors' service contracts should include provisions enabling the company to reduce compensation payments in the event that the director takes up alternative employment within the notice period. However, if a new director is appointed internally, the Remuneration Committee would expect to honour any existing contractual arrangements agreed with the relevant individual before he or she becomes a director.

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

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

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

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

Following termination, the Remuneration Committee may agree to pay a director consultancy fees and continue insurance related benefits until the end of the insurance 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.

Statement of consideration of employment conditions elsewhere in the group

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

Statement of consideration of shareholder views

Prior to the finalisation of this policy, the Remuneration Committee consulted a number of the company's larger shareholders and certain institutional shareholder representative bodies through written correspondence and a telephone conference call. No changes to the remuneration policy were requested as a result of the consultation.

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

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 2017 and describes how Caledonia's remuneration policy will be implemented for the 2018 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 2017 and a comparison with the previous financial year.

	Salary		Taxable benefits[1]		Short term incentives[2]		Long term incentives[3]		Pension related benefits		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
W P Wyatt	512	512	19	19	511	230	656	786	101	101	1,799	1,648
S A King	367	363	2	2	367	164	465	558	56	56	1,257	1,143
J M B Cayzer-Colvin	310	307	19	19	310	148	393	472	48	50	1,080	996

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, to be satisfied by share awards made shortly after the approval of the new remuneration policy:

	2017			2016		
	Compulsorily deferred £'000	Cash £'000	Total £'000	Compulsorily deferred £'000	Cash £'000	Total £'000
W P Wyatt	255	256	511	–	230	230
S A King	183	184	367	–	164	164
J M B Cayzer-Colvin	155	155	310	–	148	148

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 2017 financial year, the company performance element was determined by reference to the relative performance of the company's NAV per share total return ('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 increasing Caledonia's knowledge of the Asian and US fund universe, raising the company's profile with target fund managers and further development 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 18.0% over the year, therefore achieving a maximum pay-out. The Funds pool's return over the year was 23.1%, well above the maximum payment trigger of 13.5% and therefore a maximum bonus was awarded to Mr Cayzer-Colvin for this element. In view of the significant progress made by the Funds pool in developing the private equity fund strategy and deploying capital with chosen managers in both Asia and the US, the Remuneration Committee awarded Mr Cayzer-Colvin the maximum of 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 also 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	50	50	50	50	25	25
Pool	n/a	n/a	n/a	n/a	25	25
Objectives						
Pool	n/a	n/a	n/a	n/a	35	35
Individual	50	50	50	50	15	15
Total	100	100	100	100	100	100

3. **Long term incentives**
The long term incentive awards whose performance measurement period ended during the year were all of the matching share awards granted in 2014 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 2017 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, for Mr Wyatt and Mr King half of the shares comprised in the awards granted in 2014 were to be measured by reference to Caledonia's annualised NAVTR performance over three years and half on the same basis over five years. In each case, vesting would be on a graduated basis, commencing at 10% on achievement of an annualised NAVTR of 3%, rising incrementally to 100% vesting on an annualised NAVTR of 10%. For Mr Cayzer-Colvin, 40% of his 2014 performance share scheme awards were to be measured against Caledonia's annualised NAVTR as above, and 60% by reference to the annualised total return achieved by the Funds pool, with graduated vesting commencing at 10% on achievement of an annualised total return of 6% rising incrementally to 100% vesting on achievement of an annualised total return of 13.5%. Again, half of his 2014 award was to be measured over three years and half over five years.

For the 2014 deferred bonus matching share awards, the company's NAVTR increased by 41.5% over the three year performance period, compared with increases of 22.5% for the FTSE index and 43.2% for the Gilts index. Accordingly, the two-thirds of the 2014 deferred bonus scheme matching share awards measured by reference to the FTSE index vested in full, whereas none of the one-third measured by reference to the Gilts index vested and therefore lapsed in their entirety.

For the half of the 2014 performance share scheme awards measured over the three years to 31 March 2017, Caledonia's annualised NAVTR over the period was 11.4%, resulting in maximum vesting. For Mr Cayzer-Colvin's awards measured by reference to his pool's performance, the Funds pool delivered an annualised total return of 23.7% over the period, also therefore resulting in maximum vesting.

The amounts shown in the table above under long term incentives therefore comprised the value of the vested deferred bonus plan matching awards and the vested performance share scheme awards granted in 2014, based on the company's share price at 31 March 2017 of 2750p, together with the value of dividends and any associated tax credits that would have accrued on the vested shares during the relevant retention periods and also the value of dividend equivalents that would have accrued on the compulsory deferred bonus plan awards granted in 2014, 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	587	69	656
S A King	416	49	465
J M B Cayzer-Colvin	352	41	393

Chairman and non-executive directors

Fees and other remuneration paid to the Chairman and the non-executive directors during the year ended 31 March 2017 and the previous year were as follows:

	Fees 2017 £'000	Fees 2016 £'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	50
S C R Jemmett-Page[4]	42	31
D C Stewart	44	44

1. Mr Boël has waived his entitlement to all fees arising from his appointment.
2. Mr Bridges' non-executive director's fees in 2016 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 2017 and 2016 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.

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 2017 £	Pension contribution 2016 £	Cash supplement 2017 £	Cash supplement 2016 £	Total 2017 £	Total 2016 £
W P Wyatt	–	–	101,141	101,141	101,141	101,141
S A King	–	–	56,377	55,819	56,377	55,819
J M B Cayzer-Colvin	–	26,310	47,671	24,071	47,671	50,381

Defined benefit

The Hon C W Cayzer is provided with benefits in the Caledonia Pension Scheme, a final salary defined benefit pension scheme. He ceased to be an active member of the scheme in December 2012 and therefore has not accrued any further benefits in addition to those already accrued since then, nor have any contributions been made on his behalf into the scheme. The increase in pension accrued over the year was due to a further year of deferral revaluation. The Hon C W Cayzer reached normal retirement age of 60 on 26 April 2017, at which point he began drawing his pension benefits.

Directors' remuneration report continued

Annual report on directors' remuneration

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

	Row ref	£
Accrued pension at 31 March 2017	a	198,055
Accrued pension at 31 March 2016	b	190,768
Increase in accrued pension during the year	c	7,287
Transfer value at 31 March 2017	d	4,200,406
Transfer value at 31 March 2016	e	3,840,816
Change in transfer value over the year	f	359,590

1. The accrued pensions shown in rows (a) and (b) represented the deferred pension that would be paid at normal retirement age, before any potential taxation and ignoring any revaluation from the date shown to normal retirement age.
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 determi ned 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.
4. The Hon C W Cayzer began drawing his pension on 26 April 2017.

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. No share awards were made during the year 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	639	2422p	26,401	10	31.03.21
S A King							
Performance Share Scheme	Nil-cost option	125% of salary	458	2422p	18,921	10	31.03.21
J M B Cayzer-Colvin							
Performance Share Scheme	Nil-cost option	125% of salary	387	2422p	15,999	10	31.03.21

1. The number of shares comprised in the awards under the performance share scheme 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 are set out under the statement of directors' share scheme interests below.

External directorships

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

Name	Position	Fees 2017 £'000	Fees 2016 £'000
S A King	Non-executive director, TT Electronics plc	50	48
J M B Cayzer-Colvin	Non-executive Chairman, The Henderson Smaller Companies Investment Trust plc	34	33

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 2017. The values of the relevant shareholdings of each executive director as at 31 March 2017, calculated by reference to Caledonia's closing share price on that date of 2750p, 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	31.3	2,986
S A King	1.5	265
J M B Cayzer-Colvin	11.0	2,318

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 2017 were as follows:

	Beneficial		Non-beneficial	
	2017 No	2016 No	2017 No	2016 No
R D Kent	10,000	10,000	–	–
W P Wyatt[1]	1,107,785	1,083,654	28,418	28,418
S A King	32,299	15,889	–	–
J M B Cayzer-Colvin[1]	374,320	374,320	65,953	65,953
H Y H Boël	–	–	–	–
S J Bridges	5,309	5,222	–	–
Hon C W Cayzer[1]	40,092	40,092	12,500	14,500
C H Gregson	1,610	610	–	–
S C R Jemmett-Page	1,000	–	–	–
D C Stewart	4,072	4,072	–	–

1. Mr Wyatt's beneficial interests included 972,066 shares (2016 – 972,066 shares) held by The Dunchurch Lodge Stud Company, a private family company controlled by Mr Wyatt and certain of his connected persons, and his non-beneficial interests included 12,500 shares (2016 – 12,500 shares) in which The Hon C W Cayzer also held a non-beneficial interest. The Hon C W Cayzer's beneficial interests included 4,200 shares (2016 – 4,200 shares) in which Mr Wyatt and Mr Cayzer-Colvin had non-beneficial interests.

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

Directors' share scheme interests

The interests of directors as at 31 March 2017 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	*Performance share scheme awards*					
	Granted 28.05.12 (nil-cost)	1267p	–	15,776	–	15,776
	Granted 12.06.13 (nil-cost)	1802p	17,137	–	–	17,137
	Granted 27.11.14 (nil-cost)	2294p	13,799	13,799	–	27,598
	Granted 26.06.15 (nil-cost)	2435p	26,260	–	–	26,260
	Granted 26.05.16 (nil-cost)	2422p	26,401	–	–	26,401
			83,597	29,575	–	113,172
	Deferred bonus plan – compulsory awards					
	Granted 06.06.14 (nil-cost)	2186p	–	–	11,302	11,302
	Granted 26.06.15 (nil-cost)	2435p	–	10,400	–	10,400
			–	10,400	11,302	21,702
	Deferred bonus plan – matching awards					
	Granted 06.06.14 (nil-cost)	2186p	–	–	7,535	7,535
	Granted 26.06.15 (nil-cost)	2435p	10,400	–	–	10,400
			10,400	–	7,535	17,935
	Total share scheme interests		93,997	39,975	18,837	152,809

During the year, Mr Wyatt exercised executive share options, performance share scheme awards and deferred bonus plan awards over a total of 56,465 shares at a pre-tax gain of £1,166,093.

Directors' remuneration report continued

Annual report on directors' remuneration

		Share price at date of award	Unvested with performance conditions[1]	Unvested without performance conditions[2]	Vested but unexercised[3]	Total
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
	Granted 27.11.14 (nil-cost)	2294p	9,791	9,791	–	19,582
	Granted 26.06.15 (nil-cost)	2435p	18,633	–	–	18,633
	Granted 26.05.16 (nil-cost)	2422p	18,921	–	–	18,921
			59,505	20,985	–	80,490
	Deferred bonus plan – compulsory awards					
	Granted 06.06.14 (nil-cost)	2186p	–	–	8,019	8,019
	Granted 26.06.15 (nil-cost)	2435p	–	7,379	–	7,379
			–	7,379	8,019	15,398
	Deferred bonus plan – matching awards					
	Granted 06.06.14 (nil-cost)	2186p	–	–	5,346	5,346
	Granted 26.06.15 (nil-cost)	2435p	7,379	–	–	7,379
			7,379	–	5,346	12,725
	Total share scheme interests		66,884	28,364	13,365	108,613

During the year, Mr King exercised performance share scheme and deferred bonus plan awards over 31,048 shares at a pre-tax gain of £742,006.

		Share price at date of award	Unvested with performance conditions[1]	Unvested without performance conditions[2]	Vested but unexercised[3]	Total
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	8,279	8,279	–	16,558
	Granted 26.06.15 (nil-cost)	2435p	15,756	–	–	15,756
	Granted 26.05.16 (nil-cost)	2422p	15,999	–	–	15,999
			50,316	17,745	10,283	78,344
	Deferred bonus plan – compulsory awards					
	Granted 06.06.14 (nil-cost)	2186p	–	–	6,781	6,781
	Granted 26.06.15 (nil-cost)	2435p	–	6,240	–	6,240
			–	6,240	6,781	13,021
	Deferred bonus plan – matching awards					
	Granted 06.06.14 (nil-cost)	2186p	–	–	4,521	4,521
	Granted 26.06.15 (nil-cost)	2435p	6,240	–	–	6,240
			6,240	–	4,521	10,761
	Total share scheme interests		56,556	23,985	34,292	114,833

During the year, Mr Cayzer-Colvin exercised deferred bonus plan awards over a total of 15,972 shares at a pre-tax gain of £382,210.

1. **Performance conditions**
   Performance share scheme
   Nil-cost options awarded under the performance share scheme on 28 May 2012 have met their performance targets.

   Half of the nil-cost options granted on 12 June 2013 have met their performance targets. The other half are subject to a target related to the company's NAVTR performance against the FTSE index measured over five years. Awards vest on a graduated basis, with 10% vesting on 0.5% outperformance of the benchmark, rising to maximum vesting on 3.5% outperformance. There is no re-testing of the performance target and, to the extent that it is not met, the award will lapse. For the purpose of calculating the performance measure, averages of the company's NAVTR and the FTSE index 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 target is 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 to Mr Wyatt and Mr King on 27 November 2014, 26 June 2015 and 26 May 2016, 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, 26 June 2015 and 26 May 2016 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 and 26 May 2016, 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.

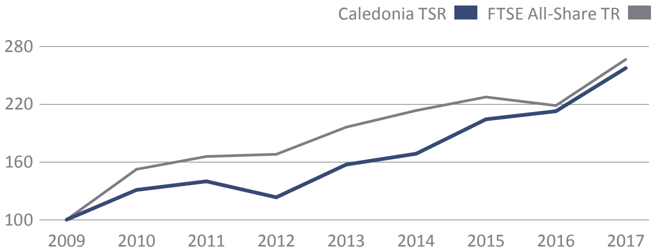
   The one-half of the shares comprised in the nil-cost options granted on 27 November 2014 were performance tested against their relevant targets as at 31 March 2017 and all achieved maximum vesting.

   Deferred bonus plan matching awards
   For the matching awards granted on 6 June 2014, two-thirds of the shares comprised in the awards were tested against the FTSE index and one-third against the Gilts index, each over three years and on the graduated scale and basis of measurement described for the performance share scheme awards granted on 12 June 2013. The two-thirds of the awards tested against the FTSE index vested in full, whereas the one-third tested against the Gilts index failed to meet the minimum vesting threshold and therefore lapsed in their entirety. 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 the nil-cost options granted under the performance share scheme on 28 May 2012, the performance targets have been met, although the shares are normally only exercisable five years after grant. For nil-cost options granted thereafter, 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 eight financial years ending on 31 March 2017. 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.

TSR growth over eight years



The table below shows the total remuneration received by the Chief Executive in each of the eight years to 31 March 2017, prepared on the same basis as in the single total figure in the table on page 56, and the percentage of the maximum potential short and long term incentives received in those years.

Years ended 31 March	Chief Executive[1]	Total remuneration £'000	Incentives vested as a percentage of maximum % Short term	Long term
2010	T C W Ingram	926	47.5	–
2011	T C W Ingram	215	–	1.5
2011	W P Wyatt	669	67.5	–
2012	W P Wyatt	585	–	50.0
2013	W P Wyatt	1,077	100.0	–
2014	W P Wyatt	1,196	100.0	10.1
2015	W P Wyatt	2,285	100.0	100.0
2016	W P Wyatt	1,648	45.0	100.0
2017	W P Wyatt	1,799	100.0	85.0

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 related to his annual bonus for that year, the total amount of which has been included in the corresponding single figure for total remuneration.

   Subsequent to his retirement, Mr Ingram exercised further share options at a pre-tax gain of £119,413 in the 2014 financial year.

Directors' remuneration report continued

Annual report on directors' remuneration

Percentage change in remuneration of Chief Executive

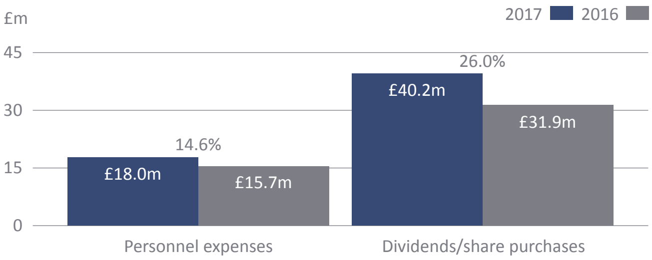
The following table shows the percentage change in the basic salary, value of taxable benefits and short term incentives paid to the Chief Executive in the year to 31 March 2017 against the previous financial year, compared with the average percentage changes in those components of pay of Caledonia's other staff on a per capita basis. The Chief Executive did not receive an increase in basic salary for the 2017 financial year, whereas Caledonia's staff received a standard increase in basic salary of 1.0%. The per capital percentage increase for staff shown in the table is however higher due to the effect of non-standard increases awarded for promotions, increased responsibilities or other such adjustments. The average per capita percentage change for staff taxable benefits increased over the year principally due to age related premium re-rating under the company's private medical insurance plan. The Chief Executive was awarded a bonus of 100% of basic salary, based on the company's performance and individual objectives, compared with 45% in the previous year. Caledonia's staff were also awarded maximum bonuses, however their average per capital percentage change was lower due to a variety of factors, such as differing bonus scales and the fact that some members of staff received a higher percentage bonus than the Chief Executive in 2016.

	Chief Executive change %	Staff average per capita change %
Basic salary	–	2.3
Taxable benefits	2.2	14.7
Short term incentives	122.2	114.7

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 2018 financial year

If approved by shareholders at the annual general meeting to be held on 20 July 2017, the company expects to operate the remuneration policy as described in the previous section without any changes in the financial year ending 31 March 2018.

Basic salaries of executive directors

In respect of the 2018 financial year, the Remuneration Committee has awarded each of the executive directors inflation-based increases in basic salary of 2.5%, as follows:

	Salary for year to 31 March	
	2018 £	2017 £
W P Wyatt	524,500	511,550
S A King	376,000	366,610
J M B Cayzer-Colvin	317,500	310,000

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 2017 and it was concluded that the Chairman's fee should be reduced from £184,500 pa to £150,000 pa with effect from the implementation of the revised remuneration policy on 20 July 2017, but that the fees for the other non-executive directors should remain unchanged, as follows:

	Fees for year to 31 March 2018 £	2017 £
Chairman	150,000	184,500
Non-executive director basic fee	39,900	39,900
Chairman of the Audit Committee	5,600	5,600
Member of the Audit Committee	2,300	2,300
Chairman of the Remuneration Committee	4,900	4,900
Member of the Remuneration Committee	1,600	1,600
Senior Independent Director/Chairman of the Governance Committee	5,100	5,100

Annual bonus scheme and long term incentive schemes

As outlined in the Chairman of the Remuneration Committee's annual statement, it is proposed to discontinue the award of matching shares for deferred bonus and, in compensation, to increase the policy level of annual awards under the performance share scheme from 125% to 150% of basic salary. No other changes to the company's annual bonus or long term incentive schemes are anticipated for the 2018 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, all of whom served throughout the year.

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 2016 Directors' remuneration report, legal issues relating to the post-grant amendment of the performance measures for the 2014 deferred bonus plan matching awards, and the 2017 remuneration policy renewal. 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 21 July 2016, the proxy votes lodged for the resolution relating to directors' remuneration were as follows:

	Number	%
To approve the 2016 Directors' remuneration report (other than the directors' remuneration policy)		
Votes in favour	35,705,029	97.6
Votes against	891,670	2.4
Total votes cast	36,596,699	
Votes withheld	73,548	

The proxy votes lodged for the most recently approved remuneration policy, being at the annual general meeting held on 17 July 2014, were as follows:

	Number	%
Votes in favour	36,427,822	99.8
Votes against	88,185	0.2
Total votes cast	36,516,007	
Votes withheld	434,216	

This report was approved by the board on 25 May 2017 and signed on its behalf by:

Charles Gregson
Chairman of the Remuneration Committee

Other governance matters

Dividend policy

The company's policy is to pay an increasing annual dividend per share in real terms, which it has now done for 50 consecutive years. In addition, the company may supplement the annual dividend with special dividends when the board considers it appropriate, for example if the company has surplus cash reserves in excess of its strategic investment plans.

The board's objective is to ensure that the annual dividend is fully covered by investment income for the financial year, although the company has available distributable reserves of £1,895m, broadly equivalent to over 60 years payment of the current annual dividend, which could be used to smooth any investment income shortfall.

2017 dividend distributions

An interim dividend of 14.9p per share (2016 – 14.3p) was paid on 5 January 2017 and the board has recommended a final dividend of 39.9p per share (2016 – second interim dividend of 38.3p per share), giving total annual dividends for the year of 54.8p per share (2016 – 52.6p).

In addition, the directors have recommended a special dividend of 100.0p per share (2016 – nil).

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 2017, 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 2017, 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 during the year and accordingly the company's issued share capital as at 24 May 2017, 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 2017, 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	19,401,815	35.0%
Rebelco SA[1]	2,847,344	5.1%

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

On 5 May 2017, the company was notified that, following an intergroup transfer by way of a merger by absorption, the 2,847,344 Caledonia shares held by Rebelco SA had been acquired by Sofina SA. There have been no other 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 trust is financed by an interest free loan facility from Caledonia and 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 2017, the trust held 487,217 ordinary shares, representing 0.88% of the total issued voting share capital.

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 21 July 2016, 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 21 October 2017 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 21 July 2016, 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 21 October 2017 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 21 October 2017 or, if earlier, the conclusion of the next annual general meeting.

Due to the level of the shareholding of the Cayzer Concert Party and the maximum percentage of voting rights permitted to be held by it under the Rule 9 waiver, the board has only limited scope to utilise the authority to purchase the company's shares. It will however consider using the authority when it considers it in the company's and shareholders' best interests to do so, for example when it believes that the shares represent good value in terms of the level of the discount to net asset value, and taking into account anticipated future cash requirements.

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.

Other governance matters continued

Investment trust status

Her Majesty's Revenue and Customs has confirmed that Caledonia has investment trust status for all relevant financial periods.

Annual general meeting

The eighty-eighth 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, 20 July 2017 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, all of whom served throughout the year, are shown on pages 34 and 35.

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 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 7 and the investment review on pages 14 to 23. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 24 to 26. In addition, note 21 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 2020, taking account of the company's position, its investment strategy, and the potential impact of the relevant principal risks set out on pages 29 to 31. 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 2020.

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 2020 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.

The reports on pages 34 to 69 comprise the Directors' report of the company. The Directors' report was approved by the board on 25 May 2017 and signed on its behalf by:

Graeme Denison
Company Secretary

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 (5) R	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 59. Waiver by Mr Boël of all non-executive director fees to which he would otherwise be entitled.
9.8.4 (6) R	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 (12) R	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	Other governance matters – page 64. 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 (13) R	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 (14)(a) R	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 39. Relations with controlling shareholders.
9.8.4 (14)(c) R	A statement made by the board that: 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) 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 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 and position, 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 statement under the Disclosure Guidance and Transparency Rules and the UK Corporate Governance Code

Each of the directors, whose names and functions are listed on pages 34 and 35 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 2 to 33 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the board by:

Will Wyatt	Stephen King
Chief Executive	Finance Director
25 May 2017	25 May 2017

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 %
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
2017	290.1	518.4	54.8	1,899	3395	2750	5.2	5.7

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. Dividends for 2017 exclude the special dividend of 100.0p.

KPMG

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 2017 set out on pages 74 to 99. 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 2017 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.

Overview		
Materiality: group financial statements as a whole	£17.5m (2016: £16.8m) 0.9% (2016: 1.0%) of total assets	
Coverage	100% (2016: 100%) of group profit before tax	
Risks of material misstatement		**vs 2016**
Recurring risks	Valuation of unlisted investments	◄►

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, is valuation of unlisted investments. As in 2016, we continue to perform procedures over the carrying value of investments listed on recognised stock exchanges. However, as there is little judgement and a very low risk of misstatement, we have not assessed this as one of the most significant risks and, therefore, it is not separately identified in our report this year.

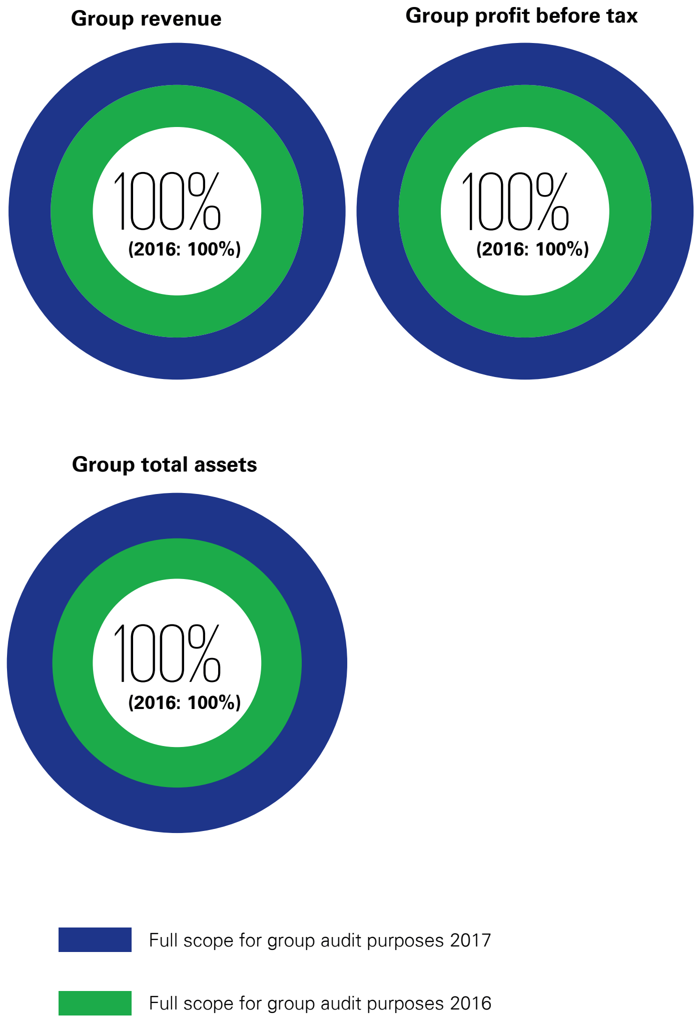
	The risk	Our response
Valuation of unlisted investments (£972.1m; 2016: £954.7m) Refer to page 42 (Audit Committee Report), page 80 (accounting policy) and page 84 (financial disclosures).	**Subjective valuation** 49.9% (2016: 57.0%) of the group's total assets (by value) is held in investments where 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 Valuations Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples and net assets and valuing fund interests. There is a significant risk over the application of these judgements in the valuation and therefore one of the key areas that our audit focused on. Investment properties, though held through investee companies, are subject to annual independent valuation and measured accordingly. The fair value requires significant judgement over the choice of valuation methodology to apply, as well as significant estimation, in particular over the key assumptions of the estimated rental value and the yield. The key assumptions will be impacted by a number of factors including location, quality and condition of the building and tenant credit rating. Investment in properties included in unquoted pool amounted to £76.1m (2016: £69.3m).	Our procedures included: **Control design:** Documenting and assessing the design and implementation and operational effectiveness of the investment valuation processes and controls; **Control observation**: Attendance at bi-annual Challenge Committee meetings and Audit Committee meetings where we assessed the Audit Committee's and Challenge Committee's challenge and approval of unlisted investment valuations; **Historical Comparisons**: Assessment of investment realisations in the period, comparing actual investment sales proceeds to prior year-end valuations to understand the reasons for significant variance and determine whether they are indicative of bias and error in the group's approach to valuations. **Methodology choice** : In the context of observed industry best practice and the provisions of the Internal Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected. We also involved our own property valuation specialist to critically assess the methodology for compliance with the RICS Valuation Professional Standards 'the Red Book' and IFRS. **Our valuations experience:** Challenging the investment manager on key judgments affecting investee company valuations, such as discount factors, and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources such as financial information of comparable businesses, the investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of 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. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report. **External Valuer's credentials:** For the investment property valuations, we obtained the valuations performed by the external valuer and evaluated the competence, capabilities and objectivity of the valuer by analysing their valuation report using our own valuation specialists. Our valuation specialists, also considered the appropriateness of the external valuations and inherent assumptions by comparing the assumptions to externally derived data. **Comparing valuations**: 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. We also assessed whether changes or events subsequent such as market or entity specific factors would imply a change in value. For the valuation of fund interests, we obtained and agreed the latest reported net asset values from the fund managers. **Assessing transparency**: Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the disclosure of changing one or more inputs to reasonably possible alternative valuation assumptions.

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

Materiality for Group financial statements as a whole was set at £17.5m (2016: £16.8m), determined with reference to a benchmark of total group assets, of which it represents 0.9% (2016: 1.0%).

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £0.88m (2016: £0.84m) in addition to other identified misstatements that warranted reporting 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.



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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; and

— the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

— we have not identified material misstatements in those reports; and

— in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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' viability statement on pages 66, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 2020; 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.

Under the Listing Rules we are required to review:

— the directors' statements, set out on page 66, in relation to going concern and longer-term viability; and

— the part of the Corporate Governance Statement on pages 36 to 39, 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 and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 68, 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.

Thomas Brown (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square

London E145GL

25 May 2017

Group statement of comprehensive income

for the year ended 31 March 2017

	Note	2017 Revenue £m	2017 Capital £m	2017 Total £m	2016 Revenue £m	2016 Capital £m	2016 Total £m
Revenue							
Investment income	1	47.3	–	47.3	50.7	–	50.7
Other income	1	0.2	–	0.2	0.7	–	0.7
Gains and losses on fair value investments	8	–	265.7	265.7	–	12.5	12.5
Gains on fair value property	9	–	0.1	0.1	–	0.2	0.2
Total revenue		47.5	265.8	313.3	51.4	12.7	64.1
Management expenses	2	(18.5)	(7.8)	(26.3)	(16.2)	(7.4)	(23.6)
Other non-recurring expenses		(0.4)	–	(0.4)	(3.0)	–	(3.0)
Performance fees		–	–	–	–	(0.1)	(0.1)
Guarantee obligation provided	14	–	(0.1)	(0.1)	–	–	–
Profit before finance costs		28.6	257.9	286.5	32.2	5.2	37.4
Treasury interest receivable	3	0.2	–	0.2	0.2	–	0.2
Finance costs	4	(1.7)	–	(1.7)	(1.8)	–	(1.8)
Exchange movements		(0.5)	–	(0.5)	0.4	–	0.4
Profit before tax		26.6	257.9	284.5	31.0	5.2	36.2
Taxation	5	4.2	1.4	5.6	3.2	1.7	4.9
Profit for the year		30.8	259.3	290.1	34.2	6.9	41.1
Other comprehensive income items never to be reclassified to profit or loss							
Re-measurements of defined benefit pension schemes	23	–	(2.7)	(2.7)	–	2.3	2.3
Tax on other comprehensive income	5	–	0.7	0.7	–	(0.6)	(0.6)
Total comprehensive income		30.8	257.3	288.1	34.2	8.6	42.8
Basic earnings per share	7	56.1p	472.1p	528.2p	62.0p	12.5p	74.5p
Diluted earnings per share	7	55.0p	463.4p	518.4p	60.8p	12.3p	73.1p

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 on pages 78 to 99 are an integral part of these financial statements.

Statement of financial position
at 31 March 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Investments held at fair value through profit or loss	8	1,688.6	1,609.2	1,682.2	1,604.7
Investments in subsidiaries held at cost	8	–	–	0.8	0.8
Property, plant and equipment	9	35.5	25.7	–	–
Deferred tax assets	10	3.7	2.8	–	–
Employee benefits	23	2.8	3.2	–	–
Non-current assets		1,730.6	1,640.9	1,683.0	1,605.5
Current assets					
Trade and other receivables	11	7.8	8.3	29.0	22.4
Current tax assets	5	2.6	2.0	3.1	2.3
Cash and cash equivalents	12	207.3	23.8	205.6	23.8
Current assets		217.7	34.1	237.7	48.5
Total assets		1,948.3	1,675.0	1,920.7	1,654.0
Current liabilities					
Bank overdrafts	12	–	(0.9)	–	–
Trade and other payables	13	(39.5)	(14.1)	(25.5)	(7.9)
Employee benefits	23	(2.5)	(1.9)	–	–
Provisions	14	–	(9.0)	–	(9.0)
Current liabilities		(42.0)	(25.9)	(25.5)	(16.9)
Non-current liabilities					
Employee benefits	23	(7.3)	(4.5)	–	–
Deferred tax liabilities	10	(0.2)	(0.3)	–	–
Non-current liabilities		(7.5)	(4.8)	–	–
Total liabilities		(49.5)	(30.7)	(25.5)	(16.9)
Net assets		1,898.8	1,644.3	1,895.2	1,637.1
Equity					
Share capital	15	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		1,591.0	1,333.7	1,594.2	1,335.0
Retained earnings		332.9	325.0	326.1	316.5
Own shares		(30.9)	(20.2)	(30.9)	(20.2)
Total equity		1,898.8	1,644.3	1,895.2	1,637.1
Undiluted net asset value per share	16	3459p	2944p		
Diluted net asset value per share	16	3395p	2890p		

The financial statements on pages 74 to 99 were approved by the board and authorised for issue on 25 May 2017 and were signed on its behalf by:

Will Wyatt
Chief Executive

Stephen King
Finance Director

The accounting policies and notes on pages 78 to 99 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2017

	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 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
Total comprehensive income							
Profit for the year	–	–	–	259.3	30.8	–	290.1
Other comprehensive income	–	–	–	(2.0)	–	–	(2.0)
Total comprehensive income	–	–	–	257.3	30.8	–	288.1
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	–	–	6.4	–	6.4
Own shares purchased	–	–	–	–	–	(10.9)	(10.9)
Dividends paid	–	–	–	–	(29.3)	–	(29.3)
Total transactions with owners	–	–	–	–	(22.9)	(10.7)	(33.6)
Balance at 31 March 2017	3.2	1.3	1.3	1,591.0	332.9	(30.9)	1,898.8
Company							
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
Profit and total comprehensive income	–	–	–	259.2	32.5	–	291.7
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	–	–	6.4	–	6.4
Own shares purchased	–	–	–	–	–	(10.9)	(10.9)
Dividends paid	–	–	–	–	(29.3)	–	(29.3)
Total transactions with owners	–	–	–	–	(22.9)	(10.7)	(33.6)
Balance at 31 March 2017	3.2	1.3	1.3	1,594.2	326.1	(30.9)	1,895.2

The accounting policies and notes on pages 78 to 99 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 March 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Operating activities					
Dividends received		45.1	48.3	45.1	48.3
Interest received		2.3	1.3	1.6	0.7
Cash received from customers		0.3	0.2	–	–
Cash paid to suppliers and employees		(19.7)	(20.7)	(23.1)	(28.9)
Taxes received		–	0.5	–	0.5
Taxes paid		(0.1)	(0.4)	(0.1)	(0.4)
Group tax relief received		4.9	2.5	5.2	3.3
Net cash flow from operating activities		32.8	31.7	28.7	23.5
Investing activities					
Purchases of investments		(256.2)	(548.0)	(245.8)	(545.2)
Proceeds from disposal of investments		433.5	450.5	431.2	455.1
Purchases of property, plant and equipment		(9.7)	(6.6)	–	–
Net cash flow from/(used in) investing activities		167.6	(104.1)	185.4	(90.1)
Financing activities					
Interest paid		(1.2)	(1.5)	(1.1)	(1.1)
Dividends paid to owners of the company		(29.3)	(28.2)	(29.3)	(28.2)
Proceeds from bank borrowings		–	170.0	–	30.0
Repayment of bank borrowings		–	(179.0)	–	(30.0)
Loan receipts from subsidiaries		34.4	7.1	53.0	97.6
Loan payments to subsidiaries		(9.2)	(10.1)	(44.2)	(113.6)
Exercise of share options		0.2	0.7	0.2	0.7
Purchase of own shares		(10.9)	(3.7)	(10.9)	(3.7)
Net cash flow used in financing activities		(16.0)	(44.7)	(32.3)	(48.3)
Net increase/(decrease) in cash and cash equivalents		184.4	(117.1)	181.8	(114.9)
Cash and cash equivalents at year start		22.9	140.0	23.8	138.7
Cash and cash equivalents at year end	12	207.3	22.9	205.6	23.8

The accounting policies and notes on pages 78 to 99 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 25 May 2017.

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 January 2017 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 66. 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, which have not been applied in these financial statements, were in issue but not yet effective.

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*

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. Re-measurement 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.

Significant accounting policies continued

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 27.

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

	2017 £m	2016 £m
Income from portfolio investments		
Dividends from UK listed companies	11.3	12.9
Dividends from overseas listed companies	9.1	9.0
Dividends from unlisted companies	18.2	25.9
Distributions from limited partnerships	1.5	1.2
Interest on debt instruments	0.8	0.6
Scrip dividends	–	0.6
	40.9	50.2
Income from unallocated investments		
Dividends from unlisted companies	5.0	–
Interest on debt instruments	1.4	0.5
	47.3	50.7

Other income

	2017 £m	2016 £m
Property income	0.2	0.2
Settlement contribution	–	0.5
	0.2	0.7

2. Expenses

Management expenses

	2017 £m	2016 £m
Income statement revenue column		
Personnel expenses	10.3	8.9
Depreciation	0.2	0.2
Auditor's remuneration	0.2	0.2
Other administrative expenses	8.6	7.8
Directors' fees and disbursements recharged	(1.1)	(0.9)
Management fees and recharges	(0.2)	(0.2)
Other expenses	0.5	0.2
	18.5	16.2
Income statement capital column		
Personnel expenses	7.7	6.8
Transaction costs	0.1	0.6
	7.8	7.4
	26.3	23.6

Further information

Auditor's remuneration

Fees payable to KPMG LLP in respect of services to Caledonia Investments plc were as follows:

	2017 £m	2016 £m
Audit services		
Annual report	0.1	0.1
Other services		
Other assurance and tax compliance	0.1	0.1
	0.2	0.2

Fees payable to KPMG LLP in respect of services to Caledonia Investments plc non-consolidated subsidiaries were as follows:

	2017 £m	2016 £m
Audit services		
Annual report[1]	0.6	0.5
Other services		
Other assurance, due diligence and tax compliance	0.5	0.3
	1.1	0.8

1. Includes £0.1m (2016 – £nil) payable to KPMG Channel Islands Ltd.

Personnel expenses

	2017 £m	2016 £m
Income statement revenue column		
Wages and salaries	8.2	7.0
Compulsory social security contributions	1.2	1.0
Contributions to defined contribution plans	0.7	0.5
Defined benefit pension plans expense (note 23)	0.2	0.4
	10.3	8.9
Income statement capital column		
Equity-settled share-based payments (note 22)	6.4	5.8
National Insurance on share awards	1.3	1.0
	7.7	6.8
	18.0	15.7

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

	2017 No	2016 No
Average number of employees	49	50

Total directors' remuneration recorded for the year was £4.8m (2016 – £4.5m) as disclosed in the key management compensation (note 18) and the Directors' remuneration report on page 57.

3. Treasury interest receivable

	2017 £m	2016 £m
Interest on bank deposits and liquidity funds	0.2	0.2

4. Finance costs

	2017 £m	2016 £m
Interest on bank loans and overdrafts	1.7	1.8

5. Taxation

Recognised in comprehensive income

	2017 £m	2016 £m
Current tax income		
Current year	0.9	0.4
Adjustments for prior years	4.4	3.6
	5.3	4.0
Deferred tax income		
Origination and reversal of temporary differences	0.3	0.9
Total tax income	5.6	4.9

Adjustments for prior years represented settlement of prior year tax loss relief surrendered to group companies, finalised in the year.

Reconciliation of effective tax expense

	2017 £m	2016 £m
Profit before tax	284.5	36.2
Tax expense at the domestic rate of 20%	(56.9)	(7.2)
Non-deductible expenses	(0.4)	(0.5)
Losses for the year unrelieved	(4.2)	(4.1)
Non-taxable gains on investments	53.0	2.5
Non-taxable UK dividend income	6.8	6.5
Tax exempt revenues	2.6	3.3
Other temporary differences	0.3	0.8
Over-provided in prior years	4.4	3.6
Tax income	5.6	4.9

Recognised in other comprehensive income

	2017 £m	2016 £m
Deferred tax income/(expense)		
On re-measurements on defined benefit pension schemes	0.4	(0.5)
On share options and awards	0.3	(0.1)
	0.7	(0.6)

Current tax assets

Current tax assets of £2.6m in the group and £3.1m in the company represented tax loss relief surrender for settlement (2016 – £2.0m in the group and £2.3m in the company).

6. Dividends

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

	2017		2016	
	p/share	£m	p/share	£m
Second interim dividend for the year ended 31 March 2016 (2015 final dividend)	38.3	21.1	36.8	20.3
Interim dividend for the year ended 31 March 2017 (2016)	14.9	8.2	14.3	7.9
	53.2	29.3	51.1	28.2

Amounts paid/proposed after the year end, not recognised in the financial statements were as follows:

Proposed final dividend for the year ended 31 March 2017 (2016 second interim dividend)	39.9	21.9	38.3	21.1
Proposed special dividend for the year ended 31 March 2017	100.0	54.9		
	139.9	76.8	38.3	21.1

The proposed final and special dividends for the year ended 31 March 2017 were not included as liabilities in these financial statements. These dividends, if approved by shareholders at the annual general meeting to be held on 20 July 2017, will be payable on 3 August 2017 to holders of shares on the register on 7 July 2017. The ex-dividend date will be 6 July 2017.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2017 are the interim, final and special dividends for that year, amounting to £85.0m (2016 – interim and second interim £29.0m).

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.

Notes to the financial statements continued

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

	2017 £m	2016 £m
Revenue	30.8	34.2
Capital	259.3	6.9
Total	290.1	41.1

The weighted average number of shares was as follows:

	2017 000's	2016 000's
Issued shares at the year start	55,381	55,381
Effect of shares held by the employee share trust	(455)	(225)
Basic weighted average number of shares in the year	54,926	55,156
Effect of performance shares, share options and deferred bonus awards	1,035	1,035
Diluted weighted average number of shares in the year	55,961	56,191

8. Investments

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Investments held at fair value through profit or loss				
Investments listed on a recognised stock exchange	682.2	642.0	682.2	642.0
Unlisted investments	1,006.4	967.2	1,000.0	962.7
	1,688.6	1,609.2	1,682.2	1,604.7
Investments held at cost				
Service subsidiaries	–	–	0.8	0.8
	1,688.6	1,609.2	1,683.0	1,605.5

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 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
Reclassifications	–	105.3	(105.3)	–
Purchases at cost	56.5	148.5	42.1	247.1
Disposal proceeds	(110.2)	(312.0)	(11.2)	(433.4)
Gains on investments	93.9	152.8	19.0	265.7
Balance at 31 March 2017	682.2	986.1	20.3	1,688.6

	Listed equity £m	Unlisted equity[1] £m	Unlisted debt £m	Total £m
Company				
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
Reclassifications	–	105.3	(105.3)	–
Purchases at cost	56.5	154.4	32.0	242.9
Disposal proceeds	(110.2)	(318.4)	(2.5)	(431.1)
Gains on investments	93.9	152.8	19.0	265.7
Balance at 31 March 2017	682.2	1,000.7	0.1	1,683.0

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

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 construction £m	Office equipment £m	Total £m
Cost				
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
Acquisitions	–	9.9	–	9.9
Balance at 31 March 2017	23.8	13.1	1.1	38.0
Depreciation				
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)
Depreciation charge	(0.1)	–	(0.1)	(0.2)
Eliminate depreciation	0.1	–	–	0.1
Balance at 31 March 2017	–	–	(1.0)	(1.0)
Revaluation				
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)
Revaluation in the year	0.1	–	–	0.1
Eliminate depreciation	(0.1)	–	–	(0.1)
Balance at 31 March 2017	(1.5)	–	–	(1.5)
Carrying amounts				
At 31 March 2015	18.5	0.5	0.1	19.1
At 31 March 2016	22.3	3.2	0.2	25.7
At 31 March 2017	22.3	13.1	0.1	35.5

Property is measured at fair value and comprised freehold land and building. The freehold land and building comprised property undergoing refurbishment, with costs 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
2017			
Employee benefits	3.7	–	3.7
Other items	–	(0.2)	(0.2)
	3.7	(0.2)	3.5
2016			
Employee benefits	2.8	(0.1)	2.7
Other items	–	(0.2)	(0.2)
	2.8	(0.3)	2.5

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
2017				
Employee benefits	2.7	0.3	0.7	3.7
Other items	(0.2)	–	–	(0.2)
	2.5	0.3	0.7	3.5
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

Group and company

Unrecognised deferred tax assets

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Tax losses	5.1	5.8	4.7	5.8

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

11. Trade and other receivables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	5.2	6.2	4.6	6.0
Non-trade receivables and prepayments	2.5	2.0	0.2	0.4
Other receivables	0.1	0.1	24.2	16.0
	7.8	8.3	29.0	22.4

Other receivables included short term lending to subsidiaries.

12. Net cash and cash equivalents

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Bank balances	1.9	4.0	1.8	4.0
Short term deposits	205.4	19.8	203.8	19.8
Cash and cash equivalents	207.3	23.8	205.6	23.8
Bank overdrafts	–	(0.9)	–	–
	207.3	22.9	205.6	23.8

In the prior year, bank overdrafts were included in current liabilities in the balance sheet.

13. Trade and other payables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade payables	1.4	0.6	2.9	5.5
Non-trade payables and accrued expenses	1.2	2.1	3.9	1.1
Other payables	36.9	11.4	18.7	1.3
	39.5	14.1	25.5	7.9

Other payables included short term borrowing from subsidiaries.

14. Provisions

Current liabilties

	Solvency guarantee £m	Litigation £m	Total £m
Group			
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
Provided during the year	0.1	–	0.1
Utilised during the year	(9.1)	–	(9.1)
Balance at 31 March 2017	–	–	–
Company			
Balance at 31 March 2015 and 2016	9.0	–	9.0
Provided during the year	0.1	–	0.1
Utilised during the year	(9.1)	–	(9.1)
Balance at 31 March 2017	–	–	–

During the year, the solvency guarantee provision was increased based on a review of the obligations and fully utilised in settlement of those obligations. 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 litigation provision was fully used against costs incurred as the legal claim was settled in full. The litigation provision related to a claim arising from the acquisition of a subsidiary in 2013.

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.

Notes to the financial statements continued

15. Share capital

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2015, 2016 and 2017	2.8	0.4	1.3	4.5

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

	Ordinary shares		Deferred ordinary shares	
	2017 000's	2016 000's	2017 000's	2016 000's
Balance at the year start and end	55,381	55,381	8,000	8,000

The company had outstanding share options and performance share scheme and deferred bonus awards (note 22).

As at 31 March 2017, the issued share capital of the company comprised 55,381,017 ordinary shares (2016 – 55,381,017) and 8,000,000 deferred ordinary shares (2016 – 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.

16. 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.

	2017			2016		
	Net assets £m	Number of shares 000's	NAV p/share	Net assets £m	Number of shares 000's	NAV p/share
Undiluted	1,898.8	54,894	3459	1,623.2	55,136	2944
Adjustments	0.3	1,044	(64)	0.5	1,057	(54)
Diluted	1,899.1	55,938	3395	1,623.7	56,193	2890

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.

17. 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	
	2017 £m	2016 £m	2017 £m	2016 £m
Quoted pool	82.4	(33.9)	467.9	449.3
Income pool	32.0	(0.8)	215.9	194.1
Unquoted pool	125.1	79.2	567.8	646.3
Funds pool	73.9	18.6	404.3	308.4
Investment portfolio	313.4	63.1	1,655.9	1,598.1
Other investments	(0.1)	1.0	32.7	11.1
Total revenue/investments	313.3	64.1	1,688.6	1,609.2
Cash and cash equivalents	0.2	0.2	207.3	22.9
Other items	(29.0)	(28.1)	52.4	42.9
Reportable total	284.5	36.2	1,948.3	1,675.0

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
2017				
Revenue	158.0	118.1	37.2	313.3
Non-current assets	35.5	–	–	35.5
2016				
Revenue	58.1	(20.2)	26.2	64.1
Non-current assets	25.7	–	–	25.7

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

Major clients

The group is reliant on one (2016 – ten) investments accounting for more than 10% of the group revenues, which included gains and losses on investments.

18. Related parties

Identity of related parties

The group and company had related party relationships with its subsidiaries (note 25) and associates (note 24) 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 35.0% of the voting shares of the company as at 31 March 2017 (2016 – 35.5%).

During the year, the group invoiced and received £0.1m (2016 – £0.1m) in rent and administration fees from The Cayzer Trust Company Ltd. In addition, the company's Employee Share Trust purchased 300,000 shares from The Cayzer Trust Company Ltd at the prevailing market price, for £7.3m.

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 57.

The key management personnel compensation was as follows:

	Group 2017 £m	Group 2016 £m
Short term employee benefits	2.5	2.4
Equity compensation benefits	2.3	2.1
	4.8	4.5

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

Other related party transactions

Investees

Transactions between the company and its subsidiaries were as follows:

	2017 Amount of trans-actions £m	2017 Balance at year end £m	2016 Amount of trans-actions £m	2016 Balance at year end £m
Comprehensive income items				
Dividends receivable on equity shares	16.0	–	22.8	–
Interest receivable	1.5	–	0.5	–
Capital distributions receivable	6.4	–	5.8	–
Settlement contribution	–	–	0.5	0.5
Management fees payable	(22.9)	(5.7)	(20.6)	(4.9)
Taxation	5.2	–	2.0	–
Financial position items				
Investments sold	–	–	(0.3)	–
Equity subscribed	–	–	2.5	–
Capital contributions	6.4	–	5.9	–
Loans receivable	(34.2)	33.3	24.5	67.5
Loans payable	(17.4)	(18.7)	–	(1.3)

Associates and joint ventures

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

	2017 Amount of trans-actions £m	2017 Balance at year end £m	2016 Amount of trans-actions £m	2016 Balance at year end £m
Company				
Dividends receivable on equity shares	5.0	–	1.1	–
Taxation	–	–	1.3	–
Other group companies				
Directors' fees receivable	–	–	0.1	–

Notes to the financial statements continued

19. 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Investments				
Contracted but not called	301.5	252.0	307.3	264.1
Conditionally contracted	27.5	30.6	27.5	30.6
	329.0	282.6	334.8	294.7

20. 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.

21. Financial instruments

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

Risk analysis

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

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

Market risk

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

The strategy for managing market risk is driven by the investment objective, which is to outperform the FTSE All-Share Total Return index over 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Investments held at fair value through profit or loss	1,668.3	1,565.3	1,682.9	1,580.5

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Increase in prices	166.8	156.5	168.3	158.1
Decrease in prices	(166.8)	(156.5)	(168.3)	(158.1)

The sensitivity to equity and fund investments has increased during the year due to investment portfolio gains partly offset by net realisations 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash and cash equivalents	1.6	2.9	1.7	2.8

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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Sterling depreciates (weakens)	(0.1)	(0.2)	(0.1)	(0.2)
Sterling appreciates (strengthens)	0.1	0.2	0.1	0.3

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

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

The company and group held 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.

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Fixed rate				
Interest-bearing loans to subsidiaries	7.0	5.4	–	–
Floating rate				
Investments in debt instruments	0.1	25.0	0.1	25.0
Interest-bearing loans to subsidiaries	13.2	13.5	–	–
Cash and cash equivalents	207.3	22.9	205.6	23.8

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Decrease in interest rates	(0.5)	(0.1)	(0.8)	0.1
Increase in interest rates	0.5	0.1	0.8	(0.1)

The group's and company's sensitivity to interest rates has changed in the year due to an increase in net cash and floating rate loans, against a smaller increase in fixed interest loans with a relatively higher 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Investments in debt instruments	20.3	43.9	0.1	25.0
Operating and other receivables	7.8	8.3	29.0	22.4
Cash and cash equivalents	207.3	22.9	205.6	23.8
	235.4	75.1	234.7	71.2

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 £45.4m (2016 – £18.9m) and £43.8m (2016 – £19.8m) respectively. In addition, the group and company had sterling liquidity funds of £160m (2016 – £nil) invested equally between Goldman Sachs Sterling Liquid Reserves Fund, HSBC Sterling Liquidity Fund, Blackrock Institutional Sterling Liquidity Fund and Standard Life Investments Liquidity Fund plc Sterling.

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.

Notes to the financial statements continued

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.

Bank facilities were undrawn at 31 March 2017 and 2016.

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 (2016 – £175m).

The group's total capital at 31 March 2017 was £1,898.8m (2016 – £1,644.3m) and comprised equity share capital and reserves. The group was ungeared at the year end (2016 – ungeared) 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		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Investments held at fair value				
Level 1	682.2	642.0	682.2	642.0
Level 2	183.9	136.9	191.1	145.9
Level 3	822.5	830.3	808.9	816.8
	1,688.6	1,609.2	1,682.2	1,604.7

In the prior 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.

Movement in Level 3 financial instruments was as follows:

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Balance at the year start	830.3	751.0	816.8	736.3
Reclassifications	–	(45.3)	–	(45.3)
Purchases	156.6	204.4	156.2	204.4
Disposal proceeds	(288.5)	(158.2)	(288.2)	(157.0)
Gains and losses on investments sold in the year	148.6	110.7	148.6	110.7
Gains and losses on investments held at the year end	(24.5)	(32.3)	(24.5)	(32.3)
Balance at the year end	822.5	830.3	808.9	816.8

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 observable inputs used in measuring Level 2 financial instruments were developed as follows:

- Manager NAVs, indirectly derived from observable quoted market prices of underlying investments.
- Property valuations, indirectly derived from observable market data including multiples from prices in observed transactions involving comparable buildings in similar locations.

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 7 to 17 (2016 – 9 to 17), weighted average 9.1 (2016 – 10.4).
- 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 25% to 30% (2016 – 23% to 30%), weighted average 29% (2016 – 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 valuation +/- £m
Internally developed					
Private companies					
Price of recent investment	74.4	Multiple	1.0x	0.1x	7.4
Earnings	240.2	EBITDA multiple	9.1x	1.0x	51.9
		Marketability discount	29%	1%	6.0
Net assets	69.6	Multiple	1.0x	0.1x	7.0
	384.2				72.3
Externally developed					
Private equity fund investments					
Net asset value[1]	376.9				
Private companies					
External valuation[2]	61.4				
	438.3				
	822.5				

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.

22. 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 onwards, 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.

Notes to the financial statements continued

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	17,505
			17,505
Performance share scheme awards			
28.05.12	Award grant to senior staff	Note 2	79,671
12.06.13	Award grant to senior staff	Note 3	111,399
03.07.13	Award grant to senior staff	Note 3	2,907
27.11.14	Award grant to senior staff	Note 4	194,171
26.06.15	Award grant to senior staff	Note 8	205,978
26.05.16	Award grant to senior staff	Note 8	210,035
			804,161
Deferred bonus awards to senior staff			
06.06.14	Voluntary award	Note 7	549
06.06.14	Compulsory award	Note 5	58,680
06.06.14	Matching shares	Note 6	39,487
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
26.05.16	Voluntary award	Note 7	2,087
26.05.16	Compulsory award	Note 5	8,568
26.05.16	Matching shares	Note 9	10,655
			222,682

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.

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

	2017		2016	
	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	1446	35	1560	75
Exercised during the year	1446	(17)	1660	(40)
Outstanding at the year end	1446	18	1446	35

The options outstanding at 31 March 2017 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	2017 £m	2016 £m
Performance share awards granted in 2013	0.1	0.8
Performance share awards granted in 2014	0.9	0.9
Performance share awards granted in 2015	1.1	1.1
Performance share awards granted in 2016	1.2	1.0
Performance share awards granted in 2017	1.1	–
Deferred bonus awards for 2013	0.1	0.6
Deferred bonus awards for 2014	0.9	0.8
Deferred bonus awards for 2015	0.8	0.6
Deferred bonus awards for 2016	0.2	–
	6.4	5.8

23. Employee benefits

Group

	2017 £m	2016 £m
Non-current assets		
Defined benefit pension asset	2.8	3.2
Current liabilities		
Profit sharing bonus	(2.5)	(1.9)
Non-current liabilities		
Defined benefit pension obligations	(4.9)	(2.8)
National Insurance on share options, performance shares and deferred bonus awards	(2.4)	(1.7)
	(7.3)	(4.5)
Total employee liabilities	(9.8)	(6.4)

Defined benefit pension obligations

The group makes contributions to two (2016 – two) plans in the UK that provide pension benefits for employees. The schemes are approved by HMRC for tax purposes and operated separately from the group being managed by an independent set of trustees, whose appointment is determined by the schemes' documentation and legislation. The schemes are subject to UK funding regulations, which require the group and the trustees to agree a funding strategy and contribution schedule where necessary. Both schemes were closed to new members in April 1996. New employees joining after that date were offered alternative defined contribution pension arrangements.

	2017 £m	2016 £m
Present value of funded obligations	46.5	38.5
Fair value of plan assets	(44.4)	(38.9)
Present value of net obligations/(assets)	2.1	(0.4)

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

	2017 £m	2016 £m
Balance at the year start	38.5	42.6
Service cost	0.2	0.3
Interest cost	1.3	1.3
Actuarial loss/(gain) from changes:		
– in demographic assumptions	–	(0.7)
– in financial assumptions	8.0	(1.8)
– experience gains	(0.3)	(1.3)
Actual benefit payments	(1.2)	(1.9)
Balance at the year end	46.5	38.5

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

	2017 £m	2016 £m
Balance at the year start	38.9	40.7
Interest income	1.3	1.2
Return on plan assets less interest income	5.0	(1.5)
Employer contributions	0.4	0.4
Actual benefit payments	(1.2)	(1.9)
Balance at the year end	44.4	38.9

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

	2017 £m	2016 £m
Current service cost	0.2	0.3
Interest on obligations	1.3	1.3
Interest on plan assets	(1.3)	(1.2)
	0.2	0.4

Amounts recognised in other comprehensive income were as follows:

	2017 £m	2016 £m
Actuarial (losses)/gains arising from financial assumptions	(8.0)	1.8
Actuarial gains from demographic adjustments	–	0.7
Actuarial gains from experience adjustments	0.3	1.3
Return on plan assets less interest income	5.0	(1.5)
Re-measurement (losses)/gains in the year	(2.7)	2.3

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

	2017 £m	2016 £m
Equities	29.1	24.9
Bonds	6.6	6.3
Cash	8.7	7.7
	44.4	38.9

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

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

	2017 %	2016 %
Discount rate at the year end	2.6	3.4
Future salary increases	4.4	4.1
Future pension increases	3.4	3.1
RPI price inflation	3.4	3.1

Notes to the financial statements continued

Mortality rates are assumed to follow the Self-Administered Pension Schemes 'Series 2' 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 27.6 years (2016 – 27.5 years) for males and 28.2 years (2016 – 28.0 years) for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ending 31 March 2018 were £0.3m (2017 – £0.4m).

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 31 Mar 2017 Years
Amber Industrial Holdings pension scheme	12.6	16
Caledonia Pension Scheme	27.4	18

Sensitivities

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.

	2017 £m	2016 £m
Reduction in the discount rate of 0.25%	2.2	1.5
Increase in inflation of 0.25%	1.6	1.2
Increase in future salary increases of 0.25%	0.1	0.1
Increase in life expectancy of one year	1.8	1.2

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 is 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.

24. Interests in associates

Company	Class	Holding %	Registered office
Bristow Aviation Holdings Ltd	A Ordinary	46.0	Redhill Aerodrome, Kings Mill Lane, Redhill HR1 5JZ
Broad Hollow LLC	Member	30.5	535 Madison Avenue, 19th Floor, New York, NY 10022, USA
Easybox Holdings Ltd	Preference	100.0	97 Alberley Road, Wilmslow SK9 1PT
General Practice Holdings Ltd	Ordinary	25.0	32 Grosvenor Gardens, London SW1W 0DH
General Practice Investment Corporation Ltd	Ordinary Preference	23.6 100.0	32 Grosvenor Gardens, London SW1W 0DH
GPG No.7 Ltd	Ordinary	23.2	32 Grosvenor Gardens, London SW1W 0DH
GPGL Ltd	Ordinary	25.0	32 Grosvenor Gardens, London SW1W 0DH
GPI Nominee Ltd	Ordinary	25.0	32 Grosvenor Gardens, London SW1W 0DH
Marwadi Shares and Finance Ltd	Ordinary	21.0	Marwadi Finance laza, Nana Mava Main Road, Off 150 ft. Ring Road, Rajkot, 360 001 Gujarat, India
Sports Information Services (Holdings) Ltd	Ordinary	22.5	Unit 1/2 Whitehall Avenue, Kingston, Milton Keynes MK10 0AX

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:

	2017 £m	2016 £m
Assets	230.0	289.1
Liabilities	(97.7)	(142.2)
Equity	132.3	146.9
Revenues	244.4	367.9
Profit	20.4	29.6

25. Subsidiaries

Company	Class	Holding %	Registered office
7IM Holdings Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
	Preference	100.0	
A.E. Smith & Son Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
A.S.B.M. Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
A.S.B.O. Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
A.S.B.T. Ltd	Ordinary	100.0[1]	19 Royal Square, St Helier, Jersey JE2 4WA
Amber 2010 Ltd	Ordinary	100.0	Stratton House, 5 Stratton Street, London W1J 8LA
Argo Flare Services Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Aurora Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Bath Street Wine Cellar Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Bloom Combustion India Private Ltd	Ordinary	100.0	410 Yusuf Building, Veer Nariman Road Fort, Mumbai 400001, India
Bloom Combustion Products (Shanghai) Co Ltd	Ordinary	100.0	1383 Gu Gao Road, Pudong District, Shanghai 201209, China
Bloom Engineering (China) LLC	Member	100.0	PHS Corporate Services Inc, 1201 Market Street, Suite 1600, Wilmington, DE 19801, USA
Bloom Engineering (Europa) GmbH	Ordinary	100.0	Büttgenbachstraße 14, D-40549 Düsseldorf 11, Germany
Bloom Engineering Co Inc	Common	100.0	5460 Horning Road, Pittsburgh, PA 15236, USA
Bloom Produtos de Combustão do Brasil Ltda	Ordinary	100.0	Rua Guarani 173, 09991-060 Conceicao, Diadema, Sao Paulo, Brazil
Bonningtree Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Brasserie du Centre Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Britannia Heatex Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Brookshire Capital LLP	Member	70.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Brookshire Trading Ltd	Ordinary	100.0	Stratton House, 5 Stratton Street, London W1J 8LA
Buckingham Gate Ltd[2]	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Bucktrout & Company Ltd	Deferred	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
	Ordinary	100.0	
	Preference	100.0	
Butcombe Brewery (EBT) Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Brewery Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Brewing Company Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Inns Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Pubco Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Caesarea Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Café de Paris (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Caledonia CCIL Distribution Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia Choice 2 Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Caledonia Choice 3 Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Caledonia Choice Ltd	Ordinary	97.4[1]	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
	Preference	100.0[1]	
Caledonia Financial Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia Group Services Ltd[2]	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA

Company	Class	Holding %	Registered office
Caledonia Industrial & Services of Delaware LLC	Member	100.0	Corporation Trust Centre, 1209 Orange Street, City of Wilmington, Delaware, 19801 USA
Caledonia Ireland ICAV	Ordinary Participating Preference	100.0[1] 100.0[1]	32 Molesworth Street, Dublin 2, D02 Y512, Ireland
Caledonia Land & Property Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia Sterling Industries LLP	Member	100.0[1]	Sterling House, Brunel Road, Aylesbury HP19 8SS
Caledonia Sterling Ltd	Ordinary	100.0[1]	Sterling House, Brunel Road, Aylesbury HP19 8SS
Caledonia Thames Acquisitions Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
Caledonia Thames Group Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
Caledonia Thames Holdings Ltd	Ordinary	93.6[1]	55 Bishopsgate, London EC2N 3AS
Caledonia TLG Bidco Ltd	Ordinary	100.0	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia TLG Ltd	Ordinary A Preference	85.6 100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Caledonia TLG Midco Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Caledonia Treasury Ltd[2]	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia Venus Acquisitions Ltd	Ordinary	100.0	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia Venus Group Ltd	Ordinary	100.0	Stratton House, 5 Stratton Street, London W1J 8LA
Caledonia Venus Holdings Ltd	Ordinary A	97.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Captains Holdings Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Channel Wines & Spirits (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Choice Care Group Ltd	Ordinary A	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Choice Holdings Ltd	Preferred Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Choice Pathways Ltd	Ordinary B	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Citann Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Community Homes of Intensive Care and Education Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Cosy Corner (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Craig Street Brewing Company Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Crewkerne Investments Ltd	Ordinary	50.5	Sterling House, Brunel Road, Aylesbury HP19 8SS
Deveronside Trading Co Ltd	Ordinary	100.0	Stratton House, 5 Stratton Street, London W1J 8LA
Divette Holdings Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Don Inn (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Easybox Self-Storage Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Edinmore Estates Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Edinmore Investments Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Edinmore Properties Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Edinmore Trading Ltd (in liquidation)	Ordinary	100.0[1]	Mary Street House, Mary Street, Taunton TA1 3NW
Evenstar Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Excel Support Services Ltd	Ordinary A	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Exeter Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Farmers Inn Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Five Oaks Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA

Company	Class	Holding %	Registered office
Foresters Arms (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Gala Bingo Holdings Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Gala Bingo Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Gala County Clubs Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Gala Leisure (1998) Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Gala Leisure Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Garlandheath Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Gimbels (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Glo'ster Vaults Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Great Union Hotel (Holdings) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Great Western Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Guernsey Leisure Company Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Guppy's Holdings Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Guppy's of Guernsey Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Hautville Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Horse & Hound (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Hotwork Combustion Technology Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
John Tregear Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
La Cave des Vins Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
La Rocque Enterprises Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
La Rocque Inn (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Lapwing (Trading) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Le Hocq Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Les Garcons Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Longueville Distributors Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
M Still Catering Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Marais Hall Ltd	Ordinary	100.0	Marais Hall, Marais Square, Alderney
Mary Ann Products (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Mitre Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Nightbridge Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
OEG Holdings Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Old Court House Hotel (St Aubin) 1972 Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Orchard End Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Parade Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
PCC Environmental Equipment (Beijing) Ltd	Ordinary	100.0	608 Xianglong, Mansion in No 311, Guanganmengenei Street, Xicheng District, Beijing, China
Peirson (1971) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Process Combustion Corporation	Common	100.0	5460 Horning Road, Pittsburgh, PA 15236, USA
Puffin NewCo Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Red Lion Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Robin Hood (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
S.G. Manton Ltd (in liquidation)	Ordinary	100.0	44-46 Old Steine, Brighton BN1 1NH
S.L. Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA

Company	Class	Holding %	Registered office
Seven Investment Management LLP	Member	95.0	55 Bishopsgate, London EC2N 3AS
Ship Holdings Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Skid Pipe Insulation LLC	Member	100.0	1001 East Smithfield Street, McKeesport, PA 15135, USA
Sloane Club Properties LLP	Member	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Square Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
St John's Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Stag Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Sterling Argo Holdings Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling Bloom Holdings Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling Crewkerne Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling Industries Ltd	Ordinary Preference	100.0 80.3	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling PCC Holdings Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling Skid Pipe Holdings Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling Thermal Technology Holdings Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sterling Thermal Technology Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Sussex Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Thame Energy Systems Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
The Guernsey Brewery Co (1920) Ltd	Ordinary Preference	100.0 100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
The Independent Brewing Company Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
The Liberation Group Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
The Liberation Group UK Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
The Liberation Pub Company (Guernsey) Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
The Liberation Pub Company (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
The Long Ashton Cider Company Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
The Post Horn Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
The Sloane Club Management Ltd	Ordinary	100.0[1]	52 Lower Sloane Street, London SW1W 8BS
The Union-Castle Mail Steamship Co Ltd	Ordinary A Ordinary	100.0[1] 100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA
Trafalgar Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Triple Rock Ltd	Ordinary	100.0	Cox's Green, Wrington, Bristol BS40 5PA
Truecare Group Ltd	A1 Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Truecare Holdings Ltd	Ordinary B	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Union Inn (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Urquhart Engineering Co Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Victor Hugo Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Victoria (Valley) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Victoria Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Wellington Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Wests Cinemas Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
White Hart Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Zulu Self Storage Properties Ltd	Ordinary	100.0[1]	Stratton House, 5 Stratton Street, London W1J 8LA

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

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 this service and how to apply, including terms and conditions, are available online at www.signalshares.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 0300 or +44 371 664 0300 if calling from outside the United Kingdom. Calls cost 12p per minute plus your phone company's access charge and 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.signalshares.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.signalshares.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 standard geographic rate and will vary by provider. 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.signalshares.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 UK 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 £20,000 for the tax year ending 5 April 2018. Lump sum payments or regular monthly deposits can be made into the ISA. Details of the ISA are available on Caledonia's website or by request from the company.

Caledonia Investments Share Savings Scheme

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

PEPs and ISAs

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

Share prices

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

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

Monthly net asset value

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

Directors and advisers

Chairman

Roderick D Kent[2]

Executive directors

William P Wyatt (Chief Executive)[2]

Stephen A King (Finance Director)

Jamie M B Cayzer-Colvin

Non-executive directors

Harold Y H Boël[1,2]

Stuart J Bridges[1,2,4]

The Hon Charles W Cayzer[2]

Charles H Gregson (Senior Independent)[2,3,4]

Shonaid C R Jemmett-Page[2,3,4]

David C Stewart[1,2,3]

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

Secretary

Graeme P Denison

Registered office

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Registered number

Registered in England no 235481

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