31 March 2022

Caledonian Trust plc

("Caledonian Trust", the "Company" or the "Group")

Unaudited interim results for the six months ended 31 December 2021

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its unaudited interim results for the six months ended 31 December 2021.

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CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax loss of £196,000 in the six months to 31 December 2021 compared with a pre-tax loss of £327,000 for the same period last year. The loss per share for the six months to 31 December 2021 was 1.66p and the NAV per share as at 31 December 2021 was 206.7p compared with a loss per share of 2.77p and a NAV per share of 201.7p last year. The Group's emphasis will continue to be to secure, improve and realise the value in our property portfolios.

Review of Activities

I provided a comprehensive review of activities in my December statement accompanying our audited results for the year ended 30 June 2021.

The Group's property investment business continues, but the fit out of the largest unit in our high yielding retail / industrial property at Scotland Street, Glasgow, recently let to Deliveroo for their first dark kitchen in Scotland, has been delayed pending the installation of a new sub-station by Scottish Power Energy Networks, which should proceed shortly. We continue to hold our high yielding retail properties and North Castle Street offices, four Edinburgh garages, a licensed restaurant in Alloa and our residential site at Belford Road / Bell's Brae, Edinburgh.

St Margaret's House continues to be fully let at a nominal rent, presently just over £1.50/ft^2 of occupied space, to a charity, Edinburgh Palette, who have reconfigured and sub-let all the space to over 200 artists, artisans and galleries. St Margaret's House continues to maintain its high, long-term occupancy level which has been largely unaffected by the impact of Covid-19.

We have appointed Montagu Evans to market St Margaret's House and we plan to launch the marketing campaign next month. Already we have extensive interest from a broad spectrum of parties in advance of the formal market launch, including unsolicited offers.

At Brunstane the construction of the five new houses over 8,650ft^2, in the Steading Courtyard, is progressing well with the first house, which we will utilise as a show house, nearing completion. We intend to commence marketing of all five houses as soon as this house is complete and available for viewing. Completion of the remaining four houses is expected in the summer.

After a rather torturous planning application process we obtained planning consent for 11 new houses over 20,500ft^2 in the adjoining stackyard, "Upper Brunstane", at the end of January. We are now preparing the requisite application to modify the consent we hold for the conversion of an existing dilapidated stone building, the farmhouse, to create two new houses over 3,100ft^2 to fit in better with the adjoining developments.

At Wallyford we will go out to tender next month for the construction of six detached houses and four semi-detached houses over 13,500ft^2 and expect to commence construction this summer, with a phased construction period over 15 months. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a completed development of houses. Taylor Wimpey have completed the construction of over 500 houses nearby but on the other side of the mainline railway. On the southern edge of Wallyford a very large development of around 2,000 houses has commenced at St Clements Wells on ground rising to the south, affording extensive views over the Forth estuary to Fife, and, on the eastern edge, Persimmon have completed a development of 131 houses. On an adjacent site Taylor Wimpey have completed 80 houses and have commenced work on their next site of 141 houses with four bedroom detached houses being marketed at £273-£295/ft^2. On the western side of St Clements Wells, Barratts have sold all of the 245 three and four-bedroom houses in Phase 1 and are currently building 106 three and four bedroom houses in Phase 2 of the St Clements Wells site and 141 three and four bedroom houses on the first phase of the adjoining site, St Clements View. The Master Plan for the St Clements Wells development includes a primary school and a separate nursery and community facility, both of which opened in 2020, and a new secondary school on an adjacent site which is under construction. Planning consent in principle has been granted for another 600-800 new houses on the adjacent Dolphingstone site to the South-East. Wallyford, no longer a mining village, is rapidly becoming another leafy commuting Edinburgh suburb on the fertile East Lothian coastal strip.

Economic Prospects

The UK's economic prospects now depend on the course of and the effect of the two wars convulsing much of the western world: the Russian military invasion of Ukraine, and the western economic attack on Russia. Before these two separate shocks the UK economy had recovered to the pre-Covid level, having grown 10.1% in the twelve months ended 31 January 2022 and the National Institute of Economic and Social Research (NIESR) forecasts growth of 1.3% in Q1, 4.8% in 2022 and then in 2023 a return to the pre-Covid growth rate of "well below" 2%. On such a forecast output would be around 4% lower in 2025 than was forecast in 2020 pre-Covid, resulting in £5,500 of activity per person having been lost (compared to forecast) over about two years! After this "one-off" loss of output the future pattern of growth was expected to return to the pre-Covid level. In contrast the growth pattern prior to the 2007 Great Recession and the ensuing financial crisis did not recover and subsequent growth was at a lower level than before the Great Recession. The growth forecasts were made, notwithstanding NIESR's expected rise of inflation to 7% in the second quarter of 2022, resulting in four interest rate rises, but with inflation falling below 5% by 2023 and to the 2% target in 2024.

The possible economic consequences of the Russian invasion vary widely. Fortunately, neither of these wars will cause a dramatic change to the world economy or to the UK economy. Surprisingly, regional wars, such as have occurred in Afghanistan, Syria, Iraq, Vietnam and Korea have not impacted seriously on remote or noncombative economies, while the effect of localised wars such as in Kuwait and Libya has been even more contained.

The economic damage to adjacent economies and to the world economy depends on the progress of the Ukraine war whose progress had several scenarios. Initially, the most likely scenario, with the least

damaging economic implications, was that there would be a successful multi-pronged Panzer type blitzkrieg. Armoured columns would advance rapidly over the plains – in Army parlance "good tank country" – typical of much of Ukraine, one of the world's major wheat producers, immediately after strikes had disabled Ukraine's command and control centres and destroyed its aircraft and air defence systems. Infrastructure, including roads and, particularly, bridges would have been left intact to facilitate the weakly opposed advance of the Russian armoured battle groups which would quickly reach and occupy key cities, especially Kyiv. Following such an occupation President Zelensky, if not detained, would flee to Western Ukraine, or abroad and establish a government in exile. A pro-Russian puppet regime would be set up in Kyiv. Then, Russia would declare "liberation", withdraw its assault troops, leaving garrisons but establishing extensive "security systems". Ukraine, like Belarus, would become a client state of Russia, and while there would be dire economic consequences for Ukraine, they would be minimal elsewhere once any necessary supply adjustments have been made.

Now a more likely scenario is of a "long war", the "blitzkrieg" having failed as air supremacy is not obtained; Russian supply lines are too outstretched; roads are obstructed by wreckage and bridges blown; deep unsupported armoured penetration leaves flanks exposed; and the quality of the Russian equipment, troops and leadership is poor. In contrast, Ukraine's opposition is robust and morale is reportedly high, and its troops are battle hardened from the eastern conflict, have local support and are well supplied with food, fuel and, at present, armaments, including, crucially, the UK's NLAW and Javelin anti-armour missiles, Bayraktar TB2 drones and Stinger anti-aircraft missiles. Unfortunately, however, while Ukrainian resilience has exposed severe Russian qualitative defects, such defects can be circumvented, as Stalin said, "Quantity has a quality of its own". Russian "quantity" is sufficient to suffer the losses required to bring the battle to its key objectives, the cities, Kyiv in particular. If this occurs, and consequently the resistance is concentrated in built-up and other areas offering close cover and shelter from armoured vehicles, then the outcome could be a long stalemate. Such a stalemate would be broken only if, as seems likely, based on Russian strategy in Syria and Chechnya, Russia employs military tactics to raze the cities or thermobaric or even chemical weapons to annihilate the population. If the cities were so destroyed the conflict would almost certainly revert to widespread insurgency which, if supported internally and externally, would permanently hold down much of the Russian army. While little of the Ukraine terrain is favourable for an Afghan type insurgency, the type and quality of the available defensive weapons is more favourable as are the re-supply routes on broad and varied boundaries. The economic damage to Ukraine of a long war would be wider and persist longer but there would be minimal additional damage to most external economies.

Other scenarios, widening the scope of the conflict, would result in greater economic damage, the extent varying widely. The least serious economic damage would arise from an occupation of other, but non-NATO, countries such as Moldova or Georgia, and the most serious would be an attack on a NATO country such as Lithuania, possibly to secure the Suwalki corridor to the Russian enclave on the Baltic Sea and the port of Kaliningrad. Such attacks could be construed as responses to the supply of arms to Ukraine or in response to a "false flag" incident. Additionally, a miscalculation and an escalation might follow a border incident, leading to a wider war. Similarly, any involvement of NATO, including a no-fly zone, could escalate into a wider war, but the NATO countries appear steadfast in their resolve not to enter the hostilities. The chaos, destruction and severe economic damage of a wider war will, we all hope, be avoided.

A long war against insurgents, such as might present Russia in Ukraine, has long established unfavourable precedents, including, interestingly, the attempted Roman conquest of Scotland. Tacitus, writing of his father-in-law's "set-piece" victory over the Caledonii in AD83 near the Moray Firth, quotes the defeated chieftain, Calgacus, "to ravage, to slaughter, to usurp under false titles, they call empire; and where they make a desert, they call it peace". A peace never endured as the distance, the culture and the climate ensured that the Romans never overcame the subsequent insurgency to command Scotland and thus Scotland never became part of the Roman empire.

Much later analogies include Vietnam, and, in more similar circumstances, the insurgency in Algeria between 1954 and 1962 which ground down the much superior French army and so sapped the political

will in France that the French withdrew. Similarly, an occupation of Ukraine, apart from predominantly Russian areas, would be faced with an effective, well-motivated and widely supported armed insurgency. The starkest reminder of the likely outcome of such an insurgency war is starkly evident in the experiences in Afghanistan of the recent allied forces, the Russian army before them and the British colonial forces all of whom, bowed and bloodied, eventually left.

The likely consequences of losing such an insurgency war will reinforce Putin's fear of the inauspicious precedent of the downfall of a previous Russian autocrat, the final Russian Tsar, Nicholas II. His defeat in the Japanese war in 1905 provided a tripwire for the Bolshevik Revolution in which he lost not only his crown but his life. The Tsar's tripwire may have been on a long fuse, as was President Mugabe's of Zimbabwe and President Maduro's of Venezuela, but detonation can be immediate as it was with Presidents Mubarak of Egypt and Zine el-Abidine of Tunisia in 2011. A long insurgency war would be a significant risk for a personality cult leader like Putin, already weakened by the absolute failure of the Blitzkrieg in Ukraine and the conduct of the war, including its very heavy casualties. Professor Friedman of Kings College suggests Putin may already have "tripped" the wire: "It is now as likely that there will be regime change in Moscow as in Kyiv", but there may be a long fuse. The most damaging option would be for Putin to conclude like Lady Macbeth: "I am in blood / Stepped in so far, that, should I wade no more, / Returning were as tedious as go o'er".

Alternatively, as a long war morphing into a continuing bloody insurgency would result in a "hurting stalemate". Putin, until now a consummate strategist, may judge that the lesser of two evils would be to build a "bridge out": a political settlement, and seek an agreement disliked by both sides, but better than the alternative. Such an agreement would encompass: no NATO participation; ceding Crimea; ceding parts of the Donbas; withdrawal of Russian troops; Ukrainian independence; and rights to join the EU, or at least continue economic ties with Western Europe!

I consider a diplomatic solution as the most likely outcome of the military war, but, if the military war continues to be restricted geographically, it is likely there would be minimal effects on the non-combatants and the world economies. However, an important, and more enduring, effect on the UK economy would be the second ongoing war, the economic war against Russia.

The military war has caused an antithetical view of the value of the relationship with Russia. Previously, while certain moral and political differences were deplored, it was considered that in the long-term co-operation, consideration and concession would align such differences to mutual advantage: Putin was fêted; the oligarchs were welcomed; and new trade deals on which our economies now depend were agreed. Subsequently, many aspects of Russian intentions and behaviour, precisely the same, while previously interpreted as one "image", became instantly interpreted as a contrary "image". A key example of such an illusion is the ambiguous image presented equally as of an old lady or of a young woman, a situation described as "perceptual rivalry" in which, while the whole image is exposed to vision, key aspects only of the image reaching the brain are accepted and used by the brain to interpret a whole: in evolutionary terms, a wonderfully adaptive rapid response mechanism – a few stripes are instantly interpreted as a predatory tiger! However, the same image when different key aspects are accepted by the brain is interpreted as a different whole: the young woman is replaced by an old woman. The Russian "image" has undergone such a comparable switch from benign companion to malign witch: a realisation encapsulated in the vernacular: "we was conned", or, as more tactfully put by the FT, our vision has changed from "A dictatorship of spin to one of fear".

The benign companion "came out" in 1989, the debut marked by the fall of the Berlin Wall. The demolition of this totem of isolationism resulted from the policies introduced by Mikhail Gorbachev in response to the increasingly growing and obvious difference in performance of the Western and Soviet economies, highlighted by the 1986 Chernobyl nuclear disaster. Gorbachev's policies of Glasnost "openness" and Perestroika "restructuring" were designed to galvanise the economy and transform society, changes marked by the introduction of the elected Congress of People's Deputies. The resulting economic reforms, wholly at variance with Russian culture and its existing institutions, led to a severe economic contraction, huge government deficits and rampant inflation, particularly in respect of food,

which formed a high percentage of expenditure for a large proportion of the population. The consequent unrest in impoverished and other sections of society was reinforced by opposition from the Russian communist bureaucracy whose power had been sapped by newly elected Congress, fatally wounding the controlling Communist Party and undermining its power throughout all the Soviet Republics. Ukraine brought these discordant actions to a head by calling an independence referendum in 1991 in which the turnout was 84% and the vote in favour was over 90%, a majority varying from 54% in Crimea to 80% in Donetsk and other eastern regions and over 95% in Kyiv and western districts. The then US ambassador in Moscow, Robert Strauss, advised Washington – "the most revolutionary event of 1991 for Russia may not be the collapse of Communism, but the loss of something Russians of all political stripes think of as part of their own body politic, and near to the heart at that: Ukraine."

Starting with Glasnost, Western policy towards Russia became more and more accommodative, even as Russian policy under Putin reversed Gorbachev's policies, particularly latterly with Germany where Angela Merkel, brought up in East Germany, was fluent in Russian. Taubman, Gorbachev's biographer says:-

> "Russian President Vladimir Putin has been a vocal critic. When Putin says that the collapse of the Soviet Union was the greatest geo-political catastrophe of the 20th century, he is indicting Gorbachev as the man he blames for that collapse," Taubman says, "Everything that Gorbachev did, Putin is in effect reversing".

Of the western powers, Germany continued to view Russia particularly favourably, a policy of which the UK Ambassador, Sir Paul Lever, said:-

> "The German attitude is that trade is the key to harmonious relations and should not be threatened, no matter how vilely China or Russia behaves towards its own people. It is a genuine principle, but also, of course, self-serving."

Such a view is succinctly put in the German catchphrase "Wandel durch Handel" – change through trade.

The war in Ukraine has focused attention on the perception of Russia's image where the benign has been replaced by the malign. Symptomatic of such a reversal is the standing of Russian oligarchs who, until now, were honoured, fêted and, at times, revered throughout UK society, but who are now outcast. The sanctions imposed on these individuals are among, although a small part of, the vast range of economic sanctions agreed by the Western economies, with worldwide support, at short notice. The oligarchs' sanctions have the benefit of being "high profile", politically advantageous and relatively costless, but their efficacy is doubtful. The cost to the oligarchs may be high, but for the majority will represent only a tolerable portion of their wealth. More importantly, what political influence do they carry? Certainly, they do not control the political parties, the security services or the armed forces – indeed they have fled the more austere "Mother Russia" for the "hedonist" West. Possessions for Putin rank lower than politics, power and posterity. Such sanctions may prove no more than expensive irritations.

But will such economic warfare "work" or are these, like the sanctions on oligarchs, more a kneejerk reaction. The key questions are: what effect will they have on the Russian economy; what influence will that have on Russian policy; what will the cost be to the Western economies, the UK's economy in particular; and are they worth it? That there has been an immediate effect on the Russian economy is evident by the rise in interest rates to 20%, the 25% devaluation of the rouble and the immediate shortage of goods. However, the extensive withdrawal of Western companies has aspects of "tokenism" as often replacements, of at least some sort, seem to become available: surely the meat sources for "McDonalds" are still available! The effect of the inhibition on international banking access and the extensive denial of certain financial services is uncertain, as traders often create substitutive arrangements and facilities may open with China or others. Oil and commodity sanctions seem most damaging but, patently, the cost to the sanctioners would be very high (German gas!) but, as most

commodities are traded worldwide, piped gas largely excluded, often only the customer would change. However, the sanctions will have an important economic effect and, consequent to the sanctions announced by 9 March 2022, Capital Economics forecast an 8% fall in Russian GDP followed by economic stagnation.

The influence of sanctions on Russian policy, whatever their extent, is uncertain. First, sanctions generally have been poor weapons with results, if and when achieved, taking a long time. Second, in the specific conditions in Russia sanctions might be counterproductive as the centrally controlled media might credibly portray the West as being responsible for any resulting suffering, particularly, as for many, there continues to be an unswerving loyalty to the incumbent "Tsar". In addition, there is a culture in times of crisis of "suffering" for "Mother Russia", a reaction which might imitate a London "blitz" type spirit. There will be opposition, there will be local objections and some general unrest, but it seems likely that only a long and / or deep period of economic stress would have significant political influence.

In the UK's case the answers seem clearer. The economic war will be expensive for the UK economy and the expense, while varying with the length of that war, is likely to leave a long deleterious trail. The costs of the economic war are difficult to disentangle from the costs of the invasive war, but analysts, quoted in the Financial Times, recognise them, if only in general terms:-

> "The longer the war lasts and the greater the sanctions on Russia are, the greater the hit to UK activity".

While the cost of sanctions is presently obscure, it is self-evident that some sanctions have a great impact at little cost while others have little impact but at great cost: the former should be maximised and the latter minimised.

The wars will increase the inflation inherent in the recovery of the economy and which, as measured by the financial markets, is expected to average more than 5% over the next five years and, whereas the Bank in February expected inflation to peak at 7% in April, Goldman Sachs now expects 9.5% in October 2022 and over 7% until Spring 2023. Overall, the cost of the invasive war is estimated to be moderate with the UK 2022 growth forecast reduced by 0.8% points to 4.0%. The effects of the war on other economies varies with geographical and trade separation and, thus, while US growth is only forecast to be 0.1% lower, the EU's growth, including Germany, most closely tied to Russia, is forecast to be 1.0% lower! I regard these forecasts likely to be tempered by optimism bias, as at the commencement of the World War I – "the war will be over by Christmas"!

Before the war, the Bank of England had forecast the largest squeeze on living standards in 30 years to occur in 2022, primarily as a result of inflation, particularly of fuel costs, both directly and indirectly throughout the economy, a squeeze which will be greatly exacerbated by the further increase expected on both fuel and food prices caused by the military and economic wars. Such increases will reduce discretionary consumer spending, a key element of forecast GDP growth, such that the British Chamber of Commerce reduced its forecast of consumer spending growth in 2022 from 6.9% to 4.4%.

Business investment will be reduced due to higher interest rates and the current high risk of unfavourable market conditions, and these inhibitions will similarly affect consumer capital expenditure, particularly for houses. These external influences weigh particularly heavily on the UK as it lacks the "normal" level of compensatory internal offset of increased growth engendered by higher productivity. There is no single identifiable cause for the UK's slow growth in productivity but the rigidity of the UK's economic structures, the unnecessary regulation, the extensive range of organisations profiting from distributive coalitions, oligopolies, including some professions, and the continuing policy errors of politicians, and Government agencies all contribute adversely to it. In such adversity, Scotland should enjoy an unexpected economic benefit from the resurgence of the oil and gas industry – a sensible reversal as the source of the energy consumed is unrelated to "green" aspirations.

I conclude that within a very wide spectrum of possible outcomes the "wars" and their likely outcomes will reduce UK economic growth by less than two percentage points: a good forecast in difficult circumstances, but one subject to an unusually high degree of error.

Property Prospects

I reviewed property prospects comprehensively in my statement to 30 June 2021 based on forecasts made in the autumn. By December 2021 the forecast returns for 2021 had improved very considerably over the forecasts made only three months earlier. The Investment Property Forum (IPF) All Property return for 2021, previously forecast at 6.9%, is now estimated at 11.0%, due primarily to an outstanding estimate of a 24.5% return for Industrials compared to the earlier forecast of 16.4% - itself an outstanding return – and of 15.8% for Retail Warehouses as opposed to "only" 8.4% with improved estimates in all other sectors, including Standard Retail and Shopping Centres where the "negative" returns were reduced. Since then, the rapid economic recovery has continued and GDP had recovered to the pre-pandemic 2020 level in late 2021 and has grown a further 1.1% in the months to February 2022.

The continued improvement is reflected in improved IPF forecast returns for 2022 compared to previous estimates. The All Property return for 2022 is now forecast at 8.6% compared to 7.4% earlier, primarily due to an upward revisal of Industrial returns to 12.3%, a significant forecast return for 2022, but small compared to the estimated 2021 returns of over 20%, together with small upward revisals to Office returns, but with little overall change of forecast in the Retail sector where Retail Warehouse returns were forecast to improve, but Standard Retail and Shopping Centre returns were forecast to fall slightly.

Forecasts for 2023 and subsequent years are very little changed and show All Property returns averaging 6.0%, but for Industrials and Retail Warehouses are higher at 7.0% and lower for Standard Retail and Shopping Centres at 4.5%. The limited net return on these retail sectors reflects a persistent small decline in capital value.

The IPF forecasts are based on the mean of 20 forecasts whose individual forecasts are widely dispersed. Colliers provides comprehensive forecasts which, interestingly, as there is no averaging, are very similar to the IPF means. Colliers also provide wide ranging reports, some of exceptional interest. For example, they report that in 2021 the All Property return was 16.5%, a six year high, due primarily to an Industrial return of 36.4% and a Retail Warehouse return of 21.9%. The exceptional returns from Industrials result from the demand for storage and distribution centres for "online" shopping, accounting for 29.1% of all retailing in 2021, up from 19.2% in 2019 before the Covid pandemic.

The mirror image of a rise in online sales has been a fall in offline sales indirectly responsible for the significant fall in retail values. The retail sales fall was exacerbated by "lockdown", tourist restrictions and Work from Home ("WFH"), all of which restrictions are now easing, although WFH seems likely to continue but at a much lower frequency. Almost all the above restrictions to Retail sales will be lifted shortly.

Colliers suggest that online sales outlets may increasingly switch to offline collections, including presumably, some retail locations, due to increased costs. They cite higher labour costs, HGV driver shortage and rising fuel costs as likely to increase delivery charges and make online prices less competitive, giving an incentive to switch online deliveries to retail type locations. I observed in December that some online sales may be loss leaders as return rates on many fashion items (75% is reported anecdotally) are so high that return, repackaging and wastage costs may make some sales uneconomic. Online sales and retail premises will benefit from any resulting changes.

The rate of decline in the number of retail traders has greatly reduced and the uptake of retail premises, especially for goods and services that cannot be delivered or delivered easily online, has greatly increased. In 2021 retail openings rose 10.5% to 43,167 while closures rose 1.4% to 51,069, a net loss of 7,902 units compared to 11,319 in 2020.

The type of shops opening and closing are not representative of the previously existing stock as a change is taking place in the type and ownership of shops. In 2021 10,059 net multiples closed and 2,157 net independents opened. The main sectors expanding (net) are in personal services: Barbers 545; Fast Food 508; Beauty 266; Nail 149; and "convenience": cafes, tearooms, bars, ice cream parlours, pizzerias and restaurants. The main sectors closing (net) are primarily now increasingly trading "online": Banks 734, Bookies 403, Estate Agents 293, Travel Agents 374 and Recruitment Agents 289; and secondarily comparison shops such as fashion; charity clothes – women; and, separately, public houses and inns.

The trend to fewer closures seems likely to continue – how many banks and similar premises remain to be closed?; - while the demand for convenience openings should grow with income, demographic change and habit, such habits extending both down and up the age groups; and the return to more office working and to more extensive leisure activity. Two other factors reinforce the likely retail premises recovery: rent reductions of around 20% have occurred reducing retailers' costs and rates and other concessions seem possible, if not even likely, and there is a growing ambition, shared by private owners and local authorities, to revitalise, to redecorate and to repurpose the high street. Local Data Company forecast a "burgeoning recovery" with significant growth in Leisure, Food and Beverage; stabilised rents on traditional leases; and increased involvement in the community by retailers and increased support for such retailers by the community, so modernising and revitalising the high street and increasing demand. Thus, the retail market will turn but such a turn, unlike the yacht's rapid gybe of the industrial market, will be the tanker's slow turn.

The anomalously high rise in house prices that I reported in December 2021 has continued. In the year to February 2022 rises were reported by the Halifax as 10.8%; Nationwide 12.6%; Acadata (E&W) 6.9%; and Acadata (Scotland) 7.6%. In the most recent three months this 12-month high rate has continued and the Halifax index increased by an annualised three-month rate of 7.2% and the Nationwide by an unexplained and very high 14.4%. The Halifax and Nationwide prices as "standardised" are seasonally adjusted – in this case upwards, because actual prices normally fall in the winter – and their indices are not comparable with the Acadata indices which are not seasonally adjusted. The Acadata E&W three-month price rise annualised (and not seasonally adjusted up!) was an astonishing 18.4% but in Scotland a more reasonable 6.0%.

In its February 2022 report the Halifax comments: "house prices rise at fastest annual pace since 2007 to reach record high…". "The biggest one-year cash rise in over 39 years of the index history". The index rose 10.8% with the highest rises of 13% in outlying areas: Wales, SW England and Northern Ireland and with the lowest rise of 5.0% in London. The Halifax states "these areas benefit from more rural scenic living". In Scotland prices rose 9%, the lowest rise apart from London. The Nationwide also reports record price rises: "the largest ever annual increase in cash terms since the start of our monthly index in 1991" due to "robust demand and limited stock of homes on the market".

The Acadata (E&W) survey highlights a real movement from "rural living" back to "Greater London and the South East [in the] top four areas of growth". This is emphasised by the price rise in Runnymede (Magna Carta!) on the Thames with an annual rise of 50.4% in detached houses (but -14.1% in flats!) and 35.2% overall. The Acadata Scotland survey says the average price "sets a new record level for the eighth time in the last 12 months". The survey highlights the "race for space" due to the "effects of the pandemic and lifestyle changes" and comments that "the Lothians [were] the top three in terms of price growth…" [giving] homes with plenty of space outside Edinburgh City Centre, but within commuting distance of the capital" …. Perhaps a "Scottymede" on the Forth? at a fraction of the price!

Comprehensive forecasts for house prices are given by Savills, but, as the latest forecasts were published in November 2021, they do not reflect the current circumstances prospectively so changed since then and say "we await to see how the market and the broader economy react to the Omicron variant".

Industry comments on price changes are guarded: Lloyds Bank consider growth will be "flatter" at 1%, due to interest rate rises and "further financial strains in households", and Rightmove consider the

"asking price… will rise next year by 5% which will mean an increase of about £17,000". RICS "predicts that house prices could end up 3-5% higher in 2022 as higher borrowing costs will dampen demand…" offset by "inventory back close to historic lows". Separately, the Office for Budget Responsibility (OBR) "expect demand to ease over the next year due to a fall in real incomes and a rise in interest rates, causing house prices to slow to around 1% by late 2023".

Comments on future average house price rises often consider the effects of the ending of the Covid pandemic on the distribution of house price changes as a result of a change back – i.e. from "rural living to city dwelling", a trend Acadata reports is already occurring in England's SE market.

The main immediate determinant of house prices will be the changes underway in the economy. Such changes arise first from the unprecedented return of demand as the economy, recovering from the restrictions imposed to obviate the health catastrophe, encounters supply shortages primarily caused by the short-term inelasticity of supply. The recent inflation is due to short-term supply shortages rather than excess demand. Unfortunately, such price rises, large in themselves, will be eclipsed by the even more significant rises already being caused by the war in Ukraine – see for instance the over 100% rise in wheat prices – and these price rises which will extend the longer the conflicts continue.

While the economy at present is growing strongly, growth will depend on the impact of the projected inflationary rises. As the inflation is not caused primarily by excess demand or 1970s type labour cost rises, raising interest rates other than to preserve the image and culture of inflation control to avoid a cultural acceptance of inflation is disadvantageous: monetary policy should be maintained "loose" as is allowed in the Bank's mandate under such exceptional conditions. Similarly, fiscal policy should also be kept loose to offset some of the price effect on demand. The economic failure of fiscal policy following the 2007 Great Recession should not be repeated: that mistaken austerity programme proved a disaster.

Thus, I forecast that both monetary and fiscal policy will be accommodative to at least some extent and that interest rates will not rise above 3%. However, even such a level, low by historical standards will have a significant influence on demand for houses in two respects. Mortgage costs will reduce demand which will be further artificially restricted by The Mortgage Market Review rules governing the borrowing capacity.

I conclude that the current house price boom will not continue. I forecast that over the short-term prices will fall in real terms but in money terms will, on average at least, be stable until the current crisis passes. However, in the long term the major determinant of prices will be supply, primarily land supply. The land supply is determined by centrally set rules and regulations based on social and political objectives, interpreted locally, which invariably restricts the supply of land, raising its price. These supply restrictions are deeply entrenched and closely guarded with considerable political influence and thus, without equivocation, I repeat my forecast: "the key determinant of the long-term housing market will be a shortage of supply, resulting in higher prices".

Conclusion

Two years ago I concluded:

> *"I believe that the measures to reduce the spread of Covid-19 will inflict an unprecedented shock to the economy, possibly resulting in an unprecedented 20% short term economic contraction.*
>
> *Evidence from countries subject to similar measures shows that the measures now being adopted, primarily "lock down" (as in medieval Italy), bring a rapid stabilisation in the numbers of new infections within 4 – 6 weeks. Thereafter stricter quarantine measures, extensive testing – equipment will become available for this – higher NHS capacity, potentially the effect of higher daytime temperatures and UV levels, better personal hygiene and the use of existing or the discovery of new drugs and vaccines should allow the rates of infection and mortality rate to fall. All the time the proportion of the population immune to the disease will rise, reducing the propagation rate of the*

disease for any given circumstances. Like "true" influenza, it will become a continuing endemic disease, but one no longer influencing the economy.

The release of or a qualified use of "lockdown" will provide an immediate upsurge in the UK economy, but it is unlikely to recover immediately more than 80% of the "lost" ground. It is the estimate of rate of recovery of the balance of GDP that is subject to a very wide margin of error. The delay to the return to the present level of GDP will be determined by the damage to the supply side of the economy by the current pre-emptive slow down. Recessions normally impair the demand side of the economy – squeezing inflation, making credit expensive and sometimes unobtainable even for the creditworthy. The current and proposed government measures seem likely to support demand. My current forecast for a full recovery in GDP is within two years". The 2020 forecast has proved apposite.

Last year I forecast the long-term cost to the economy to be equivalent to about two years of normal 1.5% growth, say 3%, and that this gap would not be made-up or closed by increased output above the normal 1.5% p.a. It would be a permanent "scar" due to damage to the supply side of the economy, in contrast to "normal" recessions induced by measures that bear primarily on the demand side of the economy. The current NIESR estimate is for a long-term loss of about 4% to the economy as the economy, prior to the Ukraine war, was expected, having completed its recovery in 2022, to return to the pre-Covid rate of growth of "well below 2.0%".

This is an economic analysis: I hold as implicit moral repugnance, indignation and outrage. I note with horror the similarity of Putin's to Adolf Hitler's rise and progressive autocratic control, a process noted by Robert Kagan "as often has been the case in other countries where fascist leaders arise, their would-be opponents are paralysed in confusion and amazement at this charismatic authoritarian leader".

The war in Ukraine has pre-empted all previous economic forecasts, the chief variables being the length of the wars and the extent of the adverse effect of the economic war, currently greatly underestimated, and the measures taken to counter these adverse variables. Suitable UK accommodative monetary and fiscal measures could ameliorate their effects considerably.

The Ukraine war is the latest in a series of deleterious influences on the UK economy, or paraphrasing Alan Bennett's The History Boys, "Economics is just one damned thing after another". Certainly, this is the latest in a series starting with the 2007 Great Recession, the 2014 Independence Referendum, the 2016 Brexit decision and the 2020 Covid pandemic. More importantly, cumulative incurred losses have not been recovered subsequently by increased productivity, which has not reverted to the level obtained prior to 2007 of about 2.25%. Since 2015/16 productivity has increased 4.9% over six years or 0.8% pa.

Productivity has been about 1.5 percentage points below the 2007/8 level which, had it been maintained at that level, would have resulted in output now being around 25% higher than current estimates. In its analysis the NIESR concludes:-

"The UK has one of the poorest productivity performances among the OECD's 38 advanced economies and this has been made worse by Covid-19. If policymakers return to the same economic structures post-pandemic that failed to resolve the productivity problem pre-pandemic, then the UK is set for another decade of a low-growth, low-productivity and low-wage economy".

Of this Mark Wolf says "The biggest problem for the UK remains its dismal underlying productivity growth". This is dramatically illustrated by the NIESR's recent analysis of Public Sector productivity – where it says: "inputs rising by 19% since 2019 and output by only about half that", or a reduction of 8%.

Covid-19 and the lockdown measures have adversely affected the Group, directly and indirectly. Our property investment business has only suffered mildly as the smaller businesses tenanting our properties have proved resilient and have not been so affected by the inroads made by online ordering. The

principal adverse effect on the Group has been the grave uncertainty that teaching formats and travel has had, until very recently, on University entrance rolls and rental collection from student accommodation. Such uncertainty had caused the widespread postponement of securing further student accommodation and has resulted in delays to the sale of St. Margaret's House. However, recent market information is that university UCAS clearing applications are at record numbers and that demand for purpose-built accommodation for students continues to increase.

Market conditions improved in late 2021 and an extensive pre-sale preparation programme for St. Margaret's House was nearly complete in December, but given new Covid restrictions and the effect of the imminent holiday season the proposed marketing was delayed then until February 2022 when, acting on Agents advice on the type of enquiries being informally received, we determined to improve and simplify the pre-sale conditions in order to obviate or at least reduce the likelihood of a "false finish" as had occurred previously.

The very successful prices achieved at Brunstane and the strength of the housing market, especially for large family homes which, as a result of the pandemic, has spread out to wider commuting areas and is enabling us to extend our development programme.

The first house in the Steading phase of the Brunstane development is expected to be available for viewing in April and marketing of the five houses will commence then with prices expected to be over £370/ft^2. Planning consent for the next 11 houses in Upper Brunstane has recently been gained and we are endeavouring to bring this development forward to follow the Steading development.

The 10-house site at Wallyford has been redesigned and a site start is expected in the summer. Further work has been commenced on the 20 flat site at Belford Road, Edinburgh where discussions continue on a planning variation which would improve its design and amenity and meet enhanced modern market requirements. Work is also taking place on other sites to allow a sequential development programme.

For some years I have concluded:

"In our existing portfolio, most development properties are valued at cost, usually based on existing use, and when these sites are developed or sold, I expect their considerable upside will be realised. Some investment properties also have considerable development value, as we expect to realise at St Margaret's." I am confident that these expectations are now being realised.

I D LOWE
Chairman
31 March 2022

Caledonian Trust PLC
Registered Number 01040126

Consolidated income statement for the six months ended 31 December 2021

	Note	**6 months ended 31 Dec 2021 £000**	6 months ended 31 Dec 2020 £000	Year ended 30 Jun 2021 £000
Revenue				

	Note			
Revenue from development property sales		**-**	947	4,186
Gross rental income from investment properties		**167**	193	368
Total Revenue		**167**	1,140	4,554
Cost of development property sales		**-**	(787)	(3,930)
Impairment adjustment on development property		**-**	(165)	-
Property charges		**(47)**	(56)	(128)
Cost of Sales		**(47)**	(1,008)	(4,058)
Gross Profit		**120**	132	496
Administrative expenses		**(254)**	(233)	(440)
Other income		**-**	6	2
Net operating (loss)/profit before investment property disposals and valuation movements		**(134)**	(95)	58
Valuation gains on investment properties	5	**-**	-	690
Valuation losses on investment properties	5	**-**	(165)	-
Loss on sale on sale of investment property		**-**	-	(151)
Net (losses)/gains on investment properties		**-**	(165)	539
Operating (loss)/profit		**(134)**	(260)	597
Financial expenses		**(62)**	(67)	(137)
Net financing costs		**(62)**	(67)	(137)
(Loss)/profit before taxation		**(196)**	(327)	460
Income tax	6	**-**	-	-
(Loss)/profit and total comprehensive income for the financial period attributable to equity holders of the parent Company		**(196)**	(327)	460
(Loss)/profit per share				
Basic and diluted (loss)/profit per share (pence)	7	**(1.66p)**	(2.77p)	3.90p

Caledonian Trust PLC
Registered Number 01040126

Consolidated statement of changes in equity as at 31 December 2021

	Share Capital	**Capital redemption reserve**	**Share premium account**	**Retained earnings**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**

At 1 July 2021	2,357	175	2,745	19,278	24,555
Loss and total comprehensive expenditure for the period	-	-	-	(196)	(196)
At 31 December 2021	**2,357**	**175**	**2,745**	**19,082**	**24,359**
At 1 July 2020	2,357	175	2,745	18,818	24,095
Loss and total comprehensive expenditure for the period	-	-	-	(327)	(327)
At 31 December 2020	2,357	175	2,745	18,491	23,768
At 1 July 2020	2,357	175	2,745	18,818	24,095
Profit and total comprehensive income for the period	-	-	-	460	460
At 30 June 2021	2,357	175	2,745	19,278	24,555

Caledonian Trust PLC
Registered Number 01040126

Consolidated balance sheet as at 31 December 2021

	Note	**31 Dec 2021 £000**	31 Dec 2020 £000	30 Jun 2021 £000
Non-current assets				
Investment property	8	**17,110**	17,555	17,110
Plant and equipment		**11**	10	3
Investments		**1**	1	1
Total non-current assets		**17,122**	17,566	17,114
Current assets				
Trading properties		**9,896**	12,146	9,313
Trade and other receivables		**121**	150	135
Cash and cash equivalents		**2,322**	62	3,020

Total current assets		**12,339**	12,358	12,468
Total assets		**29,461**	29,924	29,582
Current liabilities				
Trade and other payables		**(722)**	(1,206)	(647)
Interest bearing loans and borrowings		**(360)**	(830)	(360)
Total current liabilities		**(1,082)**	(2,036)	(1,007)
Non-current liabilities				
Interest bearing loans and borrowing		**(4,020)**	(4,120)	(4,020)
Total liabilities		**(5,102)**	(6,156)	(5,027)
Net assets		**24,359**	23,768	24,555
Equity				
Issued share capital	10	**2,357**	2,357	2,357
Capital redemption reserve		**175**	175	175
Share premium account		**2,745**	2,745	2,745
Retained earnings		**19,082**	18,491	19,278
Total equity attributable to equity holders of the parent Company		**24,359**	23,768	24,555
NET ASSET VALUE PER SHARE		**206.7p**	201.7p	208.4p

Caledonian Trust PLC
Registered Number 01040126

Consolidated cash flow statement for the six months ended 31 December 2021

	6 months ended 31 Dec 2021 £000	6 months ended 31 Dec 2020 £000	Year ended 30 Jun 2021 £000
Cash flows from operating activities			
(Loss)/profit for the period	**(196)**	(327)	460
Adjustments for:			
Net loss on sale of investment property	**-**	-	151
Net loss/(gain) on revaluation of investment properties	**-**	165	(690)
Impairment adjustment on development property	**-**	165	-
Depreciation and Loss on sale of fixed assets	**-**	-	2

Net finance expense	**62**	67	137
Operating cash flows before movements in working capital	**(134)**	70	60
(Increase)/decrease in trading properties	**(583)**	695	3,693
Decrease/(increase) in trade and other receivables	**14**	(28)	(13)
Increase/(decrease) in trade and other payables	**73**	(74)	(370)
Cash (absorbed by)/generated from operations	**(630)**	663	3,370
Interest paid	**(60)**	-	(333)
Net cash (outflow)/inflow from operating activities	**(690)**	663	3,037
Investment activities			
Proceeds from sale of investment properties	**-**	-	1,149
Proceeds from sale of fixed assets	**-**	-	5
Acquisition of plant and equipment	**(8)**	-	-
Cash flows (absorbed by) investing activities	**(8)**	-	1,154
(Decrease) in borrowings	**-**	(673)	(1,243)
Cash flows (absorbed by) financing activities	**-**	(673)	(1,243)
Net (decrease)/increase in cash and cash equivalents	**(698)**	(10)	2,948
Cash and cash equivalents at beginning of period	**3,020**	72	72
Cash and cash equivalents at end of period	**2,322**	62	3,020

Caledonian Trust PLC
Registered Number 01040126

Notes to the interim statement

1 This interim statement for the six-month period to 31 December 2021 is unaudited and was approved by the directors on 31 March 2022. Caledonian Trust PLC (the "Company") is a company incorporated in England and domiciled in the United Kingdom. The information set out does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2 **Going concern basis**

The Group and parent Company finance their day to day working capital requirements through related party loans and bank and other funding for specific development projects. The directors have assessed the impact of the Covid-19 pandemic on its cash flow forecasts and expect that current rental streams and property sales in the normal course of business will provide sufficient cash inflows to allow the Group to continue to trade.

The related party lender, Leafrealm Limited, a company controlled by Douglas Lowe, Caledonian Trust's Chairman, Chief Executive and major shareholder, has indicated its willingness to continue to provide financial support and not to demand repayment of its principal loan during 2022. Accordingly, the directors continue to adopt the going concern basis in preparing this interim statement.

3 Basis of preparation

The consolidated interim financial statements of the Company for the six months ended 31 December 2021 are in respect of the Company and its subsidiaries, together referred to as the "Group". The financial information set out in this announcement for the year ended 30 June 2021 does not constitute the Group's statutory accounts for that period within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 June 2021 are available on the Company's website at www.caledoniantrust.com and have been delivered to the Registrar of Companies. The accounts for the year ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006. The auditors have reported on those financial statements; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The financial information set out in this announcement has been prepared in accordance with International Accounting Standard IAS34 "Interim Financial Reporting". The financial information is presented in sterling and rounded to the nearest thousand.

The interim financial statements have been prepared based on IFRS that are expected to exist at the date on which the Group prepares its financial statements for the year ending 30 June 2022. To the extent that IFRS at 30 June 2022 do not reflect the assumptions made in preparing the interim statements, those financial statements may be subject to change.

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the interim statement. Changes in the assumptions underlying the estimates could result in a significant impact to the financial information. The most critical of these accounting judgement and estimation areas are included in the Group's 2021 consolidated financial statements and the main areas of judgement and estimation are similar to those disclosed in the financial statements for the year ended 30 June 2021.

4 Accounting policies

The accounting policies used in preparing these financial statements are the same as those set out and used in preparing the Group's audited financial statements for the year ended 30 June 2021.

5 Valuation (losses)/gains on investment properties

	31 Dec 2021 £000	31 Dec 2020 £000	30 Jun 2021 £000
Valuation gains in investment properties	**-**	-	690
Valuation losses on investment properties after transaction costs	**-**	(165)	-
Net valuation (losses)/gains on investment properties	**-**	(165)	690

6 Income tax

Taxation for the six months ended 31 December 2021 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2022. Due to the tax losses incurred there is no tax charge for the period.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset. At 31 December 2021 there is a deferred tax asset which is not recognised in these accounts.

7 Profit or loss per share

Basic profit or loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period as follows:

	6 months ended 31 Dec 2021 £000	6 months ended 31 Dec 2020 £000	Year ended 30 Jun 2021 £000
(Loss)/profit for financial period	**(196)**	(327)	460
	No.	No.	No.
Weighted average no. of shares: For basic and diluted profit or loss per share	**11,783,577**	11,783,577	11,783,577
Basic (loss)/profit per share	**(1.66p)**	(2.77p)	3.90p
Diluted (loss)/profit per share	**(1.66p)**	(2.77p)	3.90p

8 Investment Properties

	31 Dec 2021	31 Dec 2020	30 Jun 2021

	£000	£000	£000
Valuation			
Opening valuation	**17,110**	17,720	17,720
Disposed in period	**-**	-	(1,300)
Revaluation in period	**-**	(165)	690
Closing valuation	**17,110**	17,555	17,110

The fair value of investment property at 31 December 2021 was determined by the directors taking cognisance of the independent valuation by Montagu Evans, Chartered Surveyors as at 30 June 2019 having made adjustments for changes in leases and market conditions.

The valuations take into account the impact of Covid-19 which has not had a significant effect on the value of the Group's investment properties due to the nature of the properties and demand being maintained for small commercial properties.

9 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 Dec 2021		31 Dec 2020		30 Jun 2021	
	Fair value £000	**Carrying amount £000**	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000
Trade and other receivables	**86**	**86**	81	81	108	108
Cash and cash equivalents	**2,322**	**2,322**	62	62	3,020	3,020
	2,408	**2,408**	143	143	3,128	3,128
Loans from related parties	**4,380**	**4,380**	4,595	4,595	4,380	4,380
Bank loan	**-**	**-**	355	355	-	-
Trade and other payables	**722**	**722**	1,201	1,201	639	639
	5,102	**5,102**	6,151	6,151	5,019	5,019

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

10 Issued share capital

	31 Dec 2021		31 Dec 2020		30 Jun 2021	
	No.		No.		No.	
	000	**£000**	000	£000	000	£000
Issued and Fully paid						
Ordinary shares of 20p each	**11,784**	**2,357**	11,784	2,357	11,784	2,357

11 Seasonality

Investment property sales by the Group are not seasonal and sales of completed houses on development sites are driven more by completion of construction projects than by season.