

Corporate Governance

CORPORATE GOVERNANCE STATEMENT

The directors recognise the need for sound corporate governance. As a company whose shares are traded on AIM, the Board have determined that it will apply the Quoted Companies Alliance's 2018 Corporate Governance Code ("the QCA Code"). The corporate governance arrangements that the Board has adopted are designed to ensure that the Group delivers long term value to its shareholders and that shareholders have the opportunity to express their views of and expectations for the Group in a manner that encourages open dialogue with the Board. The Board acknowledges that their decisions on strategy and risk will impact the corporate culture of the Group and the performance of the Group. The Board is very aware that the tone and culture set by the Board permeates all areas of the Group and the way that employees behave. The importance of sound ethical values and behaviours is crucial to the ability of the Group to successfully achieve its corporate objectives. Douglas Lowe, in his capacity as Chairman, has assumed responsibility for ensuring that the Group has appropriate corporate governance standards in place and that these requirements are followed and applied within the Group.

In addition, the directors have adopted a code of conduct for dealings in the shares of the Company by directors and employees.

The Board currently consists of three directors, of which two are executive and one is non-executive. The Board continues to consider whether it would be appropriate to seek to appoint additional non-executive and/or executive directors but at this time believes that appropriate leadership and oversight of the Group is provided by the currently constituted Board.

No key governance related matters occurred during the past twelve months.

This disclosure was last reviewed and updated on 27 September 2018.

CORPORATE GOVERNANCE REPORT

The QCA Code sets out 10 principles which should be applied. These are listed below together with a short explanation of the Group's approach to meeting each of the principles. This will be expanded upon as required under the Code in our next and subsequent annual reports. *

Principle One Business Model and Strategy

The Company's business model is that of a property investment and development company, which is focused on the Scottish property market. Further details regarding application of the Company's business model, its activities and its properties can be found in the 'Review of Activities' section on pages 2 to 8 of the Company's annual report and accounts for the year ended 30 June 2017. The 'Future Progress' section on page 21 of the Company's annual report and accounts for the year ended 30 June 2017

provides a certain level of commentary in respect of the Company's strategy. A summary of the key challenges in the execution of the Company's business model and strategy and how the Company seeks to address these can be found in the 'Principal risks and uncertainties' section on pages 23 to 24 of the Company's annual report and accounts for the year ended 30 June 2017. *

Principle Two

Understanding Shareholder Needs and Expectations

The Board is committed to maintaining good communications and having constructive dialogue with its shareholders in order to understand the needs and expectations of the Company's Shareholders. It is important to note that the executive directors are also the two largest shareholders holding over 85% of the Company's share capital.

All shareholders are encouraged to attend the Company Annual General Meeting where the Directors are available to listen to the views of the shareholders formally during the AGM and informally following the AGM. In the event of a voting decision not being in line with the Company's expectations the Board would seek to engage with those shareholders to understand and address any concerns as appropriate.

Investors have access to current information on the Company through its website, www.caledoniantrust.com, through its regulatory announcements, its annual and interim accounts and through the directors who are available to answer investor related enquiries.

The Board seeks to encourage discussion with its shareholders to whom they make themselves available. The Board dedicate sufficient time to ensure that communication is effective with existing and potential shareholders and other key stakeholders. The Board believes the Company's mode of engaging with shareholders is adequate and effective.

Shareholders may contact the Company in writing via email (webmail@caledoniantrust.com), via telephone on 0131 220 0416 or in writing to the Company's Head Office, 61A North Castle Street, Edinburgh EH2 3LJ. Any information provided to address any such enquiries will be information that is freely available in the public domain.

Principle Three

Stakeholder Responsibilities

On the basis of the Directors' knowledge and long experience of the operation of the Group the Board recognises that the long-term success of the Group is reliant upon the efforts of the employees of the Group, its professional advisers and its contractors. The directors engage directly on a regular basis with all of its stakeholders which ensures that there is close Board oversight and contact with its key resources and relationships.

The Group has a small number of full time and seasonal employees. Board members are in regular contact with the Group's employees, which provides an opportunity for employees to discuss matters that they wish to raise. The Company has a partner or director in each professional firm dedicated to its account and Board members liaise with them, which may include gathering their opinions on relevant matters, particularly

when they are instructed in critical stages of any work. The Group only engages contractors after a tendering process for specific projects, and Board members liaise with them regularly, including gathering their feedback, on the particular projects.

The Company takes into account feedback received from its key stakeholders and considers making amendments to working arrangements and operational plans where appropriate and where such amendments are consistent with the Company's strategy and objectives. However, no material changes to the Company's working processes were required over the year to 31 December 2017, or more recently, as a result of stakeholder feedback received by the Company.

Principle Four Risk Management

In addition to its other roles and responsibilities the Audit and Compliance Committee is responsible to the Board for ensuring that procedures are in place, and are being effectively implemented to identify, assess and manage the significant risks faced by the Group in respect of the execution and delivery of the Group's strategy. The following principal risks, and controls to mitigate and address them, have been identified:

Planning and development

The nature of the group's activities places increased emphasis on the planning stage of each project. The group seeks to minimise this risk with its firmly established risk control strategy, which includes detailed research and planning advice. On obtaining planning consent a decision will be taken on progressing the project on its own or with a joint development partner. At all stages the Group seeks professional advice, conducts thorough diligence and continually monitors each development.

Property values

Conditions in the UK property market represent uncertainties in the operating environment rather than risks which can be managed. Nevertheless, the Group seeks to hold the investment properties which have development prospects or a development angle which will insulate them against the full affect of any general investment downgrade of commercial property.

Tenant relationships

All property companies have exposure to the covenant of their tenants as rentals drive capital values as well as providing the necessary cash flow to service debt. The Group seeks to minimise exposure to any single sector or tenant across the portfolio and continually monitors payment performance.

Availability of funding

The Group is dependent upon bank borrowings for future property acquisitions and development of its sites. Bank facilities will be negotiated and tailored to each project in terms of quantum and timing. Any intended borrowings for future projects will be at conservative levels of gearing and should therefore be readily available.

Management of funding risk

The Group seeks to ensure that adequate resources are available to meet the short- and long-term funding requirements of the Group at all times and that any funding risks arising from Group activities be effectively identified and managed.

Management of interest rate risks

The Group has no bank borrowings. As and when future development projects are undertaken banking facilities will be negotiated and tailored to each project. Interest rate risk will be constantly monitored and reviewed. This risk is managed by securing floating rate debt, which can be fixed from time to time by the Group or by the use of interest rate swaps or other financial instruments.

Environmental policy

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the Group's activities.

The risks which the Group faces are subject to constant review as changes arise in the nature of risks and the measures that can be implemented to mitigate them. The Board currently takes the view that an internal audit function is not necessary due to the close day to day control exercised by the executive directors. *

Principle Five

A Well Functioning Board of Directors

As at 27 September 2018 the Board comprised, the Chairman and Chief Executive Officer Douglas Lowe, one executive director, Michael Baynham and one non-executive director, Roderick (Roddy) Pearson.

Mr Lowe has been both Chairman and Chief Executive Officer of the Company for a considerable number of years. He is also the largest shareholder holding over 79% of the issued share capital and has since the banking crisis of 2007 provided significant loans to the Group to fund its working capital requirements. The Board believes that Mr Lowe's shareholding aligns his interests with the other members interests and historically there is ample evidence to support this: his salary and perquisites are below market levels: he is paid less than the other executive director and has provided beneficial financial support to the Group.

The Board consider that in the particular circumstances applying to the Group it remains in the best interests of the Group to maintain Mr Lowe's positions as both Chairman and Chief Executive Officer is contrary to recommended best practice in the QCA Code. The Board has received assurance that subject to all debt being repaid, a return to normal remuneration levels and normal investment and trading conditions that further Board appointments and changes to the Board to reflect such changes will be made. Separately, the Board has received an undertaking from Mr Lowe that if, for whatever reason, he ceases to work full-time, then appropriate changes will be made.

The Company presently does not comply with the QCA Code recommendation to have at least two non-executive directors who are identified as independent. The Board believes that given the present size of the Company and the nature of its business and operations it is well served by the current composition of the Board which functions effectively and is well balanced. This position is considered regularly and where appropriate and necessary further appointments will be made.

Whilst Roddy Pearson has been a non-executive director since March 2007 the rest of the Board consider him to be an independent director. Roddy is sufficiently removed from the day to day operations of the Company to retain a critical view and as such be in a good position to represent best the interest of all the shareholders. Each director devotes as much time as is required to carry out the roles and responsibilities that the director has agreed to take on. Douglas Lowe and Michael Baynham work full time and Roddy Pearson currently works on average two days per month. Biographical details of the current directors are set out below. Executive and non-executive directors are not presently subject to re-election. The letters of appointment of all directors are available for inspection at the Company's registered office during normal business hours.

The Board meets at least four times per annum. All of the directors attend all of these meetings. It has established an Audit and Compliance Committee and a Remuneration Committee, details of which are set out further below. As appointments to the Board are made by the Board as a whole it is not considered necessary to create a Nominations Committee. *

Principle Six

Appropriate Skills and Experience of the Directors

The Board currently consists of three directors. Michael Baynham is also the Group Company Secretary. The Board recognises that it currently has a limited diversity and this will form a part of any future recruitment consideration as and when the Board concludes that replacement or additional directors are required. The Board is satisfied that between the Directors, it has an effective and appropriate balance of skills and experience. All directors are able to take independent professional advice in the furtherance of their duties. *

I Douglas Lowe

Chairman and Chief Executive Officer

Mr Lowe is a graduate of Clare College Cambridge University (MA Hons in Natural Science and Diploma in Agriculture) and Harvard Graduate School of Business Administration (MBA and Certificate in Advanced Agricultural Economics). Until 1977 he was Chief Executive of his family business, David Lowe and Sons of Musselburgh, property owners, farmers and market growers established in 1860, which farmed intensively 2,000 acres and employed over 200 people.

In 1978 and 1979 Mr Lowe was Deputy Managing Director of Bruntons (Musselburgh), a listed company which manufactured mainly wire and wire rope and employed approximately 1,000 people. He was a significant shareholder and, from 1986 until shortly after joining the Company, Executive Deputy Chairman of Randsworth Trust PLC, a property company with a dealing facility on the Unlisted Securities Market. The market capitalisation of Randsworth Trust PLC increased from £886,000 to over £250 million between April 1986 and sale of the company in 1989.

Mr Lowe purchased shares in the Caledonian Trust PLC in August 1987, at which time he became Chief Executive. Mr Lowe attends two broadly constituted private political and economics discussion groups throughout the year. He maintains close contact with all of the Company's professional advisers in order to discuss and identify any new laws, regulations or standards which may affect the Group. He studies a wide range of relevant economic, political and technical publications and undertakes extensive research in preparation of the Chairman's Statements, which accompany the Annual and Interim Accounts.

Michael J Baynham

Executive Director and Company Secretary

Mr Baynham graduated in law (LLB (Hons)) from Aberdeen University in 1978. Prior to joining the Company in 1989, he worked as a solicitor in private practice specialising in commercial property and corporate law. He was a founding partner of Orr MacQueen WS in 1981 and from 1987 to 1989 was an associate with Dundas & Wilson CS.

Mr Baynham maintains his Practising Certificate with the Law Society of Scotland and attends professional development seminars and other relevant seminars on a regular basis throughout the year. He maintains close contact with all of the Company's professional advisers in order to understand and apply any new laws, regulations or standards relevant to the business.

Roderick J Pearson

Non-Executive Director

Mr Pearson is a graduate of Queens' College Cambridge (MA Modern Languages and Land Economy) and is a Fellow of the Royal Institution of Chartered Surveyors. He has held senior positions in Ryden and Colliers International, practising in Edinburgh, Aberdeen and Glasgow, and has his own practice, RJ Pearson Property Consultants.

Principle Seven

Evaluation of Board Performance

The directors consider that the size of the Company does not justify the use of third parties to evaluate the performance of the Board on an annual basis. The Company does not currently have a formal appraisal process for Directors but the Chairman assesses the directors to ensure that their contribution is relevant and effective. He also assesses the effectiveness of the Audit Committee but as the directors' remuneration remained unchanged the Remuneration Committee was not required to meet and accordingly no appraisal was required. The Chairman is the majority shareholder and these arrangements are acceptable to him. The performance of the Board and of the individual directors has never been questioned by any independent shareholder nor has a formal appraisal been requested by any independent shareholder. The Board will continue to assess this position on at least an annual basis, and if and when it is deemed appropriate it will establish more prescribed evaluation processes.

The Directors have given consideration to succession planning and have in place a strategy to address succession as and when it becomes necessary to replace any of the directors. The Board believes that there is no need for changes to the current board and committee structures and membership at present. *

Principle Eight

Corporate Culture

The Board acknowledges that their decisions on strategy and risk impact the corporate culture of the Group and the performance of the Group. The Board is very aware that the tone and culture set by the Board resonates throughout the Group. The Group's activities comprise both property investment and development. Sound ethical values and behaviours are an important ingredient in assisting the Group in attaining its corporate objectives. The Group only has a small number of employees most of whom work with the directors in its Head Office. Accordingly, the Board is always well placed to assess its culture which respects all individuals, permits open dialogue and commits to providing the best service possible to all of the Group's stakeholders. The Board would take appropriate action against unethical behaviour or misconduct. *

The Company has adopted a code for directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM, and is in accordance with rule 21 of the AIM Rules and the Market Abuse Regulation of the European Union.

Principle Nine

Maintenance of Governance Structures and Processes

Ultimate authority for all aspects of the Group's activities rests with the Board, with the respective responsibilities of the Directors delegated by the Board. Given the size and nature of the Group's business both of the executive directors engage directly with all employees, professional advisers and key suppliers on a regular basis.

Audit Committee

During the period under review the Audit Committee was chaired by Roddy Pearson. It met to review the Interim Report, the Annual Report, to consider the suitability and to monitor the internal control processes and to review the valuations for its investment and stock properties. The Audit Committee reviewed the findings of the external auditors and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually and the Audit Committee meets at least once per financial year with the auditors to discuss their independence and objectivity, the Annual Report, any audit issues arising, internal control processes, auditor appointment and fee levels and other appropriate matters.

The Audit Committee terms of reference can be found here

<http://www.caledoniantrust.com/CR11-AUDIT-COMMITTEE-M0918.pdf> .

Remuneration Committee

As the Board resolved not to amend the remuneration of the Directors the Remuneration Committee was not required to meet during the year.

The Remuneration Committee terms of reference can be found here

www.caledoniantrust.com/CR11-REMUNERATION-COMMITTEE-M0918.pdf .

Nomination Committee

The Board have agreed that appointments to the Board will be made by the Board as a whole and have not created a Nomination Committee.

As noted in the disclosure above in respect of Principle Five, Mr Lowe is both Chairman and Chief Executive Officer of the Company. In his role as Chairman, Mr Lowe has overall responsibility for corporate governance matters in the Company, leadership of the board and ensuring its effectiveness on all aspects of its role. In his role as Chief Executive Officer Mr Lowe leads the Company's staff and is responsible for implementing those actions required to deliver on the agreed strategy.

Non-executive Directors

Non-executive directors will be appointed for an initial term of three years and may, at the Board's discretion, be appointed for subsequent terms.

The Board complies with the Companies Act 2006 and all other relevant rules and regulations including their duty to act within their powers; to promote the success of the Company; to exercise independent judgement; to exercise reasonable care, skill and diligence; to avoid conflicts of interest; not to accept benefits from third parties and to declare any interest in any proposed transaction or arrangement.

Matters reserved to the Board are formulating, reviewing and approving the Group's strategy, budget, major items of capital expenditure, acquisitions and disposals, and reporting to shareholders and approving the Annual and Interim Statements. The Board is also responsible for assessing the risks facing the Company and where possible developing a strategy to mitigate such risk.

The Company did not provide a Corporate Governance Statement in its annual report and accounts for the year ended 30 June 2017. The Company intends to provide a Corporate Governance Statement in its annual report and accounts for the year ended 30 June 2018. However, at present, the Board is satisfied with the Company's corporate governance, given the Company's size and the nature of its operations, and as such there are no specific plans for changes to the Company's corporate governance arrangements in the shorter term. As the Group expands and when its programmes of developments increase, future Board appointments and Board changes to reflect such changes will be considered.

Principle Ten Shareholder Communication

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Company engages in full and open communication with its shareholders and endeavours to reply promptly to all shareholder queries received. The Chairman prepares a detailed summary of the Company's activities in his Statement which accompanies the Annual and Interim Financial Statements. Regulatory announcements are distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the Company's progress. In addition, all shareholders are encouraged to attend the Company's Annual General Meeting. *

Investors have access to current information on the Company through its website, <http://www.caledoniantrust.com>, through its regulatory announcements, its annual and interim financial reports and via Douglas Lowe, Chairman, who is available to answer investor relations enquiries. Shareholders may contact the company in writing, via email (webmail@caledoniantrust.com) or via telephone on 0131 220 0416. Enquiries that are received will be directed to the Chairman, who will consider an appropriate response.

The results of voting on all resolutions in future general meetings will be posted to the Group's website and announced via RNS, including any actions to be taken as a result of resolutions for which votes against have been received from at least 20 per cent of independent shareholders.

The Company's financial reports since 2002 can be found here http://www.caledoniantrust.com/accounts_details.html.

Notices of General Meetings of the Company for the last five years can be found here http://www.caledoniantrust.com/AGM_Notices.html.

* The Company's last published annual report and accounts was for the financial year ended 30 June 2017, which were published on 28 December 2017 prior to the publication of the 2018 QCA Corporate Governance Code. The Company intends to include the annual report and accounts disclosures required by the 2018 QCA Corporate Governance Code in the Company's annual report and accounts for the financial year ended 30 June 2018.