

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 successfully to 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.

The directors have adopted a dealing policy in respect of 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 21 December 2018.

CORPORATE GOVERNANCE REPORT

The QCA Code sets out 10 principles which should be applied. These are listed below together with an explanation of the Group's approach to meeting each of the principles. This will be expanded upon as required under the QCA Code following the publication of the Group's 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 7 of the Company's annual report and accounts for the year ended 30 June 2018. The 'Future Progress' section on pages 19 – 20 of the Company's annual report and accounts for the year ended 30 June 2018 provides a summary of the Company's strategy. 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 22 to 23 of the Company's annual report and accounts for the year ended 30 June 2018.

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 the two largest shareholders, holding over 85% of the Company's share capital.

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.

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 in response to any such enquiries will be information that is freely available in the public domain.

All shareholders are encouraged to attend the Company Annual General Meeting where the Directors 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.

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.

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 these stakeholders which ensures that there is close Board oversight and contact with the Group's key resources and relationships.

The Group has a small number of full time and seasonal employees. The Executive Directors are in regular contact with the Group's employees, which provides an opportunity for employees to discuss matters they wish to raise. The Group engages contractors after appropriate formal and informal vetting, and for larger projects after

formal tendering. The Executive Directors meet with contractors regularly throughout large projects to review their recommendations and to review progress.

Professional advisers are selected on the basis of suitability and experience for the advice required. For each firm engaged an agreed nominated partner or director is responsible for the Group's instructions and advice who reports to the executive directors as required.

The Group 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 Group's strategy and objectives. However, no material changes to the Group's working processes were required over the year to 30 June 2018, or more recently, as a result of stakeholder feedback received by the Company.

The Group's interaction with its Tenants is constructive and cordial and any contentious points are quickly resolved.

The Group recognises the important role of all relevant Regulations and seeks to conform with both the spirit and the requirement of the regulations.

Principle Four Risk Management

In addition to its other roles and responsibilities the Audit and Compliance Committee is responsible to the Board as a key control 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 Board and executive management team also consider and monitor risk on an ongoing basis.

The following principal risks, and controls to mitigate and address them, have been identified by the Group:

Development risk

Developments are undertaken where appropriate value is judged to be obtainable after consideration of economic prospects and market assessments based on both internal analysis and external professional advice. Committed developments are regularly monitored.

Planning risk

Properties without appropriate planning consent are purchased only after detailed consideration of the probabilities of obtaining planning within an appropriate timescale. The risk that planning consent is not obtained is mitigated by ensuring purchases are made at near to existing use value. In such purchases the Group adopts a portfolio approach seeking an overall return within which it accepts a small minority will be less successful.

Property values

The Group principal investment properties have either development prospects or a development angle which will insulate them against the full affect of any general investment downgrade of commercial property.

Availability of funding

The Group is dependent upon bank funding to undertake its development and for future property acquisitions. 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.

Funding is readily available, provided the current strict criteria are met and the high price is accepted.

The low acquisition cost of some of the Group sites reduces the overall development cost and hence the funding available on current formulaic lending based on loan to cost.

Tenant relationships

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

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 change and the measures to counter or to mitigate them are reviewed as required. The Board considers 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 21 December 2018 the Board comprised the Chairman and Chief Executive Officer Douglas Lowe, one executive director, Michael Baynham and one non-executive director, Roderick Pearson. Of the Board's members, Mr Pearson is considered to be independent. A further commentary on this topic is provided below.

Mr Lowe has been both Chairman and Chief Executive Officer of the Company for many years. He is 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 there is ample evidence to support this.

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

Mr Pearson has been a non-executive director since March 2007 and the rest of the Board consider him to continue to be independent. Mr Pearson is sufficiently removed from the day to day operations of the Company to retain a critical and independent view and as such he represents best the interest of all the shareholders.

Mr Lowe and Mr Baynham work full time and Mr 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 Board met on five occasions during the year to 30 June 2018. All of the directors attended all of the meetings. It has established an Audit and Compliance Committee and a Remuneration Committee, details of which are set out further below. The Audit and Compliance Committee met twice during the year ended 30 June 2018. As the Board resolved not to amend the remuneration of the Directors, the Remuneration Committee was not required to meet during the year ended 30 June 2018.

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. Mr Baynham is also the Group Company Secretary. The Board recognises that it currently has a limited diversity and increasing diversity will be considered as and when the Board concludes that replacement or additional directors are required.

The Board is satisfied that with the Directors, it has an effective and appropriate balance of skills and experience to deliver the strategy of Group for the benefit of the shareholders over the medium to long-term. All directors are able to take independent professional advice in the furtherance of their duties.

During the year ended 30 June 2018, neither the board nor any committee has sought external advice on a significant matter and no external advisers to the board or any of its committees have been engaged.

I Douglas Lowe

Chairman and Chief Executive Officer

Mr Lowe is a graduate of Clare College Cambridge (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.

Mr Lowe's experience in many senior executive positions in many organisations ensures that he has the necessary ability to develop and implement the Group's strategy.

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.

Mr Baynham's experience of corporate law, commercial property law, commercial property finance, investment and development ensures that he has the necessary ability to implement the Group's strategy.

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 now has his own practice, RJ Pearson Property Consultants.

Mr Pearson's experience of property as a surveyor in private practice together with his experience in senior management positions ensures that he has the ability to support the executive directors and also to challenge strategy, and decision making and to scrutinise performance.

All three members of the Board bring relevant sector experience through their long and varied careers throughout the property, financial, legal and consulting sectors. The Board believes that its members possess the relevant qualifications and skills necessary to effectively oversee and execute the Group's strategy.

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 effectiveness of the Board as a whole and the individual directors to ensure that their contribution is relevant and effective. This process is performed over the course of the year. 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. During the year ended 30 June 2018, the Chairman's assessment did not find any shortcoming in Board or committee effectiveness and did not lead to any material recommendations for any changes. There were no material findings to report for Chairman perform to perform similar assessments over the year ended 30 June 2018.

The Chairman is the majority shareholder and the above arrangements are acceptable to him. The Board has not received any communication from independent shareholders raising an issue on Board effectiveness. 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. The Board believes the current board and current committee structure and membership is appropriate, but will consider whether any board and other senior management appointments are required on at least an annual basis and will consider the feedback from the Chairman's assessments, as described above, in this process.

Principle Eight Corporate Culture

The Board acknowledges that their decisions on strategy and risk determine the corporate culture of the Group and its performance. High standards of ethical, moral and social behaviour is deemed important in achieving the Group's corporate objectives and strategy and such standards are actively promoted.

The Group only has a small number of employees who work closely with the Executive directors. Accordingly, the Board is always well placed to assess its culture which respects all individuals, permits open dialogue and facilitates the best interest of all of the Group's stakeholders. The Board are prepared to take appropriate action against unethical behaviour, violation of company policies or misconduct.

The Company has adopted a policy for directors' and employees' dealings in the Company's shares 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

Board Roles and Responsibilities

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 key stakeholders on a regular basis.

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.

Matters reserved specific to the Board understand 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 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.

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.

Audit Committee

During the period under review the Audit Committee was chaired by Mr Pearson. It met to review the Interim Report, the Annual Report, to consider the suitability of 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 have reported that they are satisfied that the internal control processes are robust and that the directors' valuation of its investment and stock properties are fair. The accounting policies meet regulation requirements and any material judgements are stated in Note 3 of the consolidated accounts for the year ended 30 June 2018. The Audit Committee is satisfied that the external auditor is independent and effective.

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 and as such there was no report from the Remuneration Committee in respect of the year ended 30 June 2018.

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.

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, as appropriate.

Principle Ten Shareholder Communication

The work of the Company's audit committee and remuneration committee during the year is described above.

As the Board resolved not to amend the remuneration of the Directors the Remuneration Committee was not required to meet during the year, so no report from this committee is available.

Shareholders have access to current information on the Company through its website, <http://www.caledoniantrust.com>, though its regulatory announcements, its annual and interim financial reports and via Mr 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. Where a significant proportion of votes (eg 20% of independent votes) have been cast against a resolution at any general meeting, the Board will post this on the Group's website and will include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.

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 Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Group 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 Group'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 Group's progress. A report of the audit and remuneration committees is included with Principle 9 above. All shareholders are encouraged to attend the Company's Annual General Meeting.