CALEDONIA INVESTMENTS

Annual report 2018

Year ended 31 March 2018

Welcome to Caledonia

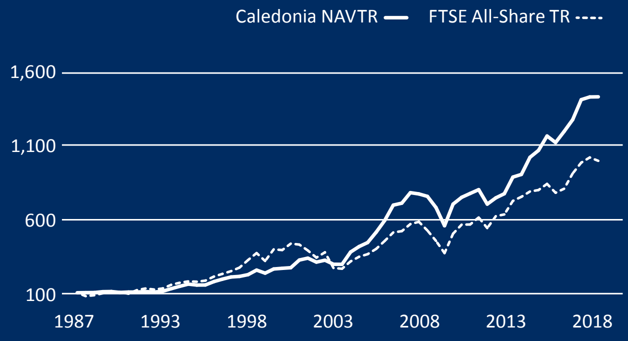
Caledonia is a self-managed investment trust company with net assets of £1.8bn. Our aim is to grow net assets and dividends paid to shareholders over the long term, whilst managing risk (to mitigate the volatility of returns).

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 51 years of increasing its annual dividends.

NAV total return growth since 1987



Company highlights
for the year ended 31 March 2018

- Net asset value per share total return of 1.4%
- Performance in line with strategic objectives
- Annual dividend per share up 4.0% to 57.0p
- 51st consecutive year of annual dividend increases

Results summary

	30 Mar 2018	31 Mar 2017	Change %
Net assets	£1,837m	£1,899m	(3.3)
NAV per share	3285p	3395p	(3.2)
Annual dividend per share	57.0p	54.8p	4.0
Special dividend per share		100.0p	

Performance

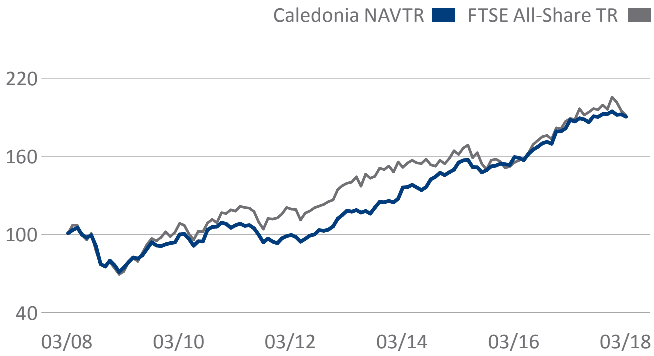
	1 year %	5 years %	10 years %
NAV total return (annualised)	1.4	10.1	6.6
NAV total return	1.4	61.6	89.6
Total shareholder return	1.6	66.4	67.6
Annual dividend growth	4.0	20.8	75.4

Pools

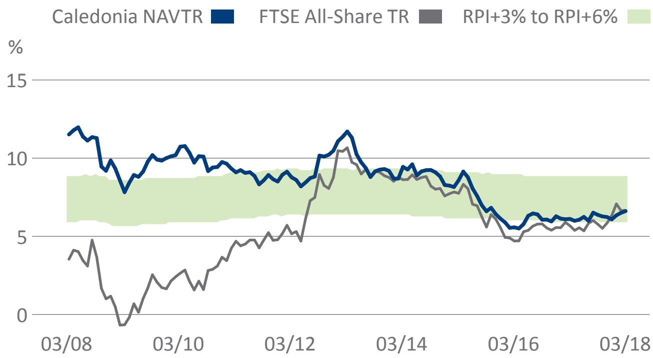
	Value £m	Return %
Quoted	452.3	3.6
Income	194.6	(9.6)
Unquoted	463.5	4.9
Funds	470.5	8.0
Portfolio	1,580.9	3.4
Cash and other[1]	255.7	
Net assets	1,836.6	1.4

1. Includes non-pool investments totalling £29.0m.

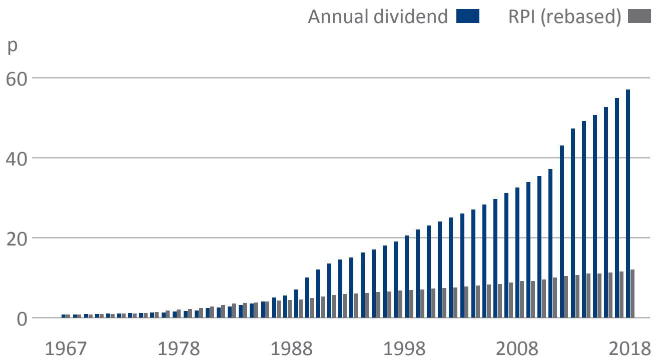
NAV total return growth over ten years



Annualised ten year rolling performance



Annual dividend growth over 51 years



See page 25 for a description of performance measures used by the company.

Chairman's and Chief Executive's report

Results

Caledonia's net asset value total return ('NAVTR') for the year was 1.4% following a particularly strong year in 2017, when it increased by 18.0%. Returns have been significantly impacted by foreign exchange movements, in particular, between the US dollar and sterling. On a constant currency basis, the NAVTR for the year would have been 6.3%. However, taken over the past two years, the impact of foreign exchange movements has been minimal. Income generated from the portfolio fell slightly to £46.0m and management expenses were also down on the previous year. The net assets value of the company fell by 3.2% during the year, due to the payment of a 100p per share special dividend. The board is recommending a 4.0% increase in the final dividend for the year, the same level of increase as for the interim dividend, which would represent the 51st year of consecutive increases of the annual dividend by the company.

Investment performance

Caledonia's aim is to grow the net assets and annual dividends paid to shareholders over the long term, with careful attention paid to the risks being taken to achieve this. The portfolio, due to its large exposure to unquoted assets, is quite different in make-up and performance behaviour to any listed stock market index making direct comparison somewhat misleading. When measuring investment performance, in the short to medium term, we aim to grow NAVTR between RPI+3% to RPI+6% representing a real return commensurate with longer term market outperformance. Over a five to ten year timeframe, it is more appropriate to compare portfolio performance to the FTSE All-Share Total Return, which we aim to outperform.

	1 year %	3 years %	5 years %	10 years %
NAV total return	1.4	22.9	61.6	89.6
Annualised				
NAV total return	1.4	7.1	10.1	6.6
Retail Prices Index	3.3	2.7	2.3	2.8
Performance vs RPI	(1.9)	4.4	7.8	3.8
FTSE All-Share Total Return			6.6	6.7
Performance vs FTSE			3.5	(0.1)

Whilst the year under review fell short of our stated RPI target, over three, five and ten year timeframes, the NAVTR performance remains good. Over a ten year timeframe, the NAVTR performance was marginally behind the FTSE All-Share Total Return index, although within the targeted RPI+3% to RPI+6% inflation band.

Investment portfolio

The investment portfolio, managed via four differentiated pools of capital, gives shareholders a balanced exposure to a variety of asset classes, geographies and currencies.

We are attracted to the higher returns available in unquoted markets, both through investing directly and via the use of funds. Caledonia's distinct advantages of permanent capital and a reputation as a proven long term partner, allow us to differentiate our offering from those with shorter term capital within the UK. The strong performance of our Unquoted and Funds pools since inception eight years ago has supported our continued confidence in these asset classes.

Asset classes	Allocation 31 March 2018
Listed equities	35%
Private companies	25%
Private equity funds	16%
Quoted market funds	10%
Cash and other	14%
	100%

To compensate for the lack of liquidity in unquoted markets and to give shareholders diversified exposure to high quality businesses throughout the world, we also invest in a portfolio of listed companies. This is managed in two pools, the Income pool to provide a strong underpin of dividend income, and the Quoted pool, which invests in a less constrained manner.

In addition, we believe that exposure over the long term to faster growing regions of the world, such as the US and Asia, will provide better returns than a solely UK focused portfolio. We maintain a healthy liquidity buffer to allow us to react quickly to opportunities in all markets as they arise.

Geographic breakdown	Allocation 31 March 2018
UK	32%
Europe	13%
North America	25%
Asia	16%
Cash and other	14%
	100%

Asset allocation

Pool	Strategic allocation %	Current allocation %	Strategic vs current	Return target %
Quoted	25-40	25	Within	10.0
Income	15-20	11	4% below	7.0
Unquoted	35-45	25	10% below	14.0
Funds	15-20	25	5% above	12.5
Cash and other	(10)-10	14	4% above	

The table above shows clearly that, in terms of our strategic asset allocation, the portfolio is under-invested in both the Income pool and the Unquoted pool, whilst the Funds pool is currently over-weight. Cash balances remain high, as we have taken advantage of attractive pricing over the past few years to sell a number of businesses and shareholdings. Whilst we aim to redeploy cash into the portfolio, we have found it increasingly difficult to source investments that meet our requirements due to high valuations in nearly all asset classes. This is particularly so in the private equity markets, where funds, bloated by fund-raising, are paying record prices to deploy capital into what we consider a sellers' market.

Asset allocation remains an important element of our risk management, as does income generation. However, we consider capital discipline to be critical in these circumstances and will continue to be patient and await appropriate opportunities at valuations which allow our investment model to work.

Portfolio

We invested £217m and divested £307m of assets during the year, thereby adding to the significant cash holding which represented 11% of the portfolio at the year end. Expenses fell slightly year on year, our ongoing charges ratio being 0.91%. The reduction in net assets of 3.3% largely reflected the payments to shareholders during the year of a special dividend of £55m together with annual dividends of £30m.

Pool	At Mar 2017 £m	Investments £m	Realisations £m	Gains/ losses £m	At Mar 2018 £m	Income £m	Return[2] %
Quoted	467.9	52.0	(72.3)	4.7	452.3	10.0	3.6
Income	215.9	34.4	(23.9)	(31.8)	194.6	10.6	(9.6)
Unquoted	567.8	30.6	(143.6)	8.7	463.5	15.9	4.9
Funds	404.3	100.4	(66.8)	32.6	470.5	1.5	8.0
Total pools	1,655.9	217.4	(306.6)	14.2	1,580.9	38.0	3.4
Non-pool[1]	32.7	1.0	2.6	(7.3)	29.0	8.0	(2.6)
Investments	1,688.6	218.4	(304.0)	6.9	1,609.9	46.0	3.2
Ongoing charges							(0.9)
Cash	207.3				207.8		(0.2)
Other items	2.9				18.9		(0.7)
Net assets	1,898.8				1,836.6		1.4

1. Non-pool investments comprised legacy investments and cash and receivables in subsidiary investment entities.
2. Returns for investments are calculated using the modified Dietz methodology and the overall return is the company's NAVTR.

Quoted pool – A return of 3.6% for the year was achieved despite the portfolio being 54% invested in dollar denominated assets which suffered from foreign exchange losses. On a currency neutral basis, the return would have been 10.9%. Listed market valuations remain stretched, limiting opportunities for investment.

Income pool – A negative return of 9.6% was a disappointing result, although paid income was slightly ahead of target. General investor sentiment moved away from the defensive sectors favoured by the pool towards cyclical sectors as the global economy recovered and bond yields increased. We do not expect this to represent a permanent loss of capital, rather short term volatility in valuation, as evidenced by the comparison of the total return of 17.0% achieved in the previous 12 months, a consequence of high yield stocks being in favour.

Chairman's and Chief Executive's report continued

Unquoted pool – A return of 4.9% for the year. We sold The Sloane Club for £80m (including a £3m pre-sale dividend) during the year, which had been a core constituent of the portfolio for 26 years, underlining our long term and patient approach to investing. Gala Bingo has had a year of transition. It encountered significant trading headwinds resulting from slowing admissions and sector wide cost inflation, which negatively affected earnings. There has been a change of management during the period and it is proposed to launch an online presence to complement the physical clubs during 2018/19.

Liberation Group had a busy year, adding some 25 pubs to its portfolio, as well as moving the Butcombe drinks distribution business to a new site acquired for Liberation by Brookshire Capital, another Caledonia investee company. Liberation's overall value was marked down at the year end partly due to a reduction in comparable quoted company earnings multiples and partly due to a reduction in its own EBITDA. However, we believe the business is well set for future growth.

Seven Investment Management and Choice Care Group both performed well during the year. 7IM continued to build its assets under management, enjoying material inflows, and exited the year with AUM of some £12.5bn. Choice Care Group has added to the number of beds available for occupancy following a four-year building programme, which is now being reflected in its profitability.

We realised £51m from the sale of part of our holding in Cobehold, the first time we have taken profits from this excellent Belgian investment company since we first invested in 2004. The company continues to perform successfully, with an annualised return of 13.5% and a money multiple of 3.3x capital invested since inception.

Funds pool – The return of 8.0% for the year masked an excellent performance, as the pool is over 95% invested in US dollar denominated funds. Excluding the adverse effect of foreign exchange, the return from underlying funds would have been 19.1%. Once again, Capital Today China contributed significantly to the result, distributing £24m from the sale of its remaining investment in JD.com.

Further detailed discussion of the investment portfolio can be found in the Investment review.

Dividend and discount

The board is recommending to shareholders a final dividend of 41.5p, giving a total for the year of 57.0p an increase of 4.0% over 2017, at a total cost of £23m. The strategy of the company is focused on maintaining and gradually increasing the annual dividend and we aim to ensure that this and the costs of running the company are covered by current portfolio income, although we have substantial reserves should there be a shortfall. This year's payment would mark the 51st year of increases in the annual dividend.

The discount between the share price and the NAV per share at the year end of 19.3%, was marginally above where it started the year at 19.0%. No shares were purchased by the company during the year, but we will once again seek the necessary permissions to do so from shareholders at the AGM should they offer particular value.

Board

We were delighted to welcome Guy Davison to the board, who joined us on 1 January 2018 as a non-executive director. Guy brings with him a wealth of investment experience, in particular in the private equity domain, from his career as a founding partner at Cinven. We were sad to lose Harold Boël in September of last year, who had served as a non-executive director of the company for three years and provided valuable experience and expertise.

EU regulation

Recent EU regulation requires investment trust companies (and other providers of investment products) to publish a Key Information Document ('KID'). This requires the presentation of standardised illustrations of theoretical risk and returns to enable a comparison of different investment products across a wide range of financial sectors. We urge caution in using KIDs as the sole basis for investment decisions.

Outlook

Caledonia's portfolio is well diversified geographically and invested in sound companies that will continue to generate strong cash flows. We have substantial reserves of cash and the ability to draw bank facilities should market conditions turn more favourable or we encounter attractive, well-priced investments. However, with pricing in quoted and, particularly, unquoted markets remaining at elevated levels, there is no guarantee that we will be able to deploy capital in the immediate future.

We remain mindful of the continuing political and economic uncertainty, despite the strong growth seen across global stock markets. In the UK, the mechanics and implications of Brexit are unresolved, whilst higher inflation and the potential for higher borrowing costs is likely to impact consumer spending. In the US, the Federal Reserve has been increasing interest rates and has begun the process of quantitative tightening. US Treasury yields have risen accordingly, which has historically been a warning for equity investors.

Despite these uncertainties, we remain confident that our portfolio is well positioned to deliver our long term return targets, growing the net assets and annual dividend of the company. We have carefully built substantial reserves of cash, which, coupled with our bank facilities, will enable us to capitalise on future opportunities as they emerge. We will, however, remain patient and disciplined, deploying capital only where we see value to our shareholders.

David Stewart
Chairman

Will Wyatt
Chief Executive

The Chairman's and Chief Executive's report on pages 2 to 5 and additional reports on pages 6 to 31 comprise the Strategic report of the company. The Strategic report was approved by the board on 24 May 2018 and signed by Mr Wyatt on its behalf.

Business model and strategy

How we create value

What we do

Caledonia invests in proven well-managed businesses that combine long term growth characteristics with an ability to deliver increasing levels of income.

We identify and invest in companies that meet our investment goals and risk appetite

We organise our portfolio into four pools, each with a strategic allocation of capital, investment strategy and return targets, with an overall balance to provide a long term, risk mitigated return in line with our strategic objectives

Quoted pool

25-40%
Strategic allocation

10%
Target return

Equity holdings in listed companies with proven long term returns, global reach and strong market presence. Opportunities are identified through research.

Income pool

15-20%
Strategic allocation

7%
Target return

Investments in global listed equity with a reliable and growing annual income stream – targeting a net yield of 4.5% pa, and providing a source of readily accessible liquidity. Opportunities are identified through research.

Unquoted pool

35-45%
Strategic allocation

14%
Target return

Holdings in established private companies with proven management teams, seeking long term growth capital. Opportunities are identified through our network of contacts.

Funds pool

15-20%
Strategic allocation

12.5%
Target return

Invests in private equity and quoted market funds to provide exposure to regions and sectors where we are less able to invest directly. We search for successful fund managers, whom we monitor for an extensive period before committing funds.

To deliver on 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

How we do it

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

We use 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 can 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 with investment trust status since 2003.

To apply our disciplined investment process

Our investment process is at the heart of creating investment returns and is tailored to the nature and risk 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.

Extensive and ongoing business and financial due diligence is conducted, often using independent advisers, before a final investment decision is made. Investments are subject to a formal executive approval process and continuous performance monitoring and risk reviews.

Board approval is required for all investments and disposals over £20m.

To manage investment risk

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

Business model and strategy continued

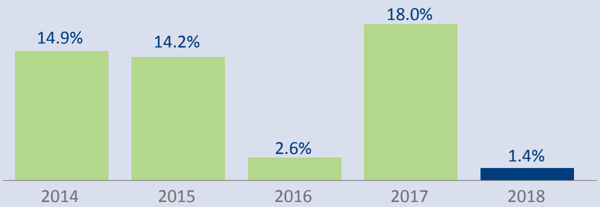
Key Performance Indicators

How we measure our performance

Metric | **Link to objective**

Net asset value total return ('NAVTR')

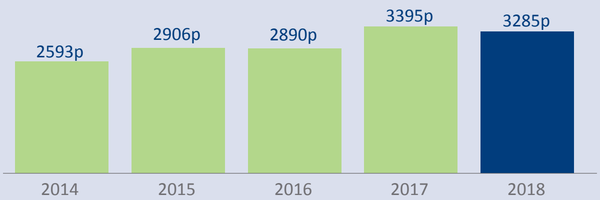
NAVTR is a measure of how the net asset value ('NAV') per share has performed over a period, taking account of both capital returns and dividends paid to shareholders. NAVTR is calculated as the increase in NAV per share plus the accretion from assumed dividend reinvestment over the period, detailed in note 17 to the financial statements.



Link to objective: 1 2

NAV per share

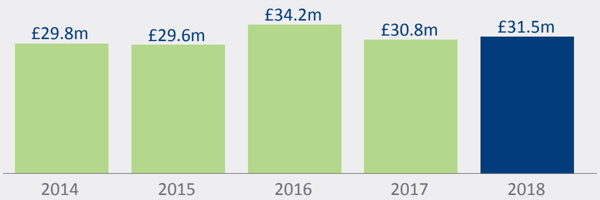
NAV per share is a measure of the value of the company per share, calculated by dividing net assets by the number of shares in issue, adjusting for shares held by the employee share trust and for dilution by the exercise of share awards, detailed in note 17 to the financial statements



Link to objective: 1

Net revenue

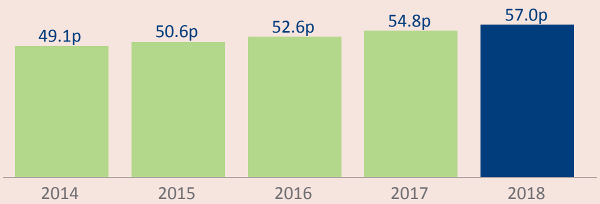
Net revenue comprises income from investments less management expenses and tax. It differs from comprehensive income in excluding gains and losses on investments and other items of a capital nature. This separation of profits and losses is of importance to investors in investment trust companies.



Link to objective: 2 3

Annual dividend

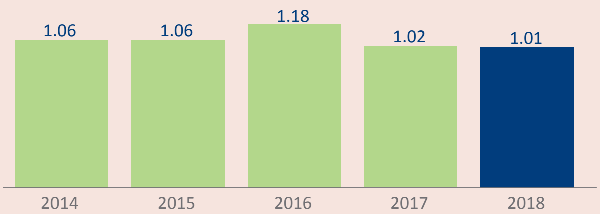
Annual dividend is the per share amount payable to shareholders out of profits for the year, excluding any special dividends.



Link to objective: 2

Dividend cover

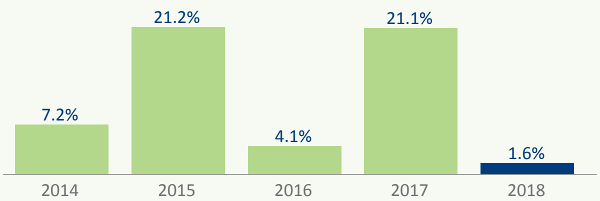
Dividend cover is the ratio of net revenue (described above) to the annual dividend payable to shareholders out of profits for the year. It helps to indicate the sustainability of annual dividends.



Link to objective: 2 3

Total shareholder return ('TSR')

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



Link to objective: 1 2

How we have progressed in the year

Continued outperformance of five year but marginally underperforming ten year NAVTR against the FTSE All-Share TR index.

Significant impact on performance from foreign exchange.

Pool returns in the year:

	Value £m	Total return %	TR excluding forex impact %
Quoted	452.3	3.6	10.9
Income	194.6	(9.6)	(7.1)
Unquoted	463.5	4.9	4.4
Funds	470.5	8.0	19.1
Portfolio	1,580.9	3.4	8.6
Cash and other	255.7		
Net assets	1,836.6	1.4	6.3

A high level of net cash following portfolio sales has contributed to a high level of liquidity but resulted in a lower level of income in the year.

4.0%
increase in annual dividend for the year.

100p
special dividend per share paid in the year.

51 years
of consecutive annual dividend increases.

1.01x
annual dividend fully covered by portfolio income in the year.

1.6%
TSR over the year, with the 3.6% decrease in share price offset by annual dividends paid of 54.8p and a special dividend of 100p.

Investment review
Performance and analysis

Over the year, our investment performance delivered a 1.4% NAV total return. Foreign exchange had a significant adverse impact on our performance in the year.

In recent years, we have rebalanced our portfolio, 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 creating current investment returns and future prospects. We have an unconstrained approach, which allows us to invest 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 1.4%, following on from a total return of 18.0% in 2017, 2.6% in 2016 and 14.2% in 2015. Over the year, we have continued to develop our long term portfolio through new investment, funded by opportunistic disposal and managed top-slicing. The portfolio has contributed a good level of income, but performance has been impacted in the year by net sales and a relatively high cash position.
Our investments, excluding non-pool investments, produced a 3.4% return. After returns on net cash (held centrally), together with management and other expenses, NAV total return was 1.4%.

The 3.4% investment return comprised valuation gains and losses on our investments, together with the income that they yielded.

Pool	At Mar 2017 £m	Invest-ments £m	Realis-ations £m	Gains/ losses[2] £m	At Mar 2018 £m	Income £m	Return[3] %
Quoted	467.9	52.0	(72.3)	4.7	452.3	10.0	3.6
Income	215.9	34.4	(23.9)	(31.8)	194.6	10.6	(9.6)
Unquoted	567.8	30.6	(143.6)	8.7	463.5	15.9	4.9
Funds	404.3	100.4	(66.8)	32.6	470.5	1.5	8.0
Total pools	1,655.9	217.4	(306.6)	14.2	1,580.9	38.0	3.4
Non-pool[1]	32.7	1.0	2.6	(7.3)	29.0	8.0	(2.6)
Investments	1,688.6	218.4	(304.0)	6.9	1,609.9	46.0	3.2
Ongoing charges							(0.9)
Cash	207.3				207.8		(0.2)
Other items	2.9				18.9		(0.7)
Net assets	1,898.8				1,836.6		1.4

1. Non-pool investments comprised legacy investments and cash and receivables in subsidiary investment entities.
2. Gains/losses included the reclassification of a non-core investment valued at £1.6m from the Quoted pool to Non-pool investments and an increase of £0.1m for accrued income in the Unquoted pool.
3. Returns for investments are calculated using the modified Dietz methodology and the overall return is the company's NAVTR. Between investments and net asset returns is the impact of ongoing charges, the impact from holding substantial cash balances and the impact of other items including other expenses and changes in the shares in issue.

Investment returns

The total return on investments, excluding non-pool subsidiary investment entities holding cash and receivables, was 3.4%. The principal contributors to this performance were as follows:

Name	Gain/loss £m	Income £m	Return £m	Return %
Choice Care Group	27.0	1.9	28.9	53.7
Capital Today China fund	21.0	0.2	21.2	81.1
The Sloane Club	15.2	3.7	18.9	30.7
Polar Capital	12.2	1.8	14.0	63.6
Seven Investment Management	10.7	–	10.7	13.2
Liberation Group	(17.9)	2.3	(15.6)	(19.3)
Gala Bingo	(36.0)	0.2	(35.8)	(33.4)
Income pool	(31.8)	10.6	(21.2)	(9.6)
Other investments	15.3	17.3	32.6	
Pool investments	15.7	38.0	53.7	3.4

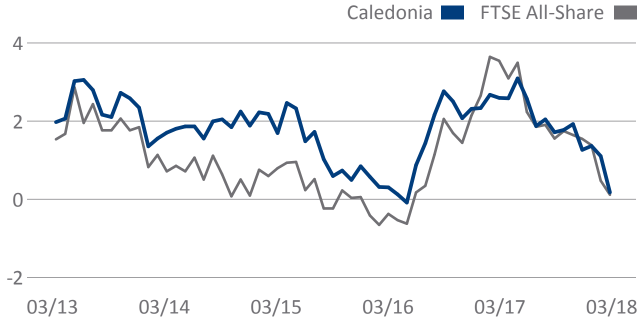
The largest contributor to return was Choice Care Group, which saw its valuation marked up, because of increased multiples. The return also benefited from substantial distributions from the Capital Today China fund, on the realisation of its holding in JD.com, and the sale of our investment in The Sloane Club. We also saw uplifts in the valuations of Polar Capital and Seven Investment Management.

Offsetting these gains was a reduction in the valuations of Gala Bingo, resulting from a reduction in earnings in difficult trading conditions, and Liberation Group, due to reduction in multiples in the brewing sector.

The other significant feature was an adverse 9.6% return from our Income pool. Although the pool achieved its primary target of 4.5% annual yield, the portfolio's capital values were impacted by the changing interest rate environment and a recent move in market sentiment away from staple income stocks.

Caledonia's risk/return ratio (measured using the Sharpe methodology) has broadly remained favourable to that of the FTSE All-Share over the last five years, although both have reduced as market returns have declined.

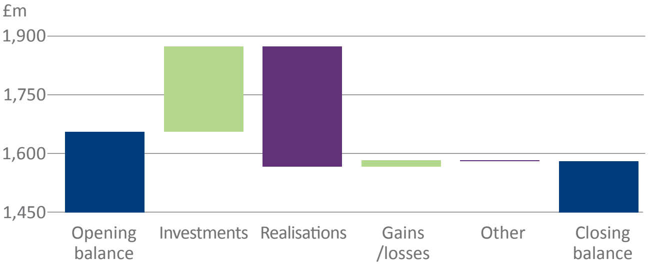
Sharpe Ratio



Investment movements

At the beginning of the year, the overall value of our pool investments (excluding cash and centrally held assets) was £1,655.9m. After £89.2m of net realisations, £15.7m of net gains, an increase in accrued income of £0.1m together with the transfer of £1.6m from pool to non-pool investments, the pool investments value decreased to £1,580.9m at the year end. The following chart illustrates the components of this movement:

Change in pool investments



Net pool gains over the year totalled £15.7m, comprising £168.8m of gains and £153.1m of losses. The principal gross gains were generated by Choice Care Group, the Capital Today China fund, The Sloane Club and Polar Capital. The principal gross losses arose from Gala Bingo and Liberation Group.

Investment review continued
Performance and analysis

Investments
Total pool investments during the year were £217.4m (2017 – £245.0m), summarised as follows:

Name	Pool	Cost £m
New investments		
Charter Communications	Quoted	16.9
Ecolab	Quoted	10.6
Symrise	Quoted	8.9
Other new investments		11.6
		48.0
Follow-on investments		
Aberdeen US PE funds	Funds	17.9
Liberation Group	Unquoted	16.4
Axiom Asia funds	Funds	10.7
Watsco	Quoted	10.2
Income pool	Income	34.4
Other follow-on investments		79.8
		169.4
Total pool investments		217.4

During the year, we invested £48.0m in new holdings, including £16.9m in Charter Communications, the US telecommunications company operating under the Spectrum brand, £10.6m in Ecolab, the US global provider of water, hygiene and energy technologies and services, and £8.9m in Symrise, the German global producer of flavours and fragrances.

Other new investments comprised initial drawdowns by new fund commitments to LYFE Capital, a Chinese healthcare fund, Ironbridge Equity Partners, a Canadian lower mid-market fund investing in traditional industries, and TZP Group, a US fund focused on consumer and business services companies.

Follow-on investments totalled £169.4m, including a further £16.4m in Liberation Group, to enable it to increase its pub estate, particularly in the south west of England, and £10.2m in Watsco, the US distributer of air conditioning, heating, and refrigeration equipment and related parts and supplies.

The £34.4m invested through the Income pool principally reflected new investments in Direct Line Insurance Group and Sabre Insurance Group, together with additional investments in several existing holdings.

Realisations
Proceeds from pool realisations during the year totalled £306.6m (2017 – £433.0m), summarised as follows:

Name	Pool	Proceeds £m
The Sloane Club	Unquoted	76.7
Cobehold	Unquoted	50.6
Bristow Group	Quoted	29.3
Capital Today China Growth fund	Funds	24.4
Colgate Palmolive	Quoted	13.2
A G Barr	Quoted	13.1
Brookshire Capital	Unquoted	10.3
Income pool	Income	23.9
Other realisations		65.1
Total pool realisations		306.6

Our most significant realisation was within the Unquoted pool, where we disposed of our 100% holding in The Sloane Club, the residential club in the heart of Chelsea, London, to Queensway Group and Clearbell Capital for an enterprise value of £80.6m, delivering £80.2m to Caledonia, including a £3.5m pre-sale distribution of trading profits. Caledonia originally invested in The Sloane Club in 1991 and oversaw significant expansion and upgrade of its facilities. Over the life of our investment, The Sloane Club generated an IRR of 8.3% and a money return of 3.2x.

In June 2017, we top-sliced our holding in Cobehold, receiving £50.6m, net of a currency hedge against the sale proceeds. Cobehold is the holding company of Cobepa, a Belgian investment company that has seen significant success since our investment in 2004 to fund a buyout from BNP Paribas.

In March 2018, we sold our remaining holding in Bristow Group, the US helicopter services company. Caledonia first invested in Bristow in 1991 and saw the business merged with the US helicopter operator, Offshore Logistics, and subsequently renamed Bristow Group. Over the life of our investment, Bristow Group has generated an IRR of 18.1%.

In the Quoted pool, we sold our holding in Colgate Palmolive for £13.2m and received £13.1m from top-slicing our holding in A G Barr, the Scottish soft drinks company.

Brookshire Capital, held in the Unquoted pool, returned £10.3m in loan repayments together with a capital distribution from the sale of various investment properties.

In the Income pool, we realised £23.9m, mainly through the sale of our holdings in General Electric, Royal Mail and SES SA.

In the Funds pool, we received £24.4m of distributions from the Capital Today China Growth fund on final sales of its holding in JD.com, the US listed Chinese internet retail company.

Distribution analysis

Pools

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

	Actual allocation 2018	2017	Target allocation
Quoted pool	25%	25%	25-40%
Income pool	11%	11%	15-20%
Unquoted pool	25%	30%	35-45%
Funds pool	25%	21%	15-20%
Cash and other	14%	13%	(10)-10%

The table illustrates a movement of value during the year from the Unquoted to Funds pools. The reduction in value of the Unquoted pool, principally arose from the sale of The Sloane Club and top-slicing of our holding in Cobehold. The Funds pool expanded principally as a result of substantial drawdowns in a range of private equity funds.

Our current allocation between pools is outside our long term strategic target allocation. We would anticipate normalising the allocation as market opportunities allow over time.

Geography

The following table 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.

	2018	2017
United Kingdom	32%	34%
Europe	13%	15%
North America	25%	25%
Asia	16%	12%
Other countries	–	1%
Cash and other	14%	13%

We do not manage our portfolio through a strategic geographical allocation. Nonetheless, the mix of pool strategies provides a broad geographical portfolio.

Over the year, there has been a shift of focus from the UK and Europe to Asia. This reduction in the UK and Europe resulted principally from realisation of The Sloane Club and of Cobehold respectively. The increase in Asian investments was due principally to substantial drawdowns by Asian private equity funds.

At the end of the year, non-UK investments accounted for 54% 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 table estimates the geographic analysis by revenue generation, which shows an investment exposure to non-UK economies of 60% of net assets.

	2018	2017
United Kingdom	26%	25%
Europe	15%	17%
North America	21%	22%
Asia	20%	18%
Other countries	4%	5%
Cash and other	14%	13%

Investment review continued
Performance and analysis

Asset class
The following table shows the distribution of net assets by asset class. Listed securities represented 35% of net assets at the year end and unlisted investments (direct investments and funds) in total accounted for 51%, overall a minor change from the previous year.

	2018	2017
Listed equities	35%	36%
Private companies	25%	30%
Private equity funds	16%	12%
Quoted market funds	10%	9%
Cash and other	14%	13%

The periodic sale and investment of large direct unlisted investments can cause shorter term changes in the above distribution of asset classes.

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

	2018	2017
Pound sterling	50%	53%
US dollar	40%	35%
Euro	7%	9%
Other currencies	3%	3%

During the year, the effects of realising The Sloane Club (sterling) and Cobehold (euro) investments, together with a switch in our holding in the Macquarie Asia New Stars fund from the GBP class to USD class shares, resulted in a net reduction in sterling investments and a net increase in US dollar investments.

Investments summary

Holdings over 1% of net assets at 31 March 2018 were as follows:

Name	Pool	Geography[1]	Business	Value £m	Net assets %
Cobehold	Unquoted	Belgium	Investment company	93.5	5.1
Seven Investment Management	Unquoted	UK	Investment management	91.5	5.0
Choice Care Group	Unquoted	UK	Care homes provider	81.9	4.4
Gala Bingo	Unquoted	UK	Bingo operator	74.5	4.1
Liberation Group	Unquoted	Jersey	Pubs and restaurants	72.9	4.0
Aberdeen US PE funds	Funds	US	Funds of funds	58.7	3.2
NTAsset funds	Funds	Asia	Quoted market funds	44.3	2.4
Arlington AVM Ranger fund	Funds	US	Quoted market fund	42.0	2.3
A G Barr	Quoted	UK	Soft drinks	39.8	2.2
Macquarie Asia New Stars fund	Funds	Asia	Quoted market fund	38.8	2.1
Microsoft	Quoted	US	Infrastructure technology	37.3	2.0
British American Tobacco	Quoted/Income	UK	Tobacco	36.9	2.0
Spirax Sarco	Quoted	UK	Steam engineering	32.2	1.8
Polar Capital	Quoted	UK	Fund manager	31.3	1.7
Capital Today China Growth fund	Funds	China	Private equity fund	31.0	1.7
Flowserve	Quoted	US	Industrial engineering	30.0	1.6
Hill & Smith	Quoted	UK	Infrastructure products	28.9	1.6
Oracle	Quoted	US	Infrastructure technology	28.1	1.5
Jardine Matheson	Quoted	Singapore	Industrial engineering	27.8	1.5
JF Lehman funds	Funds	US	Private equity funds	27.7	1.5
PVAM Perlus Microcap fund	Funds	US	Quoted market fund	26.1	1.4
Thermo Fisher Scientific	Quoted	US	Biotechnology development	24.9	1.4
Becton Dickinson	Quoted	US	Medical technology	24.4	1.3
Asia Alternatives funds	Funds	Asia	Funds of funds	23.8	1.3
Overlook Partners fund	Funds	Asia	Quoted market fund	23.6	1.3
Philip Morris	Quoted/Income	US	Tobacco	23.2	1.3
Sports Information Services	Unquoted	UK	Broadcasting services	22.6	1.2
Watsco	Quoted	US	HVAC/R distribution	20.2	1.1
Axiom Asia funds	Funds	Asia	Funds of funds	19.4	1.1
Nestlé	Quoted	Switzerland	Packaged foods	19.0	1.0
Other investments				404.6	22.0
Investment portfolio				1,580.9	86.1
Non-pool investments				29.0	1.6
Cash and other items				226.7	12.3
Net assets				1,836.6	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 global portfolio of listed equities.

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

+3.6%

return over the year
25% of net assets at 31 March 2018

	£m
Opening value	467.9
Investments	52.0
Realisations	(72.3)
Transfer to non-pool investments	(1.6)
Valuation gains/losses	6.3
Closing value	452.3
Investment income	10.0

The Quoted pool contains 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 balance sheet. 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 18 investments valued at £467.9m and ended with 19 holdings with a value of £452.3m, with £52.0m of investments and £72.3m of realisations (2017 – £42.0m and £95.1m respectively) and net valuation gains of £6.3m. New investments included £16.9m in Charter Communications and £10.6m in Ecolab in the US and £8.9m in Symrise in Germany. We also added a further £10.2m to our holding in Watsco. Realisations included £29.3m from our remaining holding in Bristow Group, £13.2m from Colgate Palmolive and £13.1m from A G Barr.

Including £10.0m of dividend income, the Quoted pool recorded a return of 3.6%, following last year's return of 20.6%.

In general, US stocks performed well over the year. However, our returns from these investments were mitigated by the impact of the weakening US dollar (weakening 12% in the year). Overall, this had an adverse impact of 7.6% on pool return.

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 %
A G Barr	Soft drinks	UK	1977	5.3	0.7	39.8	8.8	1.1	5.6	17.3
Microsoft	Infrastructure technology	US	2014	<0.1	15.1	37.3	8.2	0.9	8.3	26.3
Spirax Sarco	Steam engineering	UK	2011	0.8	11.3	32.2	7.1	0.5	6.1	24.5
Polar Capital	Fund manager	UK	2001	6.5	0.4	31.3	6.9	1.8	12.2	63.6
Flowserve	Industrial engineering	US	2015	0.7	35.0	30.0	6.6	0.5	(7.6)	(19.1)
Hill & Smith	Infrastructure products	UK	2011	2.8	7.6	28.9	6.4	0.5	1.4	7.8
British American Tobacco	Tobacco	UK	2015	<0.1	24.6	28.5	6.3	1.0	(8.0)	(19.3)
Oracle	Infrastructure technology	US	2014	<0.1	22.0	28.1	6.2	0.4	(2.6)	(7.2)
Jardine Matheson	Industrial engineering	Singapore	2011	0.1	21.0	27.8	6.1	0.7	(4.7)	(12.3)
Thermo Fisher Scientific	Biotech development	US	2015	<0.1	14.9	24.9	5.5	0.1	4.0	19.8
Becton Dickinson	Medical technology	US	2015	0.1	16.3	24.4	5.4	0.3	1.2	6.6
Watsco	HVAC/R distribution	US	2017	0.5	18.1	20.2	4.5	0.4	2.4	20.3
Nestlé	Packaged foods	Switzerland	2011	<0.1	15.6	19.0	4.2	0.5	(1.7)	(5.9)
Other investments					90.8	79.9	17.8	1.3	(10.3)	
					293.4	452.3	100.0	10.0	6.3	3.6

Income pool

The Income pool comprises a portfolio of 22 investments in listed international businesses of global scale and market presence.

The pool targets a net yield of 4.5%.

-9.6%

return over the year
11% of net assets at 31 March 2018

	£m
Opening value	215.9
Investments	34.4
Realisations	(23.9)
Valuation gains/losses	(31.8)
Closing value	194.6
Investment income	10.6

	2018	2017
Oil and gas	6%	5%
Industrials	–	9%
Consumer goods	18%	20%
Health care	10%	9%
Consumer services	7%	11%
Telecommunications	10%	9%
Utilities	13%	14%
Financials	36%	23%

Over the year, the Income pool invested £34.4m and realised £23.9m. Net dividend income during the year was £10.6m, representing a net yield of 5.0% on average invested capital.

The Income pool was created in March 2011.
Over the seven years since inception, the Income pool has produced a return of 49.9%, giving an annualised return of 6.0%, and provided a total £52.6m of income to Caledonia.

Over the course of the last year, the Income pool has continued to refine its investments, with the goal of increasing yield and reducing volatility. The number of holdings 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 focus has remained on companies with a resilient earnings model, high cash flow generation and a high and growing dividend yield. In general, holdings are of similar size, at around £10m in value at the year end.

	2018	2017
United Kingdom	52%	45%
Europe	25%	26%
North America	19%	24%
Asia Pacific	4%	5%

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 %
Ageas	Insurance	Belgium	2015	0.1	8.9	11.4	5.9	0.5	1.7	23.9
SCOR	Reinsurance	France	2011	0.2	8.0	11.1	5.7	0.4	(0.4)	0.1
Royal Dutch Shell	Oil and gas	UK	2015	<0.1	9.3	11.0	5.6	0.7	0.4	10.6
Direct Line Insurance	Insurance	UK	2017	0.2	10.3	10.9	5.6	0.2	0.6	7.3
Telenor	Telecommunications	Norway	2014	<0.1	8.8	10.7	5.5	0.5	1.8	26.9
Other investments					140.7	139.5	71.7	8.3	(35.9)	
					186.0	194.6	100.0	10.6	(31.8)	(9.6)

Investment review continued
Unquoted pool

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

+4.9%
return over the year
25% of net assets at 31 March 2018

	£m
Opening value	567.8
Investments	30.6
Realisations	(143.6)
Valuation gains/losses	8.6
Accrued income	0.1
Closing value	463.5
Investment income	15.9

The year has seen two significant events, being the sale of The Sloane Club and top-slicing of the Cobehold investment. After £30.6m of investments, £143.6m of realisations and net valuation gains of £8.6m, the Unquoted pool declined in value from £567.8m to £463.5m. Including £15.9m of income, the pool achieved a return over the year of 4.9%.

In June 2017, we sold around one-third of our holding in Cobehold for £50.6m. Cobehold is the holding company of the successful Belgian Cobepa fund. In February 2018, we invested a further £5.4m in Cobehold when the balance due on part paid shares was called. This holding has performed well and our top-slicing was aimed at managing our growing exposure to the investment.

In October 2017, we sold The Sloane Club, the residential club in Chelsea, London, to Queensway Group and Clearbell Capital for an enterprise value of £80.6m, delivering £80.2m to Caledonia, including a £3.5m pre-sale distribution of trading profits. The Sloane Club generated an IRR of 8.3% and a money return of 3.2x since our investment in 1991.

Pool performance in the year benefited from the increased valuation of Choice Care Group, due to both increased multiples and earnings, but was negatively impacted by a reduction in the values of Gala Bingo and Liberation Group. Gala has had a year of transition, with significant investment in the retail estate, branding and the pre-launch development of its online business. We expect to see the benefit of these investments over the coming years. The Liberation Group value reduction primarily reflected reduced multiples across the sector, together with a small reduction in earnings. During the year, Liberation purchased some 25 pubs whose earnings will be reflected in the 2018/19 year.

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 %
Cobehold	Investment company	Belgium	2004	5.4	32.3	93.5	20.2	2.5	8.0	11.5
Seven Investment Management	Investment management	UK	2015	93.1	73.2	91.5	19.7	–	10.7	13.2
Choice Care Group	Care homes provider	UK	2013	97.4	54.9	81.9	17.7	1.9	27.0	53.7
Gala Bingo	Bingo operator	UK	2015	98.9	98.3	74.5	16.1	0.2	(36.0)	(33.4)
Liberation Group	Pubs and restaurants	Jersey	2016	97.9	90.8	72.9	15.7	2.3	(17.9)	(19.3)
Sports Information Services	Broadcasting services	UK	2005	22.5	16.7	22.6	4.9	3.4	2.7	32.5
Other investments					12.0	26.6	5.7	5.6	14.1	
					378.2	463.5	100.0	15.9	8.6	4.9

Funds pool

The Funds pool comprises investments in both private equity and quoted market funds.

Our fund investments provide a broad exposure to areas of the world where it would prove more difficult for us to invest directly and where we believe the risk/reward ratio is commensurate with Caledonia's overall strategic aims. This is predominantly in Asia and North America.

+8.0%

return over the year
25% of net assets at 31 March 2018

	£m
Opening value	404.3
Investments	100.4
Realisations	(66.8)
Valuation gains/losses	32.6
Closing value	470.5
Investment income	1.5

The Funds pool performed well over the year achieving a total return of 8.0%, following a total return of 23.1% in the previous year. The US dollar had a significant adverse effect in the current year, with the total return pre-forex being 19.1%. The previous year had seen a significant positive impact as a result of the weakening of sterling, but when performance is looked at over the past two years, the forex impact was neutralised. All four elements of the pool broadly achieved their target local currency returns.

The nature of the long 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 towards later years. Over the year, the returns from the investments in mature funds, including those managed by Capital Today, Standard Life Aberdeen, CBPE Capital and Livingbridge, more than offset the expected very small early losses from new fund investments. Younger funds are unduly impacted by fees before NAV growth of the underlying investments begins to be achieved.

During the year, we committed to several new private equity funds. In the Asia Pacific region, we committed $85m (£60.6m) to four new funds, and, in the US, we committed $102m (£72.7m) to four new funds. Realisations in the year amounted to £66.8m, comprising fund distributions, including £24.4m from the Capital Today China fund, resulting from sale of the remainder of its holding in JD.com.

At the year end, undrawn fund commitments, including commitments to funds held in a subsidiary investment entity, amounted to £320.0m (2017 – £229.8m).

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 %
Aberdeen US PE	Funds of funds	US	2013	n/a	49.4	58.7	11.9	0.1	8.5	18.8
NTAsset funds	Quoted market funds	Asia	2014	n/a	30.7	44.3	9.5	–	2.0	4.8
Arlington AVM Ranger	Quoted market fund	US	2014	n/a	25.8	42.0	9.0	–	2.9	7.3
Macquarie Asia New Stars	Quoted market fund	Asia	2014	n/a	40.1	38.8	8.3	–	0.6	1.5
Capital Today China	Private equity fund	China	2006	n/a	–	31.0	6.6	0.2	21.0	81.1
J F Lehman	Private equity funds	US	2011	n/a	27.1	27.7	5.9	–	0.6	2.3
PVAM Perlus Microcap	Quoted market fund	US	2010	n/a	10.5	26.1	5.6	–	(4.4)	(14.3)
Asia Alternatives funds	Funds of funds	Asia	2012	n/a	15.3	23.8	5.1	–	0.2	0.8
Overlook Partners	Private equity fund	Asia	2016	n/a	15.6	23.6	5.0	–	2.7	10.3
Axiom Asia funds	Funds of funds	Asia	2012	n/a	17.1	19.4	4.1	–	1.2	9.8
Other investments					132.0	135.1	29.0	1.2	(2.7)	
					363.6	470.5	100.0	1.5	32.6	8.0

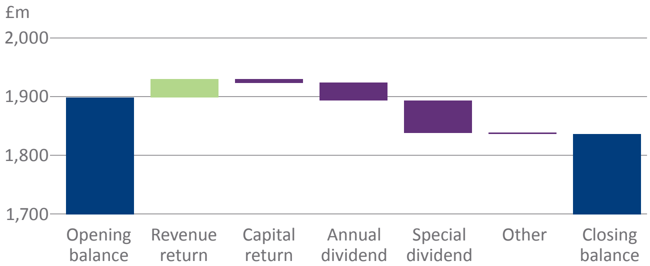
Financial review

The strength of the company's balance sheet has continued to reflect our long term risk managed approach to capital accumulation. Sustained growth in net revenue supports a record of 51 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 the return of significant volatility (to listed markets) and more modest overall returns. Markets peaked at the end of 2017, on the back of strong corporate earnings and macro-economic data, falling back in the first quarter of 2018 to a similar level to that at the start of the year. Our balanced exposure to worldwide markets and asset classes has helped manage risk and our pool investments, whilst focused on long term value accumulation, achieved a return of 3.4%, compared with the FTSE All-Share Total Return of 1.2%. After management expenses and non-pool investments, comprising subsidiary investment entities holding cash and receivables, the overall return was 1.4%.

Caledonia's net assets decreased to £1,836.6m at 31 March 2018, from £1,898.8m at the start of the year, the most significant factor being the payment of a special dividend in August 2017.

Change in net assets



Total return

The company seeks to generate total return from both investment income and long term capital growth. For the year ended 31 March 2018, the total return was £25.4m (2017 – £288.1m), of which £31.5m (2017 – £30.8m) derived from income with a loss of £6.1m (2017 – £257.3m profit) from capital.

Revenue performance

Investment income in the year of £46.0m (including £8.0m from non-pool investments) was 2.7% lower than last year's £47.3m (including £6.4m from non-pool investments). The main change was from dividends of £3.5m and £3.0m received from Seven Investment Management and Gala Bingo respectively in 2017, not repeated in 2018.

Income from non-pool investments of £8.0m was from a subsidiary investment entity, originating from the proceeds of a Park Holidays pre-sale dividend of £26.7m received in April 2016.

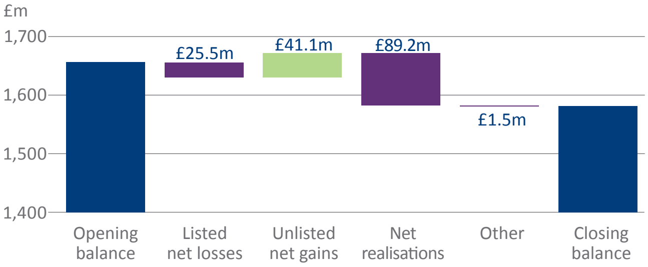
Pool investment income represented a net yield on monthly average pool values of 2.3%, compared with 2.5% last year.

Capital performance

Valuation net gains on investments totalled £6.8m (2017 – £265.7m gain). Overall, pool investments generated £168.8m of gains, offset by £153.1m of losses, and non-pool investments generated losses of £8.9m. The principal individual pool gains were £27.0m from Choice Care Group from increased multiples, £21.0m from the Capital Today China fund, from the sale of its holding in JD.com, the US listed Chinese e-commerce company; £15.2m from realisation of The Sloane Club; £12.2m from Polar Capital; and £10.7m from Seven Investment Management. Against these gains, Gala Bingo was marked down by £36.0m and Liberation Group by £17.9m, due to a combination of weaker trading and a reduction in market multiples.

Overall, across the pools, our investment structure continued to provide a diversified counter balance to volatile markets, with listed investments recording a net valuation loss of £25.5m and unlisted investments a net gain of £41.1m.

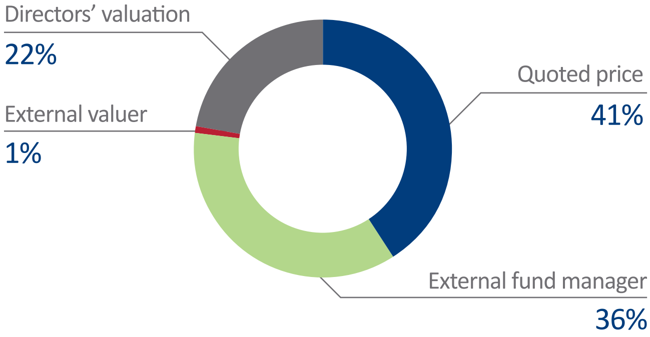
Change in pool investments value



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. Specific adjustments are made to earnings multiples, where applicable, to account for points of difference between the comparators and the company being valued. Discounts are applied to reflect 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 78% of the portfolio value is subject to either market prices or independent external valuation:

Pool investments by valuation source



Expenses

Caledonia allocates expenses between revenue and capital 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 ongoing costs of running funds in the absence of any purchases or sales of investments and assume 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 0.91% (2017 – 1.07%). The ongoing charges ratio is calculated on an industry standard basis, comprising published management expenses over the monthly average net assets. The costs of underlying funds are not included in the company's ongoing charges. It should be noted that the principal difference between ongoing charges and MiFID II charges, included in our Key Information Document, is that the latter includes the underlying costs of managing our fund interests.

Overall, the company's revenue management expenses were lower than last year at £16.9m (2017 – £18.5m). This primarily reflected the saving of temporary accommodation costs previously incurred whilst our head office building was being refurbished.

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 51 consecutive years.

We paid an interim dividend of 15.5p per share on 11 January 2018 and have proposed a final dividend of 41.5p. The total annual dividend for the year of 57.0p is an increase of 4.0% on last year.

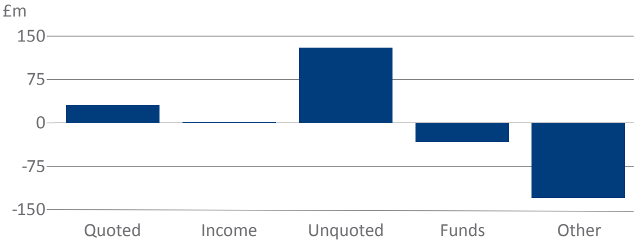
Including the proposed final dividend, the dividends to be paid out of revenue earnings for the year ended 31 March 2018 totalled £31.3m, which was covered by the net revenue for the year of £31.5m.

Cash flows, liquidity and facilities

Over the year, we maintained a relatively high level of cash, closing the year with £207.8m (2017 – £207.3m). Excess receipts of £305.3m from the realisation of investments less the £218.4m paid for the purchase of investments broadly offsetting the dividends paid in the year totalling £85.3m.

The total cash flows over the year were analysed by pool as follows:

Net cash movement by pool



At 31 March 2018, the company had undrawn committed facilities of £250m, expiring between July 2020 and 2022, including £25m in its treasury subsidiary. In addition, the company had £26.5m of undrawn overdraft facilities, together providing total available liquid facilities of £276.5m.

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 £250m, which we periodically use to facilitate investment liquidity, without holding permanent debt outside our investment portfolio.

Stephen King
Finance Director

24 May 2018

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 market 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 most commonly earnings before interest, tax, depreciation and amortisation ('EBITDA') and is determined by reference to market-based or transaction multiples appropriate for the business. Where possible, an average of several appropriate market multiples will be used. The aim is to identify comparator companies that are similar in terms of risk and growth prospects to the company being valued. Earnings multiples may be adjusted for lack of liquidity or specific points of difference between the comparator and the company being valued where appropriate.

Maintainable earnings are assessed using the latest available financial data. Earnings and balance sheet data 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 ongoing 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, most commonly property assets.

Valuation methodology continued

Fund interests

Fund interests refer to participations in externally managed investment vehicles that invest in a wider range of assets than is feasible for an individual investor and 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, if material.

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.

Performance measures

Caledonia uses a number of performance measures to aid the understanding of its results. The performance measures are standard within the investment trust industry and Caledonia's use of such measures enhances comparability.

Net assets

Net assets provides a measure of the value of the company to shareholders and is taken from the IFRS group net assets.

Net asset value ('NAV')

NAV is a measure of the value of the company, being its assets – principally investments made in other companies and cash held – minus any liabilities expressed as pence per share. NAV is calculated by dividing net assets by the number of shares in issue, adjusted for shares held by the Employee Share Trust and for dilution by the exercise of outstanding share awards. NAV takes account of dividends payable on the ex-dividend date.

NAV total return ('NAVTR')

NAVTR is a measure of how the net asset value per share has performed over a period, considering both capital returns and dividends paid to shareholders. NAVTR is calculated as the increase in NAV between the beginning and end of the period, plus the accretion from assumed dividend reinvestment during the period. NAVTR assumes that dividends are reinvested at the NAV on the ex-dividend date.

Net revenue

Net revenue comprises income from investments less management expenses, financing costs and tax. Net revenue comprises the revenue column presented in the Statement of comprehensive income and differs from total comprehensive income in excluding gains and losses on investments and other items of a capital nature. The separation of revenue and capital profits and losses is required by the AIC SORP as of fundamental importance to shareholders and other users of the financial statements of investment trust companies.

Annual dividends

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 compound annual dividend growth rate over the period.

Dividend cover

Dividend cover is the ratio of net revenue (as defined 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 shareholders through the movement in the share price and dividends paid during the measurement period.

Investment and pool returns

The company uses the modified Dietz method as a measure of the performance of an investment or pool over a period. This method divides the gain or loss in value plus any income, less any capital cash flows, by the average capital invested over the period of measurement.

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

Performance measures continued

Ongoing charges

Ongoing charges represent the operational expenses of managing the portfolio in normal circumstances. The company adopts the AIC methodology for calculating the ongoing charges as the annualised ongoing charges divided by the average undiluted net asset value per share in the period.

Expense items included in the ongoing charges calculation comprise recurring costs relating to the operation of the company. In addition to transaction costs and external performance fees, ongoing charges exclude share-based payment expenses, which are directly linked to investment performance, and re-measurement of defined benefit pension schemes, also linked to market movements. Share-based payments comprise awards under the company's performance share scheme, which vest subject to achieving NAVTR targets, as well as service requirements. Similarly, deferred bonus awards arise from annual bonus awards over 50% of basic salary, which relate to the company's investment performance.

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 the audit findings report received from the external auditor and best practice guidance from other advisers, provides input to the board as a whole on the status of the risk management process.

Risk management reporting

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

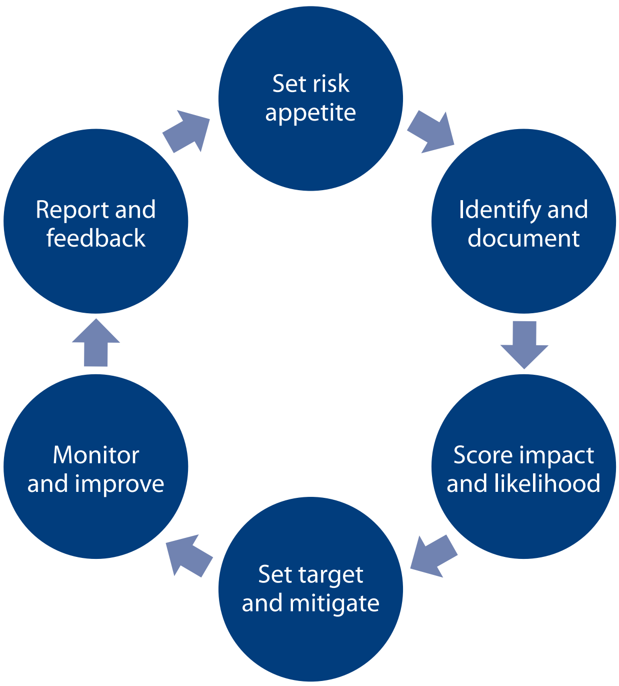
The business risk report considers the wider business environment of the group, including business continuity planning, IT and cyber security risks, regulatory risks and financial control risks. Caledonia manages business risk through a number of integrated processes and procedures operating throughout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

Risk management continued

Caledonia risk management process

Business and operational risks are formally 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 considers strategic risks, operational risks, market risks, liquidity risks and regulatory risks and is reported to the board half yearly.

Investment risks are identified in an investment risk report, specifically focusing 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 through the system of separately managed pools.

Strategic risks include the allocation of capital in relation to geography, sector, currency, yield and liquidity.

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 22.

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 or failure to adhere to the tax and regulatory environment. Caledonia operates across a number of jurisdictions and in an industry that has been subject to increasing regulatory oversight.

Brexit

Risk arising from changing consumer spending trends and impact of trade regulation and tariffs.

Potential volatility to quoted markets due to uncertainty as to Brexit outcome and impacts.

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.	
Investment opportunities are subject to rigorous appraisal and a multi-stage approval process. Pool managers have well-developed networks through which they attract proprietary deal flow. Target entry and exit events and prices are monitored and updated regularly, in relation to market conditions and strategic aims.	Pool managers have continued to develop 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, where appropriate, to balance risk and return. A regular review of market and portfolio volatility is conducted by the board. Reviews also consider investment concentration, currency exposure and portfolio liquidity.	Caledonia has continued to operate a diversified geographical portfolio that provides a longer term hedge to geographical market risk and foreign exchange. Caledonia has a well-developed and wide ranging contact base, which, together with formal advisers, ensures that it understands the landscape arising from the impending market changes 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 access to our available facilities is on a short term basis only. At 31 March 2018, we had net cash of £208m, together with undrawn, committed borrowing facilities of £250m.	
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 and updated as the business evolves.	During the year, we completed the refurbishment of our office property in Buckingham Gate and reoccupied the building after a two year absence. The process of moving operations between temporary and permanent premises over the period provided a robust test of our business continuity processes.	
Caledonia has internal resources to consider regulatory and tax matters as they arise. Use is made of advisers where necessary to supplement internal knowledge in specialised areas. Caledonia is a member of the Association of Investment Companies and is represented on its self-managed investment trust committee. Regular training is undertaken.	Caledonia produced the required Key Information Document, in compliance with the EU PRIIPs Regulation. This is available on the company's website.	
Continued monitoring of directly held unquoted investment performance and business model exposure to potential Brexit impacts. Continued monitoring of quoted market responses to Brexit impacts.	Our review of the continuing business models of our directly held unquoted investments have not revealed significant exposures to European regulatory or trading environments that might be impacted by Brexit. We continue to monitor potential impacts to quoted markets as Brexit concludes.	

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	8	1	11
Senior managers	13	4	24
All employees	33	28	46

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.

Caledonia moved back from its temporary offices in Stratton Street to the newly refurbished Buckingham Gate property, providing a modern and energy efficient office environment, at the end of August 2017.

As part of the property refurbishment, old mechanical and electrical plant has been replaced with more reliable and sustainable equipment.

Caledonia has also taken the opportunity of the office move to encourage staff to recycle more paper, cardboard, glass, plastic, batteries and printer cartridges and to print less.

The refurbished offices are equipped with audio visual equipment and dining room facilities, reducing the need for business travel.

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	23	Tonnes CO_2e
Scope 2 (indirect emissions)	• Electricity purchased for own use	80	Tonnes CO_2e
Scope 3 (indirect emissions)	• Business travel	485	Tonnes CO_2e
Total		588	Tonnes CO_2e
Key performance indicator	Scope 1, 2 and 3 normalised to full time employee equivalent	11	Tonnes CO_2e per FTE

Board of directors

1


2


3


4


5


1 David Stewart
Chairman

Appointed a non-executive director of Caledonia in 2015 and Chairman in 2017, he is also Chairman of the Nomination Committee and a member of the Remuneration Committee. 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 a director and co-founder of IMM Associates and Chairman of Hermes Fund Managers.

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

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. He is also a non-executive director of Real Estate Investors, a trustee of the Rank Foundation and Chairman 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 Senior Independent Non-Executive Director and Chairman of the Audit Committee of TT Electronics and a non-executive director and Chairman of the Audit Committee of Bristow Group. He 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 is currently a member of the advisory committee of a number of Caledonia's fund investments. He is also Chairman of The Henderson Smaller Companies Investment Trust, a non-executive director of Polar Capital Holdings and Chairman 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 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 was until 2017 Group Chief Financial Officer of Nex Group, 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 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.

6

7

8

9


6 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. During his period as an executive director of Caledonia, he was responsible for a large number of investment acquisitions and disposals and served on the boards of many investee companies, mostly in the property and hotels sectors. He is currently Chairman of The Cayzer Trust Company and the Bedford Estate.

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

7 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 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.

8 Guy Davison
Independent Non-Executive Director

Appointed a non-executive director of Caledonia with effect from 1 January 2018, he is a member of the Audit and Nomination Committees. After qualifying as a chartered accountant, he spent four years at Larpent Newton before joining Cinven, the leading international private equity firm, in 1988 as a founding partner, remaining with the firm until his retirement in January 2017. During that time, he was central to the development of the business from the time of its buy-out from British Coal in 1995 to one which now employs around 120 staff in offices in Guernsey, London, Frankfurt, Paris, Madrid, Milan, Luxembourg, Hong Kong and New York. During his 29 years at Cinven, he represented the firm as chairman or non-executive director at some 25 of its portfolio companies.

Mr Davison brings to the board over 30 years' knowledge and experience of private equity investing, both in the UK and Europe, which is of particular benefit to Caledonia's unquoted portfolio.

9 Shonaid Jemmett-Page
Independent Non-Executive Director

Appointed a non-executive director of Caledonia in 2015, she is a member of the Audit, 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 MS Amlin and a non-executive director of 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 nine scheduled meetings during the year. Attendance of the directors was as follows:

Director	Meetings attended	Meetings eligible to attend
D C Stewart	9	9
W P Wyatt	9	9
S A King	9	9
J M B Cayzer-Colvin[1]	8	9
S J Bridges	9	9
Hon C W Cayzer	9	9
G B Davison[2]	3	3
C H Gregson	9	9
S C R Jemmett-Page	9	9
R D Kent[3]	3	3
H Y H Boël[4]	4	4

1. Mr Cayzer-Colvin was unable to attend one board meeting due to attendance at a funeral.
2. Mr Davison was appointed as a director on 1 January 2018.
3. Mr Kent retired as a director on 20 July 2017.
4. Mr Boël resigned as a director on 7 September 2017.

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 April 2016 for the duration of the reporting period.

The company has complied throughout the year with all of the provisions of the Code, other than provision D.1.1. 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 2017 remuneration policy renewal and the revised policy was approved by shareholders at the annual general meeting held on 20 July 2017. Accordingly, the company only complied with provision D.1.1. from that date.

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-2016.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 other stakeholders 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 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 32 and 33.

The board currently comprises nine directors. Excluding the Chairman, three of the directors are executive and five 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.

From September 2015 to May 2017, Mr Bridges was Group Chief Financial Officer of Nex Group, where Mr Gregson is non-executive Chairman. The board does not consider that Mr Bridges' previous role with Nex Group 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 38 to 59.

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 Valuation 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 in the 2017 annual report, the scheduled 2017 external facilitation was deferred for a year in view of the change of Chairman at the 2017 annual general meeting. For its 2018 evaluation, the board engaged an external consultant, The Effective Board LLP ('TEB'), to undertake a review of the performance of the board, its committees and the Chairman. TEB has no other connection with the company.

TEB's board performance evaluation was conducted through a structured interview process with board members, the Company Secretary and the heads of the pools of capital. TEB presented its findings in a report to the board and feedback on the performance of the Chairman, directly to him.

TEB's overall conclusion was that Caledonia's board demonstrated a high degree of effectiveness, with minor recommendations for further refinement in the areas of strategy development, employee engagement and Nomination Committee processes.

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 23 May 2018, being the latest practicable date prior to the publication of this annual report, the Cayzer family concert party ('Cayzer Concert Party') held 48.46% 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 23 May 2018, 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.

David Stewart
Chairman of the board

24 May 2018

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.

Membership and attendance

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

	Meetings attended	Meetings eligible to attend
D C Stewart (Chairman)	3	3
S J Bridges	3	3
Hon C W Cayzer[1]	4	4
G B Davison[2]	–	–
C H Gregson[1]	4	4
S C R Jemmett-Page	3	3
W P Wyatt	3	3
R D Kent[3]	1	1
H Y H Boël[1,4]	2	3

1. Included in meetings attended by Mr Gregson, The Hon C W Cayzer and Mr Boël was a meeting of the sub-committee of the Nomination Committee established to deal with the Chairmanship succession.
2. Mr Davison was appointed to the Committee on 1 January 2018.
3. Mr Kent retired from the Committee on 20 July 2017.
4. Mr Boël resigned from the Committee on 7 September 2017. He absented himself from one meeting which approved the renewal of his letter of appointment.

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

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

Diversity

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

Work of the Nomination Committee

The Nomination Committee met four times during the year (which included a meeting of the sub-committee established to deal with the Chairmanship succession) and the work undertaken included:

- consideration of potential candidates for the role of Chairman to succeed Mr Kent and a recommendation to the board that Mr Stewart be appointed. 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
- consideration of the contributions and effectiveness of the non-executive directors seeking re-election at the 2017 annual general meeting, prior to giving recommendations for their re-elections
- the renewal of Mr Boël's letter of appointment as a non-executive director and approval of a new appointment letter for Mr Stewart for his role as Chairman
- the conduct of a search for an additional independent non-executive director, concluding with a recommendation to the board that Mr Davison be appointed. The Committee engaged the Zygos Partnership, which has no other connection with the company, to assist in the search.

David Stewart
Chairman of the Nomination Committee

24 May 2018

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
G B Davison[1]	1	1
S C R Jemmett-Page[2]	2	2
D C Stewart[3]	1	1
C H Gregson[4]	1	1
H Y H Boël[5]	1	1

1. Mr Davison was appointed to the Committee on 1 January 2018.
2. Mrs Jemmett-Page was appointed to the Committee on 20 July 2017.
3. Mr Stewart retired from the Committee on 20 July 2017.
4. Mr Gregson was appointed to the Committee on 26 September 2017 and retired from it on 1 January 2018.
5. Mr Boël resigned from the Committee on 7 September 2017.

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-executive directors, met three times in the year ended 31 March 2018, in May and November 2017 and in March 2018. After the year end, it met in May 2018 to consider the significant issues in relation to the 2018 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 focus of the meetings in May and November 2017 was the 2017 annual report and financial statements and the 2017 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 2018 meeting considered principally the audit planning for the 2018 annual report.

In its May 2018 meeting, the Audit Committee reviewed the form and content of the 2018 annual report and financial statements. In conducting its review, the Audit Committee considered reports prepared by management and the external auditor. These reports provided an analytical review of the financial statements, comparing the current to prior year financial position and results, and detailed the judgements and sources of estimation uncertainty involved in applying the accounting policies to the financial statements. The Audit Committee also considered any new accounting standards applicable and disclosure requirements. In addition, the Audit Committee considered reports prepared by management to support the going concern statement and the viability statement. The Audit Committee recommended the 2018 annual report to the board.

Audit Committee report continued

The significant issues the Audit Committee considered in relation to the 2018 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 UK Corporate Governance Code.

Unlisted valuations

The Audit Committee recognises that unlisted investments were 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 Valuation 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 were a significant component of the financial statements and were valued using available market prices as at 31 March 2018. The Audit Committee reviewed a schedule of 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 62. In May 2018, 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 62.

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 64, should be signed accordingly.

Internal control

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 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 2019. During the year, the Audit Committee reviewed reports on internal controls, including a review of the operations and risks of Caledonia Ireland ICAV, the subsidiary entity control environment reviews and an overview of the implementation process of the Unquoted pool management system.

The Audit Committee also reviewed the Business Risk Report prepared by management identifying the principle business risks impacting the company, together with the mitigating controls in operation and actions identified for continuous improvement.

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 ending 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 – particularly 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 several 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

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 has in place a 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 19 July 2018.

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

24 May 2018

Governance Committee report

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

Membership and attendance

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

	Meetings attended	Meetings eligible to attend
C H Gregson (Chairman)	2	2
S J Bridges	2	2
S C R Jemmett-Page	2	2

The Governance Committee keeps under review corporate governance issues relating to the company and is responsible for the monitoring and review of the ability of each director to act in the interests of shareholders as a whole and to exercise independence of judgement free from relationships or circumstances which are likely to, or could appear to, affect his or her judgement.

The Governance Committee also reviews conflict or potential conflict situations relating to directors, which may require the prior authorisation of the board under the Companies Act 2006, and makes recommendations to the board as to whether such conflict or potential conflict situations should be authorised and, if so, whether any conditions, such as duration or scope of the authority, should be attached. The Governance Committee reviews annually all authorisations previously granted by the board to ensure that they remain appropriate. If the Governance Committee believes that a director may be subject to a conflict of interest which may prejudice his or her ability to exercise independence of judgement, it may make such recommendations to the board as it may think fit, including that the director abstains from participating in any decision of the board or any of its committees on the matter concerned.

Work of the Governance Committee

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

- the review and approval of the Corporate governance report for the year ended 31 March 2017
- 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
- 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.

Charles Gregson
Chairman of the Governance Committee

24 May 2018

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)	3	3
S C R Jemmett-Page	3	3
D C Stewart	3	3

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 2018.

Remuneration policy
We submitted a revised remuneration policy to shareholders at the annual general meeting held on 20 July 2017 and I am pleased that it was approved by a majority vote of over 99%. The principal elements of this policy are reproduced on pages 45 to 52 for ease of reference. No changes to the policy are proposed this year, although, in the light of recent investor concerns surrounding certain long term incentive schemes, which have produced levels of reward that bear little or no relation to shareholder experience, the Remuneration Committee has introduced, as a matter of good practice, a discretion into the rules of our performance share scheme to enable it to reduce, in respect of future grants, the number of awards that might otherwise vest if, in the Committee's view, acting fairly and reasonably, the quantum does not seem appropriate in the context of the company's performance, shareholder experience or the conduct of an individual executive.

Executive pay generally remains a focus of both government and the investor community and the Remuneration Committee will continue to monitor debate and developments in market practice in this area. Our overriding objective is however to ensure that our remuneration framework supports our overall strategy and business model, the aim of which is to deliver long term increases in capital and income for our shareholders.

Remuneration for the year ended 31 March 2018
The Annual report on directors' remuneration set out on pages 53 to 59 describes in detail how our remuneration policy has been applied for the year ended 31 March 2018. I would however like to highlight the following points:

Annual bonus
Against a background of rising inflation and a relatively flat equity market, Caledonia's net asset value per share total return ('NAVTR') for the year of 1.4% underperformed the increase in the Retail Price Index over the year of 3.3% and accordingly no bonuses were awarded in respect of company performance. The Funds pool achieved a total return over the year of 8.0% which, for Jamie Cayzer-Colvin, resulted in an award of 10% of basic salary for that element of his bonus. After assessing their individual performance and, for Jamie Cayzer-Colvin, also attainment of pool objectives, the Remuneration Committee awarded overall bonuses to Will Wyatt, Jamie Cayzer-Colvin and Stephen King of 40%, 50% and 30% of basic salary respectively.

Directors' remuneration report continued

Annual statement by the Chairman of the Remuneration Committee

Deferred bonus matching awards

The deferred bonus matching awards granted in 2015 reached the end of their three year performance period. Caledonia achieved an annualised NAVTR over the period of 7.1%, which meant that 71% of the awards vested. The vesting scale commenced at a 20% pay-out for an annualised NAVTR of 4%, rising to a maximum pay-out for an annualised NAVTR of 10%.

Performance share scheme awards

The remaining half of the performance share scheme awards granted in 2013 (measured over five years) and the first one-third of the awards granted in 2015 (measured over three years) reached the end of their performance periods this year. The 2013 awards were measured by reference to Caledonia's NAVTR against the FTSE All-Share Total Return index, and achieved maximum vesting as the outperformance of 20.6% was comfortably in excess of the 3.5% outperformance needed for full vesting. The 2015 awards were measured by reference to Caledonia's annualised NAVTR over the three year period which, as mentioned above, was 7.1%, giving a 71% vesting level. The Funds pool's annualised total return (relevant for 60% of Jamie Cayzer-Colvin's 2015 awards) for the three year period was 12.1%, meaning that 82% of this portion of his awards vested (the vesting scale starting at a Funds pool annualised total return of 6.0% and rising to a maximum vesting at an annualised total return of 13.5%).

The remaining two-thirds of the 2015 performance share scheme awards will be tested in 2020.

Remuneration for the year ending 31 March 2019

Looking ahead to the 2019 financial year, the basic salaries of executive directors have been increased with effect from 1 April 2018 by 3.0%, broadly in line with inflation, which was the same as the standard increase given to all of the company's staff. The Chairman's and the non-executive directors' fees have not been changed.

We plan to make performance share scheme awards following the release of our 2018 full year results announcement in line with our normal grant cycle. The performance share scheme awards will be subject to the same performance measures as used for the 2017 award grants, which are summarised in the notes to the remuneration policy table on pages 48 and 49. There will be no compulsory deferral of bonus for executive directors this year, as this only applies to bonus in excess of 50% of basic salary.

Charles Gregson
Chairman of the Remuneration Committee

24 May 2018

Remuneration policy

Introduction

Set out below are the material elements of directors' remuneration policy approved by shareholders at the annual general meeting held on 20 July 2017. This policy came into effect from that date and will 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.

Implementation of the policy

There have been no changes to the current policy since its implementation and the extracts included below are for information only and to provide context for the 2018 Annual report on directors' remuneration which follows. References to share awards held by executive directors at the date of approval of the policy which have since been exercised have been removed and it has also been noted where share awards have met their performance targets since the implementation date.

The full directors' remuneration policy is contained on pages 47 to 55 of the company's annual report 2017, which is available in the 'Literature' section of Caledonia's website at www.caledonia.com.

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 were: 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, and none remain outstanding. 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 were 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.

Notes to the policy table

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

   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 was measured against the FTSE All-Share Total Return index ('FTSE index'), over five years. Awards vested on a graduated basis, with 10% vesting on 0.5% outperformance of the relevant benchmark, rising on a straight line basis to maximum vesting on 3.5% outperformance. There was no re-testing of either performance target and, to the extent a performance target was not met, the relevant award lapsed. For the purpose of calculating the performance measures, averages of the company's NAVTR and the two benchmark indices over the three months prior to the start and end of the performance period were used to reduce volatility. To the extent that the performance targets were met, awards may be exercised between the date of vesting and the tenth anniversary of the date of grant. Those nil-cost options measured against the Gilts index were tested as at 31 March 2016 and achieved maximum vesting. Those nil-cost options measured against the FTSE index were tested as at 31 March 2018 and achieved 100% 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 are 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 are measured over three years and the other half over five years. For the 2016 and subsequent financial years, one-third are 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. The nil-cost option grants in the 2016 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 2018, achieved vesting of 71% and 82% respectively.

Deferred bonus plan matching awards
Matching awards granted prior to the 2016 financial year were all performance tested in prior years. Matching awards granted in the 2016 financial year were subject to performance measurement by reference to Caledonia's annualised NAVTR over the three years to 31 March 2018, 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%. A 71% vesting level was achieved and vested shares 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 were 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 were as follows:
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.

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.

Directors' remuneration report continued
Remuneration policy

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.

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 2018 and describes how Caledonia's remuneration policy will be implemented for the 2019 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 2018 and a comparison with the previous financial year.

	Salary		Taxable benefits[1]		Short term incentives[2]		Long term incentives[3]		Pension related benefits		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
W P Wyatt	524	512	20	19	210	511	937	656	104	101	1,795	1,799
S A King	376	367	3	2	113	367	665	465	58	56	1,215	1,257
J M B Cayzer-Colvin	318	310	20	19	159	310	572	393	49	48	1,118	1,080

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:

	2018			2017		
	Compulsorily deferred £'000	Cash £'000	Total £'000	Compulsorily deferred £'000	Cash £'000	Total £'000
W P Wyatt	–	210	210	255	256	511
S A King	–	113	113	183	184	367
J M B Cayzer-Colvin	–	159	159	155	155	310

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 2018 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, ensuring Caledonia is well positioned with managers raising new funds and refining and executing the Funds pool 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. In the case of Mr Cayzer-Colvin, his 2018 personal objectives also included the completion of the refurbishment of Cayzer House and its smooth re-occupation.

The company's NAVTR was 1.4% over the year against an increase in RPI of 3.3% and therefore there was no payment for company performance. The Funds pool's return over the year was 8.0%, leading to a bonus award of 10.0% for Mr Cayzer-Colvin for this element. In view of the continued success of the Funds pool in gaining access to US and Asian funds that were otherwise over-subscribed and further development of the pool's strategy, the Remuneration Committee awarded Mr Cayzer-Colvin a bonus of 30% for attainment of his pool objectives. Following a review of the detailed individual objectives set for each of the executive directors, the Remuneration Committee decided to award bonuses for personal performance of 40%, 30% and 10% for Mr Wyatt, Mr King and Mr Cayzer-Colvin respectively.

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

	W P Wyatt		S A King		J M B Cayzer-Colvin	
	Award %	Max %	Award %	Max %	Award %	Max %
Performance						
Company	nil	50	nil	50	nil	25
Pool	n/a	n/a	n/a	n/a	10	25
Objectives						
Pool	n/a	n/a	n/a	n/a	30	35
Individual	40	50	30	50	10	15
Total	40	100	30	100	50	100

3. **Long term incentives**
   The long term incentive awards whose performance measurement periods ended during the year were all of the matching share awards granted in 2015 under the company's deferred bonus plan, half of the awards granted in 2013 under the performance share scheme and one-third of the awards under that scheme granted in 2015.

   The vesting of the 2015 matching awards was dependent on the performance of the company's annualised NAVTR over the three year period, with vesting commencing at 20% for an annualised NAVTR of 4%, rising to maximum vesting for an annualised NAVTR of 10%. The vesting of the 2013 awards under the performance share scheme was dependent on the performance of the company's NAVTR over the five financial years ended 31 March 2018 measured against the FTSE All-Share Total Return index ('FTSE index'). Vesting was on a graduated basis, with 10% vesting on achievement of 0.5% outperformance of the benchmark index, rising

Directors' remuneration report continued
Annual report on directors' remuneration

on a straight line basis to 100% vesting on 3.5% outperformance of the index. For the purpose of calculating the performance measures, averages of the figures for the company's NAVTR and the benchmark index published over the three months prior to the start and end of the performance period were used to reduce volatility.

For the 2015 performance share scheme awards, for Mr Wyatt and Mr King these were measured by reference to Caledonia's annualised NAVTR performance over three years. Vesting was 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 awards were 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%.

For the 2015 deferred bonus matching share awards, the company's NAVTR over the three year performance period was 7.1% resulting in a 71% vesting level.

For the 2013 performance share scheme awards, Caledonia's NAVTR increased by 66.57% over the five years to 31 March 2018, compared with an increase of 45.99% in the FTSE index. Accordingly, these awards vested in full.

For the 2015 performance share scheme awards measured over the three years to 31 March 2018, Caledonia's annualised NAVTR over the period was 7.1%, resulting in 71% vesting. For Mr Cayzer-Colvin's awards measured by reference to his pool's performance, the Funds pool delivered an annualised total return of 12.1% over the period, resulting in 82% vesting.

The amounts shown in the table above under long term incentives therefore comprised the value of the vested deferred bonus plan matching awards granted in 2015 and the vested performance share scheme awards granted in 2013 and 2015, based on the company's share price at 31 March 2018 of 2650p, 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 2015 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	814	123	937
S A King	578	87	665
J M B Cayzer-Colvin	497	75	572

Chairman and non-executive directors

Fees and other remuneration paid to the Chairman and the non-executive directors during the year ended 31 March 2018 and the previous year were as follows:

	Fees	
	2018 £'000	2017 £'000
D C Stewart[1]	118	44
S J Bridges	46	46
Hon C W Cayzer[2]	40	100
G B Davison[3]	11	–
C H Gregson	51	50
S C R Jemmett-Page	43	42
R D Kent[4]	56	185
H Y H Boël[5]	–	–

1. Mr Stewart was appointed Chairman on 20 July 2017.
2. The Hon C W Cayzer's fees for 2017 included £60,000 paid by a subsidiary in respect of his services as Chairman of The Sloane Club.
3. Mr Davison was appointed a director on 1 January 2018.
4. Mr Kent retired from the board on 20 July 2017.
5. Mr Boël resigned from the board on 7 September 2017. Mr Boël waived all fees arising from his appointment.

Total pension entitlements (audited)

Defined contribution

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

	Pension contribution		Cash supplement		Total	
	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £
W P Wyatt	–	–	103,702	101,141	103,702	101,141
S A King	–	–	57,821	56,377	57,821	56,377
J M B Cayzer-Colvin	–	–	48,863	47,671	48,863	47,671

Defined benefit

Until 26 April 2017, The Hon C W Cayzer was a deferred member of the Caledonia Pension Scheme, a final salary defined benefit scheme. He reached his normal retirement age of 60 on that date, at which point he began drawing his pension benefits.

Scheme interests awarded during the financial year (audited)

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

Scheme	Type of award	Basis of award	Face value of award £'000	Share price at grant p	Shares comprised in award[1] number	Receivable if minimum performance achieved[2] %	End of performance period
W P Wyatt							
Performance Share Scheme	Nil-cost option	150% of salary	787	2837p	27,732	10	31.03.22
Deferred Bonus Plan	Compulsory award	% of bonus in excess of 50%	256	2837p	9,016	100	31.03.20
Total scheme interests awarded			1,045		36,748		
S A King							
Performance Share Scheme	Nil-cost option	150% of salary	564	2837p	19,880	10	31.03.22
Deferred Bonus Plan	Compulsory award	% of bonus in excess of 50%	183	2837p	6,461	100	31.03.20
Total scheme interests awarded			747		26,341		
J M B Cayzer-Colvin							
Performance Share Scheme	Nil-cost option	150% of salary	477	2837p	16,800	10	31.03.22
Deferred Bonus Plan	Compulsory award	% of bonus in excess of 50%	155	2837p	5,464	100	31.03.20
Total scheme interests awarded			632		22,264		

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

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.

	Position	Fees 2018 £'000	Fees 2017 £'000
S A King	Senior non-executive director, TT Electronics plc	56	50
J M B Cayzer-Colvin	Non-executive Chairman, The Henderson Smaller Companies Investment Trust plc	34	34

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 2018. The values of the relevant shareholdings of each executive director as at 31 March 2018, calculated by reference to Caledonia's closing share price on that date of 2650p, 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	30.9	2,864
S A King	1.4	234
J M B Cayzer-Colvin	10.3	2,110

Directors' remuneration report continued
Annual report on directors' remuneration

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 2018 were as follows:

	Beneficial		Non-beneficial	
	2018[1] number	2017[2] number	2018[1] number	2017[2] number
D C Stewart	4,072	4,072	–	–
W P Wyatt[3]	1,140,785	1,107,785	68,038	28,418
S A King	32,299	32,299	–	–
J M B Cayzer-Colvin[3]	374,320	374,320	65,953	65,953
S J Bridges	5,309	5,309	–	–
Hon C W Cayzer[3]	40,092	40,092	13,500	12,500
G B Davison[4]	–	–	–	–
C H Gregson	1,610	1,610	–	–
S C R Jemmett-Page	1,000	1,000	–	–
R D Kent[5]	10,000	10,000	–	–
H Y H Boël[6]	–	–	–	–

1. Or date of cessation, if earlier.
2. Or date of appointment, if later.
3. Mr Wyatt's beneficial interests included 1,001,366 shares (2017 – 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 1,000 shares in which The Hon C W Cayzer had a non-beneficial interest (2017 – nil). His non-beneficial interests included 12,500 shares (2017 – 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 (2017 – 4,200 shares) in which Mr Wyatt and Mr Cayzer-Colvin had non-beneficial interests.
4. Mr Davison was appointed a director on 1 January 2018.
5. Mr Kent retired from the board on 20 July 2017.
6. Mr Boël resigned from the board on 7 September 2017.

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 2018 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 un-exercised[3]	Total
W P Wyatt	*Performance share scheme awards*					
	Granted 12.06.13 (nil-cost)	1802p	–	17,137	–	17,137
	Granted 27.11.14 (nil-cost)	2294p	13,799	–	–	13,799
	Granted 26.06.15 (nil-cost)	2435p	17,507	6,215	–	23,722
	Granted 26.05.16 (nil-cost)	2422p	26,401	–	–	26,401
	Granted 21.07.17 (nil-cost)	2837p	27,732	–	–	27,732
			85,439	23,352	–	108,791
	Deferred bonus plan – compulsory awards					
	Granted 26.06.15 (nil-cost)	2435p	–	–	10,400	10,400
	Granted 21.07.17 (nil-cost)	2837p	–	9,016	–	9,016
			–	9,016	10,400	19,416
	Deferred bonus plan – matching awards					
	Granted 26.06.15 (nil-cost)	2435p	–	–	7,384	7,384
			–	–	7,384	7,384
	Total share scheme interests		85,439	32,368	17,784	135,591

During the year, Mr Wyatt exercised performance share scheme awards and deferred bonus plan awards over a total of 48,412 shares at a pre-tax gain of £1,380,846.

		Share price at date of award	Unvested with performance conditions[1]	Unvested without performance conditions[2]	Vested but un-exercised[3]	Total
S A King	*Performance share scheme awards*					
	Granted 12.06.13 (nil-cost)	1802p	–	12,160	–	12,160
	Granted 27.11.14 (nil-cost)	2294p	9,791	–	–	9,791
	Granted 26.06.15 (nil-cost)	2435p	12,422	4,410	–	16,832
	Granted 26.05.16 (nil-cost)	2422p	18,921	–	–	18,921
	Granted 21.07.17 (nil-cost)	2837p	19,880	–	–	19,880
			61,014	16,570	–	77,584
	Deferred bonus plan – compulsory awards					
	Granted 26.06.15 (nil-cost)	2435p	–	–	7,379	7,379
	Granted 21.07.17 (nil-cost)	2837p	–	6,461	–	6,461
			–	6,461	7,379	13,840
	Deferred bonus plan – matching awards					
	Granted 26.06.15 (nil-cost)	2435p	–	–	5,239	5,239
			–	–	5,239	5,239
	Total share scheme interests		61,014	23,031	12,618	96,663

During the year, Mr King exercised performance share scheme and deferred bonus plan awards over 34,350 shares at a pre-tax gain of £979,758.

		Share price at date of award	Unvested with performance conditions[1]	Unvested without performance conditions[2]	Vested but un-exercised[3]	Total
J M B Cayzer-Colvin	*Performance share scheme awards*					
	Granted 12.06.13 (nil-cost)	1802p	–	10,282	–	10,282
	Granted 27.11.14 (nil-cost)	2294p	8,279	–	–	8,279
	Granted 26.06.15 (nil-cost)	2435p	10,504	4,076	–	14,580
	Granted 26.05.16 (nil-cost)	2422p	15,999	–	–	15,999
	Granted 21.07.17 (nil-cost)	2837p	16,800	–	–	16,800
			51,582	14,358	–	65,940
	Deferred bonus plan – compulsory awards					
	Granted 26.06.15 (nil-cost)	2435p	–	–	6,240	6,240
	Granted 21.07.17 (nil-cost)	2837p	–	5,464	–	5,464
			–	5,464	6,240	11,704
	Deferred bonus plan – matching awards					
	Granted 26.06.15 (nil-cost)	2435p	–	–	4,430	4,430
			–	–	4,430	4,430
	Total share scheme interests		51,582	19,822	10,670	82,074

During the year, Mr Cayzer-Colvin exercised executive share options, performance share scheme awards and deferred bonus plan awards over a total of 52,037 shares at a pre-tax gain of £1,313,769.

1. **Performance conditions**
   Performance share scheme
   The nil-cost options granted on 12 June 2013 were 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. 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 were used to reduce volatility. 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, 26 May 2016 and 21 July 2017, 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 these dates 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 five years. For the nil-cost options granted on 26 June 2015, 26 May 2016 and 21 July 2017, 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 nil-cost options granted on 12 June 2013 were performance tested against their relevant target as at 31 March 2018 and all achieved maximum vesting. The one-third of the shares comprised in the nil-cost options granted on 26 May 2015 subject to three-year performance testing was tested as at 31 March 2018 and achieved a 71% vesting level for those measured against Caledonia's NAVTR. The proportion of Mr Cayzer-Colvin's nil-cost options measured against the Funds pool's total return achieved an 82% vesting level.

Directors' remuneration report continued
Annual report on directors' remuneration

Deferred bonus plan matching awards
For the matching awards granted on 26 June 2015, shares vested 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%. These awards achieved a vesting level at 71% and the vested shares must be called within 12 months of vesting.

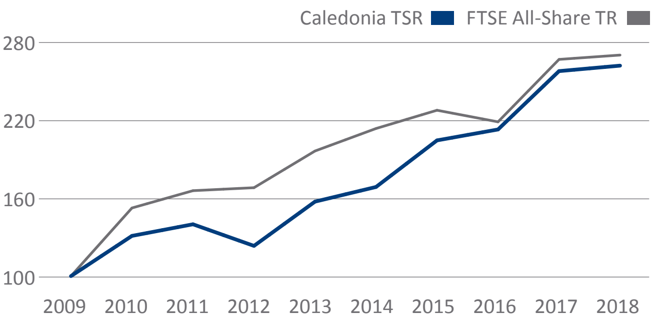
2. **Other exercise conditions**
Performance share scheme
For nil-cost options shares that vest following the three or five year performance testing become immediately exercisable on the third or fifth anniversary of grant, as applicable.

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 nine financial years ending on 31 March 2018. 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 nine years



The table below shows the total remuneration received by the Chief Executive in each of the nine years to 31 March 2018, prepared on the same basis as in the single total figure in the table on page 53, 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
2018	W P Wyatt	1,795	40.0	84.7

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.

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 2018 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 received an increase in basic salary for the 2018 financial year of 2.5%, the same as the standard increase awarded to Caledonia's staff. The per capita percentage increase in basic salary 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.

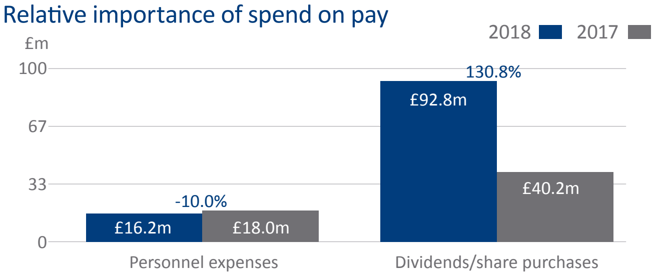
The average per capita percentage change for staff taxable benefits increased over the year principally due to a premium re-rating under the company's private medical insurance plan. The Chief Executive was awarded a bonus of 40% of basic salary, based on the company's performance and individual objectives, compared with 100% in the previous year. Caledonia's staff were awarded bonuses of varying levels in each year depending on company performance, investment pool performance (where relevant) and individual performance.

	Chief Executive change %	Staff average per capita change %
Basic salary	2.5	3.5
Taxable benefits	4.4	11.5
Short term incentives	(59.0)	(48.7)

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 2019 financial year

The company expects to operate the remuneration policy as described in the previous section without any changes in the financial year ending 31 March 2019.

Basic salaries of executive directors

In respect of the 2019 financial year, the Remuneration Committee has awarded each of the executive directors inflation-based increases in basic salary of 3.0%, as follows:

	Salary for year to 31 March 2019 £	2018 £
W P Wyatt	540,000	524,500
S A King	387,000	376,000
J M B Cayzer-Colvin	327,000	317,750

Chairman's and non-executive directors' fees

The Chairman's and the non-executive directors' fees have not been increased for the 2019 financial year and therefore remain as follows:

	Fees for years to 31 March 2018 and 2019 £
Chairman	150,000
Non-executive director basic fee	39,900
Chairman of the Audit Committee	5,600
Member of the Audit Committee	2,300
Chairman of the Remuneration Committee	4,900
Member of the Remuneration Committee	1,600
Senior Independent Director/Chairman of the Governance Committee	5,100

Annual bonus scheme and long term incentive schemes

Other than the amendment to the performance share scheme rules to introduce a discretion to enable the Remuneration Committee to reduce the number of awards that might vest in certain circumstances as described in the Chairman's annual statement, no changes to the company's annual bonus or long term incentive schemes are anticipated for the 2019 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 2017 Directors' remuneration report, the introduction of clawback provisions into the company's performance related incentive schemes and the introduction of the discretion to enable the Remuneration Committee to reduce awards under the performance share scheme rules, as described in the Chairman's annual statement. The Remuneration Committee also consulted with 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 20 July 2017, the proxy votes lodged for the resolutions relating to directors' remuneration were as follows:

	Number	%
To approve the 2017 Directors' remuneration report (other than the directors' remuneration policy)		
Votes in favour	35,550,450	99.3
Votes against	269,827	0.7
Total votes cast	35,820,277	
Votes withheld	45,815	
To approve the 2017 directors' remuneration policy		
Votes in favour	35,568,437	99.2
Votes against	285,805	0.8
Total votes cast	35,854,242	
Votes withheld	11,850	

This report was approved by the board on 24 May 2018 and signed on its behalf by:

Charles Gregson
Chairman of the Remuneration Committee

Other governance matters

Registered office and number

The registered office of the company is at: Cayzer House, 30 Buckingham Gate, London SW1E 6NN. The company is registered in England under number 235481.

Dividend policy

The company's policy is to pay an increasing annual dividend per share in real terms, which it has now done for 51 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 less expenses for the financial year, although the company has available distributable reserves of £1,647.5m, broadly equivalent to over 52 years' payment of the current annual dividend, which could be used to smooth any investment income shortfall.

2018 dividend distributions

An interim dividend of 15.5p per share (2017 – 14.9p) was paid on 11 January 2018 and the board has recommended a final dividend of 41.5p per share (2017 – 39.9p), giving total annual dividends for the year of 57.0p per share (2017 – 54.8p). In 2017, the board also recommended the payment of a special dividend of 100.0p per share.

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 2018, 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 2018, 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 23 May 2018, 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 2018, 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	19,419,545	35.07%
Wells Capital Management	2,875,916	5.2%

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

Employee share trust

The Caledonia Investments plc Employee Share Trust acquires and holds ordinary shares in the company for subsequent transfer to employees exercising options under the company's 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 2018, the trust held 453,608 ordinary shares, representing 0.82% 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 20 July 2017, 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 £923,016, 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 Investment Association. 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 20 October 2018 or, if earlier, the conclusion of the next annual general meeting.

At the annual general meeting held on 20 July 2017, 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 20 October 2018 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 20 October 2018 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 performance share scheme and awards made under its deferred bonus plan may become exercisable or vest as a result of a change of control, although the number of shares comprised in those options or awards may be reduced. The service contracts of certain directors and other senior executives also contain provisions whereby a liquidated sum is payable by the company in the event of termination within one year following a change of control.

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

Investment trust status

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

Annual general meeting

The eighty-ninth annual general meeting of the company will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on Thursday, 19 July 2018 at 11.30 am. The notice of the annual general meeting and details of all of the resolutions to be put to shareholders are set out in a separate circular sent to shareholders at the same time as this annual report.

Directors

The directors of the company are shown on pages 32 and 33. All of the directors served throughout the year, other than Mr G B Davison, who was appointed on 1 January 2018. Mr R D Kent and Mr H Y H Boël also served as directors for part of the year, until 20 July 2017 and 7 September 2017 respectively.

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

Other governance matters continued

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 5 and the Investment review on pages 10 to 19. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 20 to 22. In addition, note 22 to the financial statements includes the group's capital management policies and procedures and processes for managing market risk and exposures to currency risk, interest rate risk, price risk, credit risk and liquidity risk.

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

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Viability statement

The directors have assessed the viability of the company over the three years to March 2021, taking account of the company's position, its investment strategy, and the potential impact of the relevant principal risks set out on pages 27 to 29. 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 2021.

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 2021 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 32 to 65 comprise the Directors' report of the company. The Directors' report was approved by the board on 24 May 2018 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 54. Waiver by Mr Boël of all non-executive director fees to which he was otherwise 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 60. 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 37. 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 have 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 statements 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 32 and 33 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 31 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
24 May 2018	24 May 2018

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	Nest assets £m	Diluted NAV per share p	Share price p	Rolling ten years annualised: Total shareholder return %	Rolling ten years annualised: FTSE All-Share Total Return %
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	8.2	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
2018	26.5	47.4	57.0	1,837	3285	2650	5.3	6.7

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.

Independent auditor's report

KPMG

Independent auditor's report

to the members of Caledonia Investments plc

1. Our opinion is unmodified

We have audited the financial statements of Caledonia Investments plc for the year ended 31 March 2018 which comprise the Group statement of comprehensive income, statement of financial position for Group and Company, statement of changes in equity for Group and Company, statement of cash flows for Group and Company, and the related notes, including the accounting policies on pages 74 to 78.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 27 October 2011. The period of total uninterrupted engagement is for the 7 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£16.6m (2017:£17.5m) 0.9% (2017: 0.9% of total asset	
Coverage	100% (2017: 100%) of group loss/profit before tax	
Risks of material misstatement		**vs 2017**
Recurring risks	Valuation of unlisted investments	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk.	Our response.
Valuation of unlisted investments for the group and for the company *(£963.0 m; 2017: £972.1m)* *Refer to page 42 (Audit Committee Report), page 78 (accounting policy) and page 82 (financial disclosures).*	**Subjective valuation:** 51.4% (2017: 49.9%) of the group's total assets (by value) and 51.6% (2017: 50.3%) of the company's total assets (by value) are 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 judgements and estimates inherent in the valuations and therefore one of the key areas that our audit focused on.	Our procedures included: **Control operation:** Documenting and assessing the design and implementation and operational effectiveness of the investment valuation processes and controls; **Control observation:** Attendance at bi-annual Valuations Committee meetings and Audit Committee meetings where we assessed the Audit Committee's and Valuations 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 variances 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; **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. **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 subsequent changes or events 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. **Our results:** We found the valuation of unlisted investments to be acceptable (2017: acceptable).

KPMG

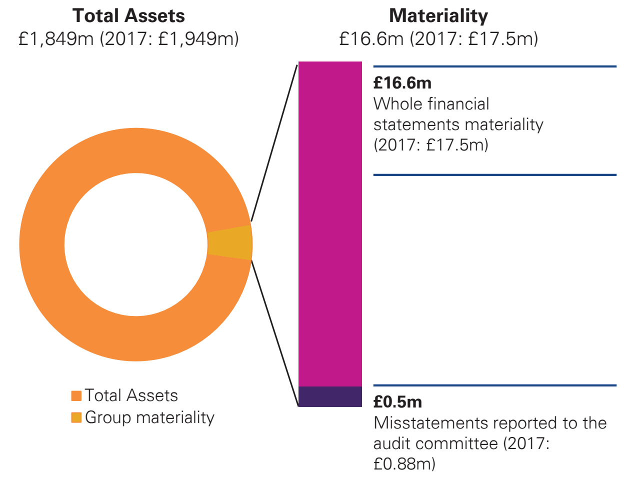
Independent auditor's report continued

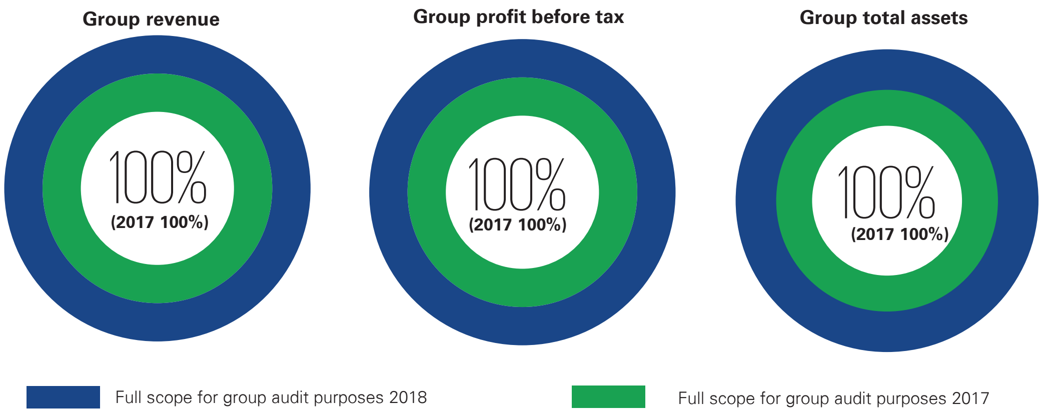
3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group and Company financial statements as a whole was set at £16.6 million (2017: £17.5 million), determined with reference to a benchmark of total group assets, of which it represents 0.9% (2017: 0.9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5m (2017: £0.88m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information, including the audit of the parent company. 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 and was all performed at the Group's head office in London.





4. We have nothing to report on going concern

We are required to report to you if:

— we have anything material to add or draw attention to in relation to the directors' statement in page 64 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

— the related statement under the Listing Rules set out on pages 34 to 37 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

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

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

KPMG

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement page 62 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 64, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
24 May 2018

KPMG

Group statement of comprehensive income
for the year ended 31 March 2018

	Note	2018 Revenue £m	2018 Capital £m	2018 Total £m	2017 Revenue £m	2017 Capital £m	2017 Total £m
Revenue							
Investment income	1	46.0	–	46.0	47.3	–	47.3
Other income	1	0.2	–	0.2	0.2	–	0.2
Net gains and losses on fair value investments	8	–	6.8	6.8	–	265.7	265.7
Net gains and losses on fair value property	10	–	(5.9)	(5.9)	–	0.1	0.1
Total revenue		46.2	0.9	47.1	47.5	265.8	313.3
Management expenses	2	(16.9)	(5.9)	(22.8)	(18.5)	(7.8)	(26.3)
Other non-recurring expenses		–	–	–	(0.4)	–	(0.4)
Guarantee obligation provided	15	–	–	–	–	(0.1)	(0.1)
Profit before finance costs		29.3	(5.0)	24.3	28.6	257.9	286.5
Treasury interest receivable	3	0.6	–	0.6	0.2	–	0.2
Finance costs	4	(2.1)	–	(2.1)	(1.7)	–	(1.7)
Exchange movements		(0.6)	–	(0.6)	(0.5)	–	(0.5)
Profit before tax		27.2	(5.0)	22.2	26.6	257.9	284.5
Taxation	5	4.3	–	4.3	4.2	1.4	5.6
Profit for the year		31.5	(5.0)	26.5	30.8	259.3	290.1
Other comprehensive income items never to be reclassified to profit or loss							
Re-measurements of defined benefit pension schemes	24	–	(0.8)	(0.8)	–	(2.7)	(2.7)
Tax on other comprehensive income	5	–	(0.3)	(0.3)	–	0.7	0.7
Total comprehensive income		31.5	(6.1)	25.4	30.8	257.3	288.1
Basic earnings per share	7	57.4p	-9.1p	48.3p	56.1p	472.1p	528.2p
Diluted earnings per share	7	56.3p	-9.1p	47.4p	55.0p	463.4p	518.4p

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

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

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

The accounting policies and notes on pages 74 to 95 are an integral part of these financial statements.

Statement of financial position
at 31 March 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Investments held at fair value through profit or loss	8	1,609.9	1,688.6	1,613.6	1,682.2
Investments in subsidiaries held at cost	8	–	–	0.8	0.8
Investment property	9	10.4	–	–	–
Property, plant and equipment	10	29.2	35.5	–	–
Deferred tax assets	11	3.2	3.7	–	–
Employee benefits	24	2.3	2.8	–	–
Non-current assets		1,655.0	1,730.6	1,614.4	1,683.0
Current assets					
Trade and other receivables	12	3.9	7.8	38.0	29.0
Current tax assets	5	5.4	2.6	4.7	3.1
Cash and cash equivalents	13	207.8	207.3	207.4	205.6
Current assets		217.1	217.7	250.1	237.7
Total assets		1,872.1	1,948.3	1,864.5	1,920.7
Current liabilities					
Trade and other payables	14	(26.5)	(39.5)	(34.0)	(25.5)
Employee benefits	24	(2.2)	(2.5)	–	–
Current liabilities		(28.7)	(42.0)	(34.0)	(25.5)
Non-current liabilities					
Employee benefits	24	(6.6)	(7.3)	–	–
Deferred tax liabilities	11	(0.2)	(0.2)	–	–
Non-current liabilities		(6.8)	(7.5)	–	–
Total liabilities		(35.5)	(49.5)	(34.0)	(25.5)
Net assets		1,836.6	1,898.8	1,830.5	1,895.2
Equity					
Share capital	16	3.2	3.2	3.2	3.2
Share premium		1.3	1.3	1.3	1.3
Capital redemption reserve		1.3	1.3	1.3	1.3
Capital reserve		1,584.9	1,591.0	1,585.6	1,594.2
Retained earnings		284.1	332.9	277.3	326.1
Own shares		(38.2)	(30.9)	(38.2)	(30.9)
Total equity		1,836.6	1,898.8	1,830.5	1,895.2
Undiluted net asset value	17	3344p	3459p		
Diluted net asset value	17	3285p	3395p		

The financial statements on pages 70 to 95 were approved by the board and authorised for issue on 24 May 2018 and were signed on its behalf by:

Will Wyatt
Chief Executive

Stephen King
Finance Director

The accounting policies and notes on pages 74 to 95 are an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 March 2018

	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 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
Total comprehensive income							
Profit for the year	–	–	–	(5.0)	31.5	–	26.5
Other comprehensive income	–	–	–	(1.1)	–	–	(1.1)
Total comprehensive income	–	–	–	(6.1)	31.5	–	25.4
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	–	–	5.0	–	5.0
Own shares purchased	–	–	–	–	–	(7.5)	(7.5)
Dividends paid	–	–	–	–	(85.3)	–	(85.3)
Total transactions with owners	–	–	–	–	(80.3)	(7.3)	(87.6)
Balance at 31 March 2018	3.2	1.3	1.3	1,584.9	284.1	(38.2)	1,836.6
Company							
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
Profit and total comprehensive income	–	–	–	(8.6)	31.5	–	22.9
Transactions with owners of the company							
Contributions by and distributions to owners							
Exercise of options	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	–	–	5.0	–	5.0
Own shares purchased	–	–	–	–	–	(7.5)	(7.5)
Dividends paid	–	–	–	–	(85.3)	–	(85.3)
Total transactions with owners	–	–	–	–	(80.3)	(7.3)	(87.6)
Balance at 31 March 2018	3.2	1.3	1.3	1,585.6	277.3	(38.2)	1,830.5

The accounting policies and notes on pages 74 to 95 are an integral part of these financial statements.

Statement of cash flows
for the year ended 31 March 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Operating activities					
Dividends received		46.6	45.1	46.6	45.1
Interest received		0.9	2.3	0.5	1.6
Cash received from customers		0.2	0.3	–	–
Cash paid to suppliers and employees		(17.2)	(19.7)	(23.3)	(23.1)
Taxes received		0.2	–	0.2	–
Taxes paid		(0.1)	(0.1)	(0.1)	(0.1)
Group tax relief received		1.6	4.9	2.0	5.2
Net cash flow from operating activities		32.2	32.8	25.9	28.7
Investing activities					
Purchases of investments		(218.4)	(256.2)	(215.9)	(245.8)
Proceeds from disposal of investments		305.3	433.5	288.3	431.2
Purchases of property, plant and equipment		(10.9)	(9.7)	–	–
Net cash flow from investing activities		76.0	167.6	72.4	185.4
Financing activities					
Interest paid		(2.7)	(1.2)	(2.3)	(1.1)
Dividends paid to owners of the company		(85.3)	(29.3)	(85.3)	(29.3)
Loan receipts from subsidiaries		–	34.4	24.7	53.0
Loan payments to subsidiaries		(12.4)	(9.2)	(26.3)	(44.2)
Exercise of share options		0.2	0.2	0.2	0.2
Purchase of own shares		(7.5)	(10.9)	(7.5)	(10.9)
Net cash flow used in financing activities		(107.7)	(16.0)	(96.5)	(32.3)
Net increase in cash and cash equivalents		0.5	184.4	1.8	181.8
Cash and cash equivalents at year start		207.3	22.9	205.6	23.8
Cash and cash equivalents at year end	13	207.8	207.3	207.4	205.6

The accounting policies and notes on pages 74 to 95 are an integral part of these financial statements.

Significant accounting policies

General information

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

These financial statements were authorised for issue by the directors on 24 May 2018.

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.

See note 22 for further explanation of the development of unobservable inputs used for valuations.

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 62. 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* revises the approach to financial instruments framework replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The classification and measurement of the group's financial instruments are not anticipated to be impacted upon adoption of IFRS 9. The group will continue to apply fair value to investment assets as either the cash flows are not 'solely payments of principal and interest' or the business model is to manage them on a fair value basis. The new standard will be applied in the financial statements for the year ended 31 March 2019.
- IFRS 15 *Revenue from Contracts with Customers* revises the approach to revenue recognition from contracts with customers and replaces IAS 11 *Accounting for construction contracts*. The majority of the group's income is received from financial instruments which are excluded from the scope of IFRS 15. The new standard will be applied in the financial statements for the year ended 31 March 2019.
- IFRS 16 *Leases* provides a new approach to lease accounting replacing IAS 17 *Leases*. The group is required to recognise lease contracts as a lessee on the balance sheet as a right of use asset with a corresponding lease liability with the exception of short term or low value leases. Due to immaterial lease obligations, the standard is not expected to impact on the financial position of the group. The standard is not being early adopted and will be applied in the financial statements for the year ended 31 March 2020.

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.

Significant accounting policies continued

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

The transactions the employee share trust undertakes are considered to be performed by the trust as an agent for Caledonia. The transactions of the employee share trust are included in the separate financial statements of the parent company and, following the requirements of IFRS 10, in the consolidated financial statements as if they arose in that company. Own shares held by the employee share trust as at the reporting date are accounted for as if they were treasury shares.

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

Taxation

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

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

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

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

Dividend distribution

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

Investments

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

Investments held as part of the group's business of investing in financial assets are designated as held at fair value through profit or loss in both the consolidated financial statements and the company financial statements.

Investments designated as held at fair value through profit or loss are measured at subsequent reporting dates at fair value. Gains or losses arising from changes in the value of investments designated as held at fair value through profit or loss, including foreign exchange movements, are included in net profit or loss for the period as a capital return.

Listed investments are valued at bid price or the last traded price when a bid price is not available. Unlisted investments are valued using recognised valuation methodologies, based on the International Private Equity and Venture Capital Valuation Guidelines, which reflect the amount for which an asset could be exchanged between knowledgeable, willing parties on an arm's length basis. The portfolio valuation methodology is detailed on pages 23 and 24.

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.

Investment property
Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and, where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income is recognised on a straight-line basis over the lease term.

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

	2018 £m	2017 £m
Income from portfolio investments		
Dividends from UK listed companies	11.2	11.3
Dividends from overseas listed companies	9.4	9.1
Dividends from unlisted companies	15.5	18.2
Distributions from limited partnerships	1.5	1.5
Interest on debt instruments	–	0.8
	37.6	40.9
Income from unallocated investments		
Dividends from unlisted companies	8.0	5.0
Interest on debt instruments	0.4	1.4
	46.0	47.3

Other income

	2018 £m	2017 £m
Property income	0.2	0.2

2. Expenses

Management expenses

	2018 £m	2017 £m
Income statement revenue column		
Personnel expenses	10.4	10.3
Depreciation	0.8	0.2
Auditor's remuneration	0.2	0.2
Other administrative expenses	7.0	8.6
Directors' fees and disbursements recharged	(1.0)	(1.1)
Management fees and recharges	(0.5)	(0.2)
Other expenses	–	0.5
	16.9	18.5
Income statement capital column		
Personnel expenses	5.8	7.7
Transaction costs	0.1	0.1
	5.9	7.8
	22.8	26.3

Further information

Auditor's remuneration

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

	2018 £m	2017 £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:

	2018 £m	2017 £m
Audit services		
Annual report[1]	0.5	0.6
Other services		
Other assurance, due diligence and tax compliance	0.1	0.5
	0.6	1.1

1. Included £0.1m (2017 – £0.1m) payable to KPMG Channel Islands Ltd.

Personnel expenses

	2018 £m	2017 £m
Income statement revenue column		
Wages and salaries	8.4	8.2
Compulsory social security contributions	1.4	1.2
Contributions to defined contribution plans	0.9	0.7
Defined benefit pension plans expense (note 24)	(0.3)	0.2
	10.4	10.3
Income statement capital column		
Equity-settled share-based payments (note 23)	5.0	6.4
National Insurance on share awards	0.8	1.3
	5.8	7.7
	16.2	18.0

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

	2018 No	2017 No
Average number of employees	52	49

Total directors' remuneration recorded for the year was £3.8m (2017 – £4.8m) as disclosed in the key management compensation (note 19) and the Directors' remuneration report on page 53.

3. Treasury interest receivable

	2018 £m	2017 £m
Interest on bank deposits and liquidity funds	0.6	0.2

4. Finance costs

	2018 £m	2017 £m
Interest on bank loans and overdrafts	2.1	1.7

5. Taxation

Recognised in comprehensive income

	2018 £m	2017 £m
Current tax income		
Current year	0.7	0.9
Adjustments for prior years	3.8	4.4
	4.5	5.3
Deferred tax income		
Origination and reversal of temporary differences	(0.2)	0.3
Total tax income	4.3	5.6

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

	2018 £m	2017 £m
Profit before tax	22.2	284.5
Tax expense at the domestic rate of 19%/20%	(4.2)	(56.9)
Non-deductible expenses	0.6	(0.4)
Losses for the year unrelieved	(4.4)	(4.2)
Non-taxable gains on investments	0.1	53.0
Non-taxable UK dividend income	6.2	6.8
Tax exempt revenues	2.4	2.6
Other temporary differences	(0.2)	0.3
Adjustments for prior years	3.8	4.4
Tax income	4.3	5.6

Recognised in other comprehensive income

	2018 £m	2017 £m
Deferred tax income/(expense)		
On re-measurements on defined benefit pension schemes	0.1	0.4
On share options and awards	(0.4)	0.3
	(0.3)	0.7

Current tax assets

Current tax assets of £5.4m in the group and £4.7m in the company represented tax loss relief surrenders for settlement (2017 – £2.6m in the group and £3.1m in the company).

6. Dividends

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

	2018		2017	
	p/share	£m	p/share	£m
Final dividend for the year ended 31 March 2017 (2016 second interim dividend)	39.9	21.9	38.3	21.1
Special dividend for the year ended 31 March 2017	100.0	54.9	–	–
Interim dividend for the year ended 31 March 2018 (2017)	15.5	8.5	14.9	8.2
	155.4	85.3	53.2	29.3

Amounts proposed after the year end and not recognised in the financial statements were as follows:

Proposed final dividend for the year ended 31 March 2018	41.5	22.8		

The proposed final dividend for the year ended 31 March 2018 was not included as a liability in these financial statements. This dividend, if approved by shareholders at the annual general meeting to be held on 19 July 2018, will be payable on 9 August 2018 to holders of shares on the register on 29 June 2018. The ex-dividend date will be 28 June 2018.

For the purposes of section 1158 of the Corporation Tax Act 2010 and associated regulations, the dividends payable for the year ended 31 March 2018 are the interim and final dividends for that year, amounting to £31.3m (2017 – interim, final and special £85.0m).

Notes to the financial statements continued

7. Earnings per share

Basic and diluted earnings per share

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

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

	2018 £m	2017 £m
Revenue	31.5	30.8
Capital	(5.0)	259.3
Total	26.5	290.1

The weighted average number of shares was as follows:

	2018 000's	2017 000's
Issued shares at the year start	55,381	55,381
Effect of shares held by the employee share trust	(464)	(455)
Basic weighted average number of shares in the year	54,917	54,926
Effect of performance shares, share options and deferred bonus awards	984	1,035
Diluted weighted average number of shares in the year	55,901	55,961

8. Investments

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Investments held at fair value through profit or loss				
Investments listed on a recognised stock exchange	646.9	682.2	646.9	682.2
Unlisted investments	963.0	1,006.4	966.7	1,000.0
	1,609.9	1,688.6	1,613.6	1,682.2
Investments held at cost				
Service subsidiaries	–	–	0.8	0.8
	1,609.9	1,688.6	1,614.4	1,683.0

The movements in non-current investments were as follows:

	Listed equity £m	Unlisted equity[1] £m	Unlisted debt £m	Total £m
Group				
Balance at 31 March 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/losses on investments	93.9	152.8	19.0	265.7
Balance at 31 March 2017	682.2	986.1	20.3	1,688.6
Purchases at cost	86.4	129.5	2.5	218.4
Disposal proceeds	(96.2)	(185.8)	(22.0)	(304.0)
Gains/losses on investments	(25.5)	32.3	–	6.8
Rolled up income	–	0.2	(0.1)	0.1
Balance at 31 March 2018	646.9	962.3	0.7	1,609.9
Company				
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/losses 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
Purchases at cost	86.4	134.5	–	220.9
Disposal proceeds	(96.2)	(190.8)	–	(287.0)
Gains/losses on investments	(25.5)	22.8	–	(2.7)
Rolled up income	–	0.2	–	0.2
Balance at 31 March 2018	646.9	967.4	0.1	1,614.4

1. Unlisted equity included limited partnership and open ended fund investments. It also included £29.0m (2017 – £32.7m) of non-pool investments.

In the prior year, reclassifications comprised subsidiaries' debt to equity conversion.

9. Investment property

Group

	Freehold property £m
Cost	
Transfer from property, plant and equipment	10.1
Acquisitions	0.3
Balance at 31 March 2018	10.4
Carrying amounts	
At 31 March 2018	10.4

During the year the head office refurbishment was completed and property with a value of £10.1m was transferred from property, plant and equipment to investment property, being the external tenanted areas of the completed building.

Property was revalued at 31 March 2018 by an independent valuer. Had the property been carried under the cost model, the carrying amount would have been £25.6m (2017 – £16.0m).

10. Property, plant and equipment

Group

	Property £m	Under construction £m	Office equipment £m	Total £m
Cost				
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
Acquisitions	0.9	8.2	1.4	10.5
Re-classification	19.0	(21.3)	2.3	–
Transfer to investment property	(10.1)	–	–	(10.1)
Balance at 31 March 2018	33.6	–	4.8	38.4
Depreciation				
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)
Depreciation charge	(0.5)	–	(0.3)	(0.8)
Eliminate depreciation	0.5	–	–	0.5
Balance at 31 March 2018	–	–	(1.3)	(1.3)
Revaluation				
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)
Revaluation in the year	(5.9)	–	–	(5.9)
Eliminate depreciation	(0.5)	–	–	(0.5)
Balance at 31 March 2018	(7.9)	–	–	(7.9)
Carrying amounts				
At 31 March 2016	22.3	3.2	0.2	25.7
At 31 March 2017	22.3	13.1	0.1	35.5
At 31 March 2018	25.7	–	3.5	29.2

Property is measured at fair value and comprised freehold land and building. During the year property under construction was completed and transferred to property and office equipment.

11. Deferred tax

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

	Assets £m	Liabilities £m	Net £m
2018			
Employee benefits	3.2	–	3.2
Other items	–	(0.2)	(0.2)
	3.2	(0.2)	3.0
2017			
Employee benefits	3.7	–	3.7
Other items	–	(0.2)	(0.2)
	3.7	(0.2)	3.5

Movement in temporary differences during the year

	Balance at year start £m	Comprehensive income £m	Other comprehensive income £m	Balance at year end £m
2018				
Employee benefits	3.7	(0.2)	(0.3)	3.2
Other items	(0.2)	–	–	(0.2)
	3.5	(0.2)	(0.3)	3.0
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

Group and company

Unrecognised deferred tax assets

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

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Tax losses	5.4	5.1	5.0	4.7

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.

Notes to the financial statements continued

12. Trade and other receivables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade receivables	2.7	5.2	2.1	4.6
Non-trade receivables and prepayments	1.2	2.5	0.6	0.2
Other receivables	–	0.1	35.3	24.2
	3.9	7.8	38.0	29.0

Other receivables included short term lending to subsidiaries.

13. Net cash and cash equivalents

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Bank balances	3.5	1.9	3.3	1.8
Short term deposits	204.3	205.4	204.1	203.8
Cash and cash equivalents	207.8	207.3	207.4	205.6

14. Trade and other payables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade payables	0.5	1.4	3.9	2.9
Non-trade payables and accrued expenses	1.5	1.2	1.9	3.9
Other payables	24.5	36.9	28.2	18.7
	26.5	39.5	34.0	25.5

Other payables included short term borrowing from subsidiaries.

15. Provisions

Current liabilties

	Solvency guarantee	
	Group £m	Company £m
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 and 2018	–	–

During the prior 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.

The solvency guarantee provision was allocated to the capital reserve. As the matter that gave rise to the provision was expected to be resolved over the next year, the provision was classified as a current liability.

16. Share capital

	Ordinary shares £m	Deferred ordinary shares £m	Share premium £m	Total £m
Balance at 31 March 2016, 2017 and 2018	2.8	0.4	1.3	4.5

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

	Ordinary shares		Deferred ordinary shares	
	2018 000's	2017 000's	2018 000's	2017 000's
Balance at the year start and end	55,381	55,381	8,000	8,000

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

As at 31 March 2018, the issued share capital of the company comprised 55,381,017 ordinary shares (2017 – 55,381,017) and 8,000,000 deferred ordinary shares (2017 – 8,000,000). The ordinary and deferred ordinary shares have a nominal value of 5p each.

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

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

17. Net asset value

The group's undiluted net asset value 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 assumes the exercise of all outstanding in-the-money share options and the calling of performance share and deferred bonus awards.

	2018			2017		
	Net assets £m	Number of shares 000's	NAV p/share	Net assets £m	Number of shares 000's	NAV p/share
Undiluted	1,836.6	54,927	3344	1,898.8	54,894	3459
Share awards	–	984	(59)	0.3	1,044	(64)
Diluted	1,836.6	55,911	3285	1,899.1	55,938	3395

Net asset value total return is calculated, in accordance with AIC guidance, as the change in NAV from the start of the period, assuming that dividends paid to shareholders are reinvested at NAV at the time the shares are quoted ex-dividend.

	2018 p	2017 p
Diluted NAV at year start	3395	2890
Diluted NAV at year end	3285	3395
Dividends payable in the year	155	15
Reinvestment adjustment[1]	2	1
	3442	3411
NAVTR over the year	1.4%	18.0%

1. The reinvestment adjustment is the gain or loss resulting from reinvesting the dividends in NAV at the ex-dividend date.

18. Operating segments

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

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

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

	Profit before tax		Total assets	
	2018 £m	2017 £m	2018 £m	2017 £m
Quoted pool	16.3	82.4	452.3	467.9
Income pool	(21.2)	32.0	194.6	215.9
Unquoted pool	24.5	125.1	463.5	567.8
Funds pool	34.1	73.9	470.5	404.3
Investment portfolio	53.7	313.4	1,580.9	1,655.9
Other investments	(6.6)	(0.1)	29.0	32.7
Total revenue/investments	47.1	313.3	1,609.9	1,688.6
Cash and cash equivalents	0.6	0.2	207.8	207.3
Other items	(25.5)	(29.0)	54.4	52.4
Reportable total	22.2	284.5	1,872.1	1,948.3

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the country 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
2018				
Revenue	36.1	3.1	7.9	47.1
Non-current assets	39.6	–	–	39.6
2017				
Revenue	158.0	118.1	37.2	313.3
Non-current assets	35.5	–	–	35.5

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

Notes to the financial statements continued

19. Related parties

Identity of related parties

The group and company had related party relationships with its subsidiaries (note 26) and associates (note 25) and with its key management personnel, being its directors.

Transactions with key management personnel

Certain directors of the company and their immediate relatives had significant influence in The Cayzer Trust Company Ltd, which held 35.1% of the voting shares of the company as at 31 March 2018 (2017 – 35.0%).

During the year, the group invoiced and received £0.1m (2017 – £0.1m) in rent and administration fees from The Cayzer Trust Company Ltd.

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 53.

The key management personnel compensation was as follows:

	Group 2018 £m	Group 2017 £m
Short term employee benefits	2.3	2.5
Equity compensation benefits	1.5	2.3
	3.8	4.8

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:

	2018 Amount of transactions £m	2018 Balance at year end £m	2017 Amount of transactions £m	2017 Balance at year end £m
Comprehensive income items				
Dividends receivable on equity shares	17.3	–	16.0	–
Interest receivable	0.2	–	1.5	–
Capital distributions receivable	5.0	–	6.4	–
Management fees payable	(21.0)	(1.0)	(22.9)	(5.7)
Taxation	2.0	–	5.2	–
Financial position items				
Equity subscribed	65.7	–	–	–
Capital contributions	5.0	–	6.4	–
Loans receivable	2.0	35.3	(34.2)	33.3
Loans payable	(9.5)	(28.2)	(17.4)	(18.7)

Associates and joint ventures

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

	2018 Amount of transactions £m	2018 Balance at year end £m	2017 Amount of transactions £m	2017 Balance at year end £m
Company				
Dividends receivable on equity shares	3.4	–	5.0	–

20. Capital commitments

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Investments				
Contracted but not called	320.1	301.5	324.8	307.3
Conditionally contracted	24.3	27.5	24.3	27.5
	344.4	329.0	349.1	334.8

21. Contingencies

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

22. Financial instruments

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

Risk analysis

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

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

Market risk

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

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

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

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

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

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

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Investments held at fair value through profit or loss	1,609.2	1,668.3	1,614.3	1,682.9

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

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Increase in prices	160.9	166.8	161.4	168.3
Decrease in prices	(160.9)	(166.8)	(161.4)	(168.3)

The sensitivity to equity and fund investments has decreased during the year mainly due to 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		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Cash and cash equivalents	2.3	1.6	2.2	1.7

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 included all foreign denominated debt investments.

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Sterling depreciates (weakens)	(0.2)	(0.1)	(0.2)	(0.1)
Sterling appreciates (strengthens)	0.2	0.1	0.2	0.1

The exposure to foreign currency has increased in the year due to an increase 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.

Notes to the financial statements continued

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Fixed rate				
Interest-bearing loans to subsidiaries	0.6	7.0	–	–
Floating rate				
Investments in debt instruments	0.1	0.1	0.1	0.1
Interest-bearing loans to subsidiaries	–	13.2	–	–
Cash and cash equivalents	207.8	207.3	207.4	205.6

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 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Decrease in interest rates	(0.8)	(0.5)	(0.8)	(0.8)
Increase in interest rates	0.8	0.5	0.8	0.8

The group's sensitivity to interest rates has changed in the year due to a reduction in floating rate loans to subsidiaries, against a smaller reduction 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 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Investments in debt instruments	0.7	20.3	0.1	0.1
Operating and other receivables	3.9	7.8	38.0	29.0
Cash and cash equivalents	207.8	207.3	207.4	205.6
	212.4	235.4	245.5	234.7

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

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

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

At the year end, the group and company had sterling liquidity funds of £204m (2017 – £160m). At the year end £24m was invested in the HSBC Sterling Liquidity Fund, with the balance invested equally between Goldman Sachs Sterling Liquid Reserves Fund, Blackrock Institutional Sterling Liquidity Fund, Standard Life Investments Liquidity Fund plc Sterling and Insight Liquidity Funds plc Sterling. In the prior year, £160m was 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. In addition, at the prior year end, the group and company had cash deposits with the Royal Bank of Scotland plc of £45.4m and £43.8m respectively.

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

Fair value

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

Liquidity risk

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

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

Bank facilities were undrawn at 31 March 2018 and 2017.

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 £250m (2017 – £175m).

The group's total capital at 31 March 2018 was £1,836.6m (2017 – £1,898.8m) and comprised equity share capital and reserves. The group was ungeared at the year end (2017 – ungeared) and had a further £250m 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	
	2018 £m	2017 £m	2018 £m	2017 £m
Investments held at fair value				
Level 1	646.9	682.2	646.9	682.2
Level 2	183.5	183.9	187.6	191.1
Level 3	779.5	822.5	779.1	808.9
	1,609.9	1,688.6	1,613.6	1,682.2

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Balance at the year start	822.5	830.3	808.9	816.8
Purchases	121.5	156.6	121.5	156.2
Disposal proceeds	(191.5)	(288.5)	(178.3)	(288.2)
Gains and losses on investments sold in the year	89.5	148.6	89.5	148.6
Gains and losses on investments held at the year end	(62.7)	(24.5)	(62.7)	(24.5)
Rolled up income	0.2	–	0.2	–
Balance at the year end	779.5	822.5	779.1	808.9

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 5 to 12 (2017 – 7 to 17), weighted average 10.4 (2017 – 9.1).

Notes to the financial statements continued

- 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 10% to 30% (2017 – 25% to 30%), weighted average 21% (2017 – 29%).

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	Weight average input	Input sensit-ivity +/-	Change in valu-ation +/- £m
Internally developed					
Private companies					
Earnings	355.8	EBITDA multiple	10.5x	1.0x	59.7
		Marketability discount	21%	1%	6.9
Net assets	31.5	Multiple	1.0x	0.1x	3.1
	387.3				69.7
Externally developed					
Private equity fund investments					
Net asset value[1]	392.2				
	779.5				

1. The entity has determined that the net asset values reported by the fund managers represented fair value at the reporting date.

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

23. Share-based payments

The company has a performance share scheme that entitles senior executives to receive options over the company's shares, which are exercisable subject to service and performance conditions. All nil-cost option awards granted in 2012 may be exercised between five and ten years after the date of 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. Prior to 2017, employees were able to voluntarily defer up to 50% of their remaining cash bonus into shares and the company matched the number of shares comprised in both compulsory and voluntary deferral, subject to service and company performance criteria. Voluntary deferral and matching awards were discontinued in 2017.

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
Performance share scheme awards			
28.05.12	Award grant to senior staff	Note 1	5,770
12.06.13	Award grant to senior staff	Note 2	94,697
03.07.13	Award grant to senior staff	Note 2	2,907
27.11.14	Award grant to senior staff	Note 3	109,893
26.06.15	Award grant to senior staff	Note 6	181,150
26.05.16	Award grant to senior staff	Note 6	205,471
21.07.17	Award grant to senior staff	Note 6	222,068
			821,956
Deferred bonus awards to senior staff			
26.06.15	Voluntary award	Note 5	2,105
26.06.15	Compulsory award	Note 4	49,223
26.06.15	Matching shares	Note 7	36,441
26.05.16	Voluntary award	Note 5	2,087
26.05.16	Compulsory award	Note 4	8,568
26.05.16	Matching shares	Note 7	10,655
21.07.17	Compulsory award	Note 4	52,664
			161,743

1. 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%.
2. 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%.
3. 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.
4. Three years of service.
5. Three years of service or earlier termination of employment.
6. 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.
7. 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 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:

	2018 Weighted average exercise price p/share	2018 Number of options 000's	2017 Weighted average exercise price p/share	2017 Number of options 000's
Outstanding at the year start	1446	18	1446	35
Exercised during the year	1446	(18)	1446	(17)
Outstanding at the year end	–	–	1446	18

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 scheme, share awards 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	2018 £m	2017 £m
Performance share awards granted in 2013	–	0.1
Performance share awards granted in 2014	0.2	0.9
Performance share awards granted in 2015	1.0	1.1
Performance share awards granted in 2016	0.8	1.2
Performance share awards granted in 2017	1.2	1.1
Performance share awards granted in 2018	1.1	–
Deferred bonus awards for 2013	–	0.1
Deferred bonus awards for 2014	(0.2)	0.9
Deferred bonus awards for 2015	0.4	0.8
Deferred bonus awards for 2016	0.2	0.2
Deferred bonus awards for 2017	0.3	–
	5.0	6.4

24. Employee benefits

Group

	2018 £m	2017 £m
Non-current assets		
Defined benefit pension asset	2.3	2.8
Current liabilities		
Profit sharing bonus	(2.2)	(2.5)
Non-current liabilities		
Defined benefit pension obligations	(4.6)	(4.9)
National Insurance on share options, performance shares and deferred bonus awards	(2.0)	(2.4)
	(6.6)	(7.3)
Total employee liabilities	(8.8)	(9.8)

Defined benefit pension obligations

The group makes contributions to two (2017 – 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. One of the schemes was in surplus on an IAS 19 basis, which is recognised in full as the company considers there is an unconditional right to a refund under IFRIC 14. Both schemes were closed to new members in April 1996. New employees joining after that date were offered alternative defined contribution pension arrangements.

	2018 £m	2017 £m
Present value of funded obligations	48.5	46.5
Fair value of plan assets	(46.2)	(44.4)
Present value of net obligations	2.3	2.1

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

	2018 £m	2017 £m
Balance at the year start	46.5	38.5
Service cost	0.2	0.2
Interest cost	1.2	1.3
Actuarial loss/(gain) from changes:		
– in financial assumptions	(0.3)	8.0
– experience gains	(0.8)	(0.3)
Actual benefit payments	(2.4)	(1.2)
Settlement	4.1	–
Balance at the year end	48.5	46.5

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

	2018 £m	2017 £m
Balance at the year start	44.4	38.9
Interest income	1.2	1.3
Return on plan assets less interest income	(1.9)	5.0
Employer contributions	0.3	0.4
Actual benefit payments	(2.4)	(1.2)
Settlement	4.6	–
Balance at the year end	46.2	44.4

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

	2018 £m	2017 £m
Current service cost	0.2	0.2
Interest on obligations	1.2	1.3
Interest on plan assets	(1.2)	(1.3)
Gain on settlement	(0.5)	–
	(0.3)	0.2

Notes to the financial statements continued

During the year a s.75 event occurred resulting in a settlement gain.

Amounts recognised in other comprehensive income were as follows:

	2018 £m	2017 £m
Actuarial (losses)/gains arising from financial assumptions	0.3	(8.0)
Actuarial gains from experience adjustments	0.8	0.3
Return on plan assets less interest income	(1.9)	5.0
Re-measurement losses in the year	(0.8)	(2.7)

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

	2018 £m	2017 £m
Equities	29.8	29.1
Bonds	6.4	6.6
Cash	10.0	8.7
	46.2	44.4

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:

	2018 %	2017 %
Discount rate at the year end	2.6	2.6
Future salary increases	4.4	4.4
Future pension increases	3.4	3.4
RPI price inflation	3.4	3.4

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 27.7 years (2017 – 27.6 years) for males and 28.3 years (2017 – 28.2 years) for females who are currently 62 years of age.

Expected contributions to group post-employment benefit plans for the year ending 31 March 2019 were £0.3m (2018 – £0.3m).

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. IAS 19 requires 'best estimate' assumptions to be used whereas the funding valuation uses 'prudent' assumptions. 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 2018 years
Amber Industrial Holdings pension scheme	12.6	16
Caledonia Pension Scheme	27.4	18

Sensitivities

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises the estimated increase in defined benefit obligations to a change in individual actuarial assumptions, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in an assumption would occur in isolation, as some of the assumptions may be correlated.

	2018 £m	2017 £m
Reduction in the discount rate of 0.25%	2.0	2.2
Increase in inflation of 0.25%	1.3	1.6
Increase in future salary increases of 0.25%	–	0.1
Increase in life expectancy of one year	2.1	1.8

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.

25. Interests in associates

Company	Class	Holding %	Registered office
Bristow Aviation Holdings Ltd	A Ordinary	46.0	Redhill Aerodrome, Kings Mill Lane, Redhill HR1 5JZ
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:

	2018 £m	2017 £m
Assets	245.1	230.0
Liabilities	(117.4)	(97.7)
Equity	127.7	132.3
Revenues	217.9	244.4
Profit	18.3	20.4

Notes to the financial statements continued

26. Subsidiaries

Company	Class	Holding %	Registered office
Amber 2010 Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Buckingham Gate Ltd[2]	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Caledonia CCIL Distribution Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Caledonia Financial Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Caledonia Group Services Ltd[2]	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Caledonia Ireland ICAV	Ordinary	100.0[1]	32 Molesworth Street, Dublin 2, D02 Y512, Ireland
	Ptg Pref	100.0[1]	
Caledonia Land & Property Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Caledonia Treasury Ltd[2]	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Edinmore Investments Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Easybox Self-Storage Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Garlandheath Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
The Union-Castle Mail Steamship Co Ltd	Ordinary	100.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
	A Ordinary	100.0[1]	
Brookshire			
Brookshire Capital LLP	Member	70.0[1]	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Brookshire Trading Ltd	Ordinary	100.0	Cayzer House, 30 Buckingham Gate, London SW1E 6NN
Choice Care Group			
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]	
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
Community Homes of Intensive Care and Education Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Excel Support Services Ltd	Ordinary A	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
OEG Holdings Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
Orchard End Ltd	Ordinary	100.0	Linden House, Lime Walk, Bagshot Road, Bracknell RG12 9DY
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
Gala Bingo			
Bonningtree Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Caledonia Venus Acquisitions Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Caledonia Venus Group Ltd	Ordinary	100.0	New Castle House, Castle Boulevard, Nottingham NG7 1FT
Caledonia Venus Holdings Ltd	Ordinary A	99.4[1]	New Castle House, Castle Boulevard, Nottingham NG7 1FT
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	Gala Clubs Regional Office, Kerse Lane, Falkirk FK1 1RJ
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

Company	Class	Holding %	Registered office
Liberation Group			
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	19 Royal Square, St Helier, Jersey JE2 4WA
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
Brasserie du Centre Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Bucktrout & Company Ltd	Deferred Ordinary Preference	100.0 100.0 100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
Butcombe Brewery (EBT) Ltd	Ordinary	100.0	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Brewery Ltd	Ordinary	100.0	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Brewing Company Ltd	Ordinary	100.0	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Inns Ltd	Ordinary	100.0	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
Butcombe Pubco Ltd	Ordinary	100.0	Butcombe Brewery, 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 TLG Bidco Ltd	Ordinary	100.0	Butcombe Brewery, Havyatt Road Trading Estate, Havyatt Road, Wrington, Bristol BS40 5PA
Caledonia TLG Ltd	Ordinary A Preference	85.6[1] 100.0[1]	19 Royal Square, St Helier, Jersey JE2 4WA
Caledonia TLG Midco Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
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
Citann Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
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
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
Evenstar Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
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
Foresters Arms (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
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

Notes to the financial statements continued

Company	Class	Holding %	Registered office
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
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	Butcombe Brewery, 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
Old Court House Hotel (St Aubin) 1972 Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Parade Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Peirson (1971) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
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.L. Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Ship Holdings Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
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
Sussex Hotel Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
The Guernsey Brewery Co (1920) Ltd	Ordinary	100.0	Hougue Jehannet, Vale, Guernsey GY3 5UF
	Preference	100.0	
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	Butcombe Brewery, 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	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
The Post Horn Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
The Royal Oak Inn Trading Ltd	Ordinary	100.0	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
Trafalgar Hotel (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
Triple Rock Ltd	Ordinary	100.0	Butcombe Brewery, Cox's Green, Wrington, Bristol BS40 5PA
Union Inn (Jersey) Ltd	Ordinary	100.0	19 Royal Square, St Helier, Jersey JE2 4WA
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

Company	Class	Holding %	Registered office
Seven Investment Management			
7IM Holdings Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
	Preference	100.0	
7IM Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
7IM Retirement & Investment Solutions Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
7IM Trustees Ltd	Ordinary	100.0	55 Bishopsgate, London EC2N 3AS
Caledonia Thames Holdings Ltd	Ordinary	93.6[1]	55 Bishopsgate, London EC2N 3AS
Seven Investment Management LLP	Member	95.0	55 Bishopsgate, London EC2N 3AS
Sterling Industries			
Bloom Combustion (India) Pvt 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, 810 - Conceição, Diadema - SP, 09991-060, Brazil
Britannia Heatex Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
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
Crewkerne Investments Ltd	Ordinary	50.5	Sterling House, Brunel Road, Aylesbury HP19 8SS
Hotwork Combustion Technology Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Skid Pipe Insulation LLC	Member	100.0	1001 East Smithfield Street, McKeesport, PA 15135, USA
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	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
	Preference	80.3	
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
Thame Energy Systems Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS
Urquhart Engineering Co Ltd	Ordinary	100.0	Sterling House, Brunel Road, Aylesbury HP19 8SS

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 Link Asset Services. Where dividends are paid directly into shareholders' bank accounts, dividend confirmation statements are sent to shareholders' registered addresses.

Link 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 Link 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 Link Asset Services are shown on the opposite page. Link 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.

Link Asset Services also offer a share dealing service and dividend reinvestment plan for existing shareholders. The share dealing service is available online at www.linksharedeal.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@linkgroup.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 2019. 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

David C Stewart[2,3]

Executive directors

William P Wyatt (Chief Executive)[2]
Stephen A King (Finance Director)
Jamie M B Cayzer-Colvin

Non-executive directors

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

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

Secretary

Graeme P Denison

Registered office

Cayzer House
30 Buckingham Gate
London SW1E 6NN

Registered number

Registered in England no 235481

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Tel: 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.
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.

Brokers

J.P.Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Winterflood Securities Ltd
The Atrium Building
Cannon Bridge House
25 Dowgate Hill
London EC4R 2GA

Solicitors

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

aic
The Association of Investment Companies

CarbonNeutral® printing company

This report has been printed in the UK by CPI Colour. Under the framework of ISO 14001, CPI takes a structured approach to measure, improve and audit their environmental status on an ongoing basis. The main areas targeted for continual reduction arise from the use of solvents, energy consumption and waste generation. CPI is a Carbon Neutral printing company and also Forestry Stewardship Council (FSC) Chain of Custody Certified. All inks used are vegetable based. This paper is environmentally-friendly ECF (elemental chlorine free), FSC certified, bio-degradable and recyclable.

Caledonia Investments plc
Cayzer House
30 Buckingham Gate
London SW1E 6NN

tel +44 20 7802 8080
fax +44 20 7802 8090
email enquiries@caledonia.com
web www.caledonia.com