30 March 2017

Caledonian Trust plc

("Caledonian Trust" or the "Company")

Unaudited interim results for the six months ended 31 December 2016

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its unaudited interim results for the six months 31 December 2016.

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Introduction

The Group made a pre-tax loss of £138,000 in the six months to 31 December 2016 compared with a pre-tax loss of £180,000 for the same period last year. The loss per share was 1.17p and the NAV per share was 151.7p compared with a loss per share of 1.53p and NAV per share of 150.5p last year.

In the period under review no investment property was sold and investment property values are unchanged from 30 June 2016. Income from rent and service charges was £229,000 compared with £175,000 last year. Administrative expenses were £305,000 compared with £332,000 last year.

Review of Activities

The Group's emphasis continues to be on development, including works to secure existing planning consents, and the provision of infrastructure for development plots, and the marketing of house plots and houses.

We have four main development sites in Edinburgh. Brunstane Home Farm is in east Edinburgh, but is just off the A1, and lies immediately adjacent to Brunstane railway station with services to Edinburgh (seven minutes) and south via the recently re-opened Borders Railway to Tweedbank/Galashiels.

We undertook extensive alterations to four listed Georgian stone-built, two-bedroom cottages and put in some of the infrastructure necessary for the next stages of the development. The cottages sold for up to £300/ft^2 and the last sale completed in the spring of 2016.

On the open ground to the south of these cottages we secured consent in 2014 to construct two new semi-detached houses which, together with a mature wood to the west, completes a traditional farm courtyard. These two new houses are of modern construction but with the elevations faced with natural stone. Last year we gained consent to extend the easterly gable and to add a conservatory to the west elevation, increasing the total area to 2,850ft^2. Construction commenced in August 2016 with an expected

completion early in 2017, but the contractor went into liquidation in February 2017. A replacement has been appointed and we expect to market these completed houses in the late Spring at around £300/ft^2.

Work started over two years ago on the "The Horse Mill Phase", the reconstruction and conversion of five stone arched cartsheds, a single storey cottage, the main grain barn and an unusual hexagonal horsemill to five houses. Very extensive stone repairs and renewals have been completed and the Horse Mill should be completed shortly, having been delayed by detailed archaeological investigations. Tenders for the 7,000ft^2 Horse Mill Phase have been issued and the development is expected to complete early next year and to produce a surplus over further construction costs of over £0.75m.

The "Steading" phase, also over circa 7,000ft^2, will follow and, as the site is already cleared, and, with the exception of one elevation, is to be all "new build", should allow higher development margins. East of the "Steading" lies a derelict farmhouse and piggeries and beyond them an open area, all of which properties have just been abstracted from the Green Belt in the newly adopted Edinburgh Local Plan. Proposals for the development of this two-acre site, and the existing ruinous farmhouse and piggeries have been accepted in principle, suitable for a development of 19 new-build houses over 25,149ft^2. Beyond this site, The EDI Group Ltd ("EDI"), a property development company owned by City of Edinburgh Council, have lodged a planning application for an extensive residential development.

At Wallyford, Musselburgh, we have implemented a consent for six detached houses and four semi-detached houses over 12,469ft^2. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a recently-completed development of 250 houses. Taylor Wimpey and Persimmon have nearby sites of about 400 plots and 50 plots respectively which have nearly sold out at prices of between £200/ft^2 and £250/ft^2. South of Wallyford groundworks for a 1,050 unit housing development are due to complete this year and a further expansion east is planned. A 1,000 plot site north of Wallyford is being extensively canvassed for housing development. Given the buoyancy in the market, I expect to continue the development once further work is complete at Brunstane.

The third of our delayed sites is in Edinburgh at Belford Road, a quiet cul-de-sac less than 500m from Charlotte Square and the west end of Princes Street, where we have taken up an office consent for 22,500ft^2 and fourteen cars and a separate residential consent for twenty flats over 21,000ft^2 and twenty cars. This site has long been considered "difficult". To dispel this myth we are completing preliminary investigations. We have created a workable access to the site; cleared collapsed rubble and soil; exposed the retaining south wall and the friable but strong bedrock in parts of the site; and recently completed an extensive archaeological survey. Only about 300 tonnes of mainly loose material remain to be extracted from the site and a local sewer diverted before piling and retention works are required prior to building. The investigations have revealed that the extent of those works is much reduced compared to earlier estimates. We are currently assessing development and financing options for a Gross Development Value of about £10m.

St Margaret's House, London Road, is our largest Edinburgh development site where PPP for a 231,000ft^2 development was renewed and the Section 75 planning agreement registered in November 2016. We continue to consider a variety of possible options for St Margaret's House under improving market conditions. Immediately west of St Margaret's lies the Meadowbank sports complex which the City of Edinburgh Council (CEC) decided in February 2017 to redevelop in four separate sections. CEC will develop the section north of the site, wrapping round a new sports centre, and a second section, the most easterly triangle, just over the railway from St Margaret's, into 374 affordable houses of various tenures, both sections entering off Marionville Road. The new sports complex, entering off London Road as at present, will be redeveloped by CEC on a more compact scale, an investment of about £42m, and the fourth section, a two-hectare site east of the stadium and west of St Margaret's also entering off London Road, is expected to be sold later this year for "commercial development". It appears at present that student accommodation for up to 2,000 students, together with other uses, is likely.

A large commercial development adjacent to St Margaret's and the siting of the main sports complex on the street, rather than the "dated" spectator stadium, will greatly improve the streetscape, and extend it on an uninterrupted basis as far as St Margaret's, continuing the line of residential development virtually unbroken up to St Margaret's, so integrating it into the City. Our office tenant, the acclaimed arts charity

Edinburgh Palette ("EP"), has been able to reduce somewhat the high subsidy it gives the artists who occupy the studios and this, together with improved management systems and continuing innovations, is allowing EP to fulfil its charitable function at a lower discount to a reasonable rent. These processes continue and revised rents, together with a more realistic contribution from the car park tenants, Registers of Scotland, and an expected new contribution from the advertising hoarding will yield rents at a rate of over £250,000, a figure still below market level.

The Group has three large development sites in the Edinburgh and Glasgow catchment areas. Two sites are at Cockburnspath on the A1 just east of Dunbar and the East Lothian border where we have implemented both planning consents for 72 detached and four semi-detached family houses. We have delayed development as market conditions have been unfavourable, prices in the Scottish Borders falling 7.3% in 2015 and rising by only 0.3% in 2016 and by only 0.2% in neighbouring East Lothian in 2016.

The third site is seven miles from central Glasgow at Gartshore, Kirkintilloch, on the Forth and Clyde Canal and comprises the nucleus of the large estate formerly owned by the Whitelaw family. We are promoting the creation of a new village of a few hundred cottages and houses together with local amenities within the existing designed landscape which complements our proposals for a high-amenity business park in a rural setting, including an hotel and a destination leisure centre. This is a long-term project which meets existing needs and development criteria and is gaining local support. We have refurbished a period stable and associated hayloft as a 500ft^2 exhibition centre illustrating the history of the estate and our proposals. The exhibition centre is part of a most attractive 12,000ft^2 purpose-built stables complete with elegant clock tower whose essential maintenance will delay the opening of the exhibition centre until later this year.

The Group owns fourteen separate rural development opportunities, nine in Perthshire, three in Fife and two in Argyll and Bute, all set in areas of high amenity. In Perthshire at Tomperran, a thirty-acre smallholding in Comrie on the River Earn, we hold an endured consent for twelve houses over 19,206ft^2 and, subject to the signing of a Section 75 planning agreement, we will hold planning consent for a further fourteen houses on land previously zoned for industrial use over a total of 33,912ft^2. At Chance Inn, part of the Loch Leven catchment, we have completed two-thirds of the phosphate reduction necessary at a cost of over £100,000 to allow our development of ten houses over 21,831ft^2. The implementation of a similar phosphate reduction requirement allowed us to sell a separate plot near Chance Inn Farm House for over £100,000 together with a small paddock for £34,000. We hold sufficient land next to the farm steading to allow the sale of eleven more such paddocks to purchasers of new houses. The forthcoming opening of the Queensferry Crossing and the imminent completion of the associated road works will improve the marketability of all our development sites north of the Forth estuary. Further north the A9 is to be dualled over a distance of c. 7 miles from Luncarty (4 miles north of Perth) to Birnam ("wood to Dunsinane hill" of Macbeth fame!), giving an uninterrupted dual carriageway to our site at Ardonachie where we have planning permission for ten units of over 16,493ft^2. The extension of the dual carriageway will also result in our sites at Balnaguard (15,994ft^2) and Strathtay (6,060ft^2 and 10,811ft^2) being only about ten miles from the dual carriageway to Perth.

Work on our three sites near St Andrews, Fife has been suspended pending an improvement in markets. The expansion of the University of St Andrews east to Guardbridge marks a significant move away from the narrow confines of St Andrews which should be reflected in the local market for houses.

Our largest rural development site is at Ardpatrick, a peninsula of great natural beauty on West Loch Tarbert within two hours' drive of Glasgow and central Scotland. We are marketing several development sites: Bay Cottage, a stone built farm building for conversion with consent for an extension to form a three-bedroom house set in a paddock with views to Achadh-Chaorann Bay; Oak Lodge, a waterfront site with consent for a 1,670ft^2 house; a further three sites on the UC33, a cul-de-sac, which leads to the estate; and two plots set in a small field just off the B8024 Kilberry Road. The preconditions for the development of these two plots have been met and the private access from the public road to these two plots is currently being installed. In all these plots work continues to improve their attractiveness and simple amenity improvements have been made to the approach to the house in order to improve the amenity and value of all the properties. Repairs to drainage and the farm infrastructure are resulting in a significant recovery

in the productive capacity of the land and of its quality and value. The local market continues to be depressed with a large number of plots and houses for sale.

Economic prospects

The UK economy grew 1.8% in 2016, and was the fastest growing economy amongst the G7, although growth was lower than the 2.2% in 2015 and the 3.1% in 2014. 2016 was limited by the low growth of the economy in Q1 of only 0.2%, a reduction in growth occurring long before any "Brexit" effect. In contrast growth in the three months to end February 2017 is estimated by NIESR at 0.6%. Had Q1 2016 been "normal", then growth in 2016 would have approximated to the UK long-term average of 2.25%, normally an unremarkable event. However, it was remarkable as such high growth completely contradicted the dire economic forecasts if "Leave" won the June 2016 referendum.

The NIESR observed that, while economists usually disagree, on Brexit they did agree on the very adverse affect of a Brexit vote. The Economist noted that "a host of studies – the NIESR, the Treasury, the Institute of Fiscal Studies, Oxford Economics, PriceWaterhouseCooper, the Centre for European Reform and the London School of Economics agreed with the international bodies" – the IMF and the OECD – "that Brexit would mean less trade, lower foreign direct investment and slower productivity growth". Moreover, Brexit was expected to have an immediate effect, a conclusion not disputed even by the pro-Brexit economists, by a negative shock, yielding, in the Treasury's view, a "do it yourself recession". Indeed, the Chancellor George Osborne warned that a vote to leave would force him to raise taxes or cut spending by £30bn. After the referendum, Martin Wolf endorsed the Treasury view, saying, "The Treasury might even have been underestimating the shock. It would be astonishing if there were to be no recession" and the Economist, in a jeremiad, says "as confidence plunges, Britain may well dip into recession".

But the immediate effect of the "Leave" vote has proved minimal, perhaps unsurprisingly, as 'Brexit' has not taken place and is not likely to do so for at least two years. These dire forecasts were presumably based on projected reductions in consumption and investment. But consumption growth was, as the Bank puts it, "robust" and housing market activity and housing investment have been more resilient than expected, more than offsetting weaker, but higher than expected, growth in business investment. An immediate consumption response to the prospect of Brexit is surely unsurprising - the vast majority of the population did not vote "remain", and presumably they were unfearful - and nothing tangible has yet changed as a result of the vote. Business investment has a long cycle time and, even if the long-term prospects for investment returns were diminished, the short-term affect of any policy change have been minimal.

The resilience of GDP growth in 2016, and the reassessment of the causes of such resilience, have resulted in forecasts for 2017 being increased considerably from forecasts made in late 2016, post Brexit, towards those forecasts made pre-Brexit. In June 2016, the average forecast of growth in the UK economy given in the Economist poll of forecasters was 2.0%, but in September 2016 the average forecast dropped to 0.5% before rising to 0.7% in October 2016, to 0.9% in November 2016, to 1.1% in December 2016, 1.2% in January 2017, 1.4% in February 2017 and 1.6% in March 2017. Currently the Bank forecast growth of 2.0% in 2017, similar to the Economist poll of 2.0% in June 2016, but below the Bank May 2016 forecast of 2.3%. In the second half of 2016 there were no material changes in the growth expected for the USA (2.1%) or for China (6.3%) and it is reasonable to ascribe the UK prospective changes as primarily due to changing assessments of the effect of Brexit on the economy.

The UK, having invoked Article 50, remains within the EU until it leaves or until two years have elapsed, whichever is sooner, unless an extension is requested and agreed by all 27 EU countries – an unlikely development. Thus it appears almost certain that the UK will remain in the EU until early 2019. Until then no formal changes will take place between the UK and the EU27, nor under the EU treaties will the UK be permitted to alter trading relationships with third parties: the position is "frozen". Thus, any

changes in the UK economy caused by 'Brexit' over the next two years will be as a result of positioning for a post-Brexit UK or anticipating such a change.

Interestingly, neither the Bank nor the OBR are explicit on the implied expectation of the outcome of the UK's trading and other arrangements post Brexit or on the effect of these in the two years pre-Brexit. Guardedly, the Bank says "Output growth is expected to be stronger in the near term but weaker than previously anticipated in the latter part of the forecast period. In part that reflects the impact of lower real income growth on household spending. It also reflects uncertainty over future trading arrangements and the risk that UK-based access to EU markets could be materially reduced, which could restrain business activity and supply growth over a protracted period".

The Bank does not specify its assumptions on the Brexit "deal", but in February 2017 it says "Sterling remains 18% below its peak in November 2015 reflecting investors' perceptions that a lower real exchange rate will be required following the UK's withdrawal from the EU…… higher imported costs resulting from it will boost consumer prices and cause inflation to overshoot the 2% target. Monetary Policy cannot prevent either the real adjustment that is necessary as the UK moves towards its new international trading arrangements or the weaker real income growth that is likely to accompany it over the next few years".

The Bank now expects the UK economy to be weaker in 2018 and 2019 than it did in May 2016 and the revised growth forecast for 2018 is 1.6%, 0.5 percentage points lower than its earlier forecast, and for 2019 - in 2016 outside the forecast period – "lower than the long-term average". Thus, without specifying what the Brexit changes will be, the Bank expects 0.5 percentage points lower growth. The Bank reports that, corroboratively, external forecasters GDP growth projections are also about 0.5 percentage points lower, but narrow to 0.3 percentage points in 2020, as growth recovers towards a "normal" level.

The OBR is less cryptic about its assumptions on the effect of Brexit. It says "there is no meaningful basis for predicting the precise end-point of the negotiations as a basis for our forecast. There is considerable uncertainty about the economic and fiscal implications of different outcomes, even if they were predictable….". The OBR assumes the UK leaves the EU in April 2019, new trading agreements slow the pace of export and import growth for the next 10 years and there is tighter control on migration. They forecast 2.0% growth in 2017, falling to 1.8% in 2018 and recovering to 2.0% in 2021.

Circumspectly neither the Bank nor the OBR specify the outcome of the negotiation of the UK withdrawal from the EU. However, given the political emphasis on control of immigration neither a Norwegian nor a Swiss model is acceptable. A customs union will allow the UK tariff free access to the EU, but impose external tariffs as determined by the EU, but makes no provision for services, the largest net UK export to the EU. A Free Trade Area would be preferable to a Customs Union, as it would allow unrestricted imports from world goods markets, but it would leave all exports subject to non-tariff barriers which are more significant barriers to trade than tariffs. In practical terms a free trade agreement ("FTA") seems unlikely because of its detail and complexity as evidenced by the Canadian experience with the EU of over seven years' such negotiations. Fortunately, failing agreement, trading arrangements would be governed by the WTO rules of which the EU and all member states are members, and is the system governing a substantial portion of all world trade, as, for example, between the USA and the EU. Given such a fall-back position the UK's trade loss is limited, probably more limited than many commentators argue. Indeed, some such favourable position is implied by the small downgrades to post Brexit GDP growth made by the Bank the OBR.

The UK's WTO fall-back position limits the potential loss from leaving the single market, and being prepared to lose the single market, both strengthen the UK's bargaining position with the EU. A readiness to accept WTO terms is criticised as "Hard Brexit", but, paradoxically, adopting such a stance increases the probability of a more favourable outcome. The optimal result would be the abolition of all restraints to trade, a conclusion benefiting all parties. The further trade is restricted from the single market to the WTO rules, the greater is the loss to the EU. Unfortunately, although the benefit to both parties increases

as the deal becomes "more open" the outcome will be determined by the interplay of economic advantage, political necessity and, in the last resort, individual preference.

Unlike trade in goods with the EU the UK has a large surplus on services, net receipts of c. £27bn are offset by only about £12bn net payments, almost wholly resulting from travel. Financial services alone have net receipts of £17bn and this sector and other associated "City" services are often considered most at risk of loss to other EU financial centres. A small offset is that due to sterling's devaluation the 'Travel' sector deficit is likely to fall. The risk to service trades is different from that to the goods trade in two main respects. Fortunately, not all services are subject to EU restrictive practices. Unlike the goods trade, the restriction to service trade is not primarily caused by tariffs but by regulations, licensing and other restrictions.

The protection of the service industries is deeply entrenched throughout the EU with some bizarre instances. In the consumer market a qualified German hairdresser must requalify in France; in Austria a corsetiere cannot practice without an Austrian licence; in the professions an English solicitor cannot convey properties in most EU countries; and on a commercial level there is no EU banking union, no unified capital market and no European stock exchange – indeed the proposed takeover by Deutsche Bourse of the LSE is on the brink of collapse – and the regulation of financial services is at national and not EU level. Similarly, most jurisdictions have national regulation requiring non-domestic providers to undergo their scrutiny and regulation. To mitigate this restriction of trade and allow trade in different jurisdictions, financial institutions in the EU can apply for 'passporting' rights, allowing trading rights established in one EU member state to be transferred to another. For this service, many institutions choose Luxemburg as a base for their subsidiaries from which to gain their passports. This practice attenuates the effect of this particular trade restriction. The EU has attempted to introduce similar standards for retail products, the "Market in Financial Instruments Directive", but this has not been widely adopted and the core retail financial activities remain highly protected and UK access is effectively denied. The City's wholesale business, the most important component of its services as the world's premier financial centre, is widely used by the EU and so is considered vulnerable as the UK withdraws from the single market. But wholesale financial and professional services can be accessed from anywhere in the world as they are in New York, Chicago, Dubai, Hong Kong or Tokyo without "passports". Even euro-denominated instruments are dealt in and settled in non-euro areas and, if the Eurozone curtailed such trade, it would erode the euro's convertibility. In practical terms London supplies the liquidity and professional services to support these activities which would be difficult to replicate, however much Paris and Frankfurt would like to do so. A similar furore was created, presumably based on City views, when the UK did not join the Eurozone, but that threatened cataclysm did not occur. A false alarm was also raised concerning the immediate outcome of a "Leave" vote in the referendum. Such precedents undermine the credibility of forecast damage to the wholesale service industry. The limited integration of other services curtails the damage that might be occasioned by an unfavourable negotiation of the Brexit terms and as John Kay says "for most services the single market remains an aspiration rather than reality".

In contrast, there is a real possibility of damage to the traded goods sector as it lies within an effective single market, although the extent of any damage is curtailed by two over-riding factors. Although the EU tariff on some items, such as cars (of 10%), is high, the weighted average tariff is low, being 3.2% overall and 2.3% for industrial goods. Such small tariffs can be more than offset by the gain in sterling from the appreciation of the euro. For example, if the UK wholesale price of an item is 75% of the final EU retail price, then for a sterling producer the sterling price received even after paying a 10% tariff is much higher. This advantage which will vary among sectors will erode with any increase in the sterling prices of, say, components in a manufacturing chain, if they are imported.

The options available to the UK on leaving the EU have become clear. The political imperative of immigration control precludes membership of the European Free Trade Association as exemplified by Norway and of the bilateral arrangement made with Switzerland. A customs union as existing between Turkey and the EU is unacceptable as it embraces only goods, imposes the EU tariff and subjects other external agreements to EU sanction. The negotiation is likely to be on the terms of a FTA or a modified FTA, both of which failing, a default to the WTO agreement. A FTA would provide tariff free access to the EU, but access subject to possible non-tariff barriers. It would not restrict UK imports from world goods markets, but all such trade would be subject to detailed agreements, particularly to stop such

products gaining free access to the EU. Two years is a short time for such a complex arrangement, given start up times, and the many other parallel arrangements to be negotiated, some, or even all, of which may become interdependent. A transitional arrangement pending a later final settlement, would allow time to secure a mutually beneficial arrangement. This outcome seems likely and, indeed, is the best option.

A theoretical analysis of the negotiations would conclude that, in the given circumstances, each party would optimise the available gain in what is not a zero sum game. However, the reality is likely to be different, as many other factors will affect the negotiations. For the UK, the political decision having been made, the negotiation is almost exclusively an economic one. But for the EU27 there are other over-riding factors. The major constituents of the EU, notably Germany and France, consider the EU primarily as a political vehicle and the preservation of the means of ensuring political cohesion, the Euro, cannot be jeopardised. Unity and cohesion, not just economic advantage, are important objectives, together with a desire to demonstrate these qualities, to cement relationships and to discourage further dissent.

As the UK imports more from the EU than it exports the EU appears to risk a greater economic cost from trade restrictions, but the UK carries the greater potential loss per capita. The complexity of the EU's structure and the diversity of the Members' interests increases the possibility of delays, confusion or mistakes in the negotiations. The UK is a supplicant, permitted only two years to complete the negotiation, so providing the EU with an increasing strategic advantage over time. These variables add different dimensions to the negotiations.

The UK has many valuable assets to offer the EU to improve its negotiating position. In particular, the UK is a member of the security council, is a nuclear power, has the largest and most effective military force and has an intelligence research and technical capability superior to that of individual EU members. The UK continues to exercise "soft" power and to enjoy a diplomatic influence far beyond that merited by its current economic standing. All these UK capabilities will underpin the negotiations, but their distinctive feature is the commitment of the principal EU members to the political concept of a cohesive Europe.

The negotiated settlement or interim agreement will be construed politically as successful. However, even a favourable outcome will entail a trade adjustment resulting in an economic penalty, one reasonably well assessed as a reduction in future GDP growth of about 0.25%-0.40% per annum for at least a few years. There will be a price for leaving the EU, but it will be a declining one as the trade pattern adjusts. Leaving the EU provides some insurance against the real, but unlikely, possibility of an economic or political rift in the EU and it protects the UK from a possible change in the EU to a centralised political unit with a protectionist policy and a mercantilist creed. There will be a price for leaving the EU, whatever the benefits. By comparison, the fall in GDP will be very much less than that of a short shallow recession, and more on a par with the effect of the recent low rate of increase in productivity compared to the historic rate. Unlike productivity where a low rate of improvement has persisted for years, the trading effect of "Leave" will attenuate with the growth of other trading patterns. The UK has made a political decision to the short-term detriment of the economy.

The economic consequences of the political "Leave" decision are small for the UK the economic consequences of a political Sc-exit decision for Scotland are large. The Scottish independence vote in 2014, the previous referendum date, implied a greater economic change than seems likely with "Leave" – a new country, currency and control – and the economic conditions in, and prospects for, Scotland then were very much more favourable than at present or are likely to be in the near future. The Union of the Parliaments in 1707 provided a favourable foundation for the recovery of the Scottish economy from the difficult economic conditions exacerbated by the disastrous Darien scheme. Whereas The Union facilitated a great improvement in Scottish living standards, the prospective Disunion will cause an immediate significant deterioration in living standards and a continuing relative decline. Analysis of the economic consequences of Sc-exit is unique in its unambiguity: self-evidently it is economically disastrous.

Economic growth in the UK in 2016 was 1.9%; economic growth in Scotland was 0.8%. Economic growth in the UK in Q4 2016 was 0.7%; economic growth in Scotland was 0.4%. Growth in the UK in

2017 is forecast to be 2.0%; the average growth forecast in Scotland by Mackay Consultants "most optimistic" in their own words is 1.2%, but the average of three other consultants is only 0.4%. Mackay comments "The Scotland economy has under-performed the UK economy during the last four years and most people expect that to continue".

Several factors combine to reduce growth in Scotland. The Scottish economy has a proportionally larger public sector which contributes to the low growth of productivity; has a declining record in education attainment; lies outside the high growth area in the SE of the UK; suffered severe reversals in the financial services sector, primarily due to the collapse and subsequent shrinkage of the RBS, once the largest bank in the world, and the takeover of the "fallen" Bank of Scotland, once a by-word of Scots' "canniness"; and has proportionately larger former obsolete industrial areas which underperform the rest of the economy. Until recently these drags on the Scottish economy were more than compensated by the extremely buoyant oil sector and its revenues which, at the time of the 2014 referendum, were forecast by Alex Salmond to be £8bn per annum. That gusher lubricated all latent liabilities. That well is almost completely depleted and in 2016 estimated revenue from the oil sector was a paltry £60m, i.e. less than 1% of Alex Salmond's forecast! Thus, the latent liabilities, previously slid over, have become real. Consequently, if Scotland were an independent country, the ensuing deficit would be almost 10% of GDP, worse than Greece, and indeed anywhere else in the developed world. The steps necessary to correct such a deficit would be extreme and the consequences for the economy severe. The Sunday Times correspondent says "it would be like Greece – only wetter and with less healthy food".

There is a case, based on hope over expectation, for a reprieve for the Scottish economy, a Deus ex Machina, manifested by a return to earlier higher oil prices, but, failing some cataclysmic event, the evidence contradicts any such assertion. Significantly, the five-year Brent future prices continues to be steady at about $5 above the near term futures price.

The current lacuna in Scotland's finances highlights most of the important 2014 financial arguments, but makes them irrelevant by comparison. What currency will be used, what central bank, what will the borrowing capacity be and at what price, what regulatory framework will be used and who will recognise it? Independence raises further questions with no satisfactory answer. If an Independent Scotland does join the EU or EFTA what will be the effect on its UK trade; what will replace the existing 60% Scottish trade with the UK; and what will be the financial cost and political cost of a "hard" border with England? The cost of borrowing for an independent Scotland would be considerably higher. The credit ratings of Scotland in 2014 were estimated A to Baa, one notch above Ba1, "non-investment grade speculative", in contrast to the UK's Aa1 rate, "prime". An economy with a fiscal deficit of 10% would get a significantly lower rating, almost certainly Bal or lower and new borrowing costs would be significantly higher. UK 10yr borrowing costs are 1.28%, and for Italy 2.32%, Portugal 4.23% and Greece 7.49%. If Scotland assumes a pro-rata share of UK debt and once all debt is refinanced by Scotland each percentage point increase in yield would cost £227 per person per year, or at Greece's 7.49%, 6.21 times as much or £1,410 and, for a 2.3 people household £3,424 per year.

While the current Greek position is an extreme example of the continuing costs of a distressed economy, there is no doubt Scotland would pay a very heavy price for independence. However, such economic arguments are complex and not easily understood; many, possibly disillusioned by the many incorrect forecasts on the consequences of Brexit, will not believe them; others will argue they are incorrect; and others simply will not care. For many the realisation of an over-riding belief or the ridding of a perceived colonial yoke or the exercise of worthy traditional Scottish cussedness mean that the price of independence is worth paying: it will be a dream come true. Objectively, however, a distressed economy in an Independent Scotland, submerged in a Union of 28 states, would constitute a true nightmare.

The UK Brexit negotiations will deliver a UK outcome much better than simply "quitting", but the broad range of non-economic objectives will result in the settlement failing to optimise the economic benefits to either party. A demand for a Sc-exit referendum is likely to be met, but the First Minister, the most able politician in the UK, is not infallible. The bookies may have independence as an odds-on favourite but I suspect, on no demonstrable evidence, that the casual indifferent almost dismissive mood of many of the electorate who eventually voted "No" will change markedly when faced with another referendum:

having witnessed the reality of the threat and its extent, resilience and fervour, they will become sufficiently motivated to mount a much more robust "Remain" campaign.

The campaign for Sc-exit will probably fail, although only by a small margin, but the very existence of so severe a threat to the Scottish economy will impinge unfavourably on Scottish economic prospects. Like all politicians seeking support, the Scottish Government will deliver short-term advantages to their electoral college at the expense of longer-term growth, while still enjoying the luxury of allocating blame elsewhere. It is quite properly the right of the Scottish people to seek "independence", albeit a narrow independence but the long-term cost will be very high. While this luxury is cheap to gain, it will prove dear to maintain.

Property Prospects

The IPD Index commercial property return was 2.8% in 2016, poor compared to the cumulative nearly 50% return in the previous three years, following a three-year recovery of about 5% a year after the disastrous – 22.5% return in 2008. The 2016 return comprised c. 4.8% "Income" return and -2.0% "Capital" return, as investment values fell slightly.

The CBRE All Property Yield in December 2014 was 5.45%, a 0.1 percentage point decrease in the year. The 10 Year Gilt Yield fell 0.72 percentage points in the year to December 2015 to 1.24%, 4.2 percentage points lower than the All Property Yield. At the market peak in May 2007 the all Property Yield was 4.8% compared with the current 5.45%, or equivalent to a fall in property values of 11.9%, assuming unchanged rents. The All Property Rent Index was 196 in December 2016, compared with 131 in 2007 at the market peak. The 2007 Rent Index adjusted for RPI is 274 and the current Rent Index of 196 represents a fall in real value of 28.5%.

Over the year the All Property Index yield rose 11 basis points, the largest rise of 34 basis points occurring in Retail Warehouses, and shops were unchanged. In the last quarter yields generally fell marginally. The all Property Rent rose 3.7%, the largest rise being for shops, 5.4%, and the lowest for Retail Warehouses, 1.2%. In the last quarter rents were unchanged apart from a 1.1% rise in Industrials.

The commercial property market has now come full circle from its nadir in 2008, the year of the Great Recession, though an initial recovery in 2010, with a brief relapse in 2012, followed by high returns until 2015. This time last year the Investment Property Forum forecast total returns of 9.3% in 2016, but this has not been achieved primarily because of a fall in capital values subsequent to the 23 June 2016 “Leave” vote. The IPF, based on replies in the three months to February 2017, forecast total All Property returns of 3.2% for 2017 as forecasts of rental growth improved from -0.7% in August 2016 and -0.5% in November 2016 to 0.2 in February 2017 and capital value "growth" rates became less negative over that period, rising to – 1.6% in February 2017. Such poor returns are forecast to persist as rental growth is forecast at less than 1% until 2020, rising to a peak of 1.8% in 2021. Average rental growth is only forecast at 0.8% over the next five years. Further erosion in capital values is expected in 2017 and 2018 with capital values expected to peak following 1.5% growth in 2020. Over the next five years the All Property average capital growth forecast is only 0.2% p.a.

Industrials are expected to return 6.6% in 2017, twice the All Property return, and to be the best performing sector over the five-year period, returning 2.3 percentage points more per annum than the lowest performing office sector. It seems likely that the forecasters consider that, as a result of the "Leave" vote and the subsequent devaluation of sterling, that Industrials will benefit, while the expectation of a reduced demand for office services, especially in the City and South-East, will restrict the demand for offices. Last year I said, "I repeat my previous assessment that segments of the investment market will continue to suffer a secular erosion caused by technical obsolescence, loss of locational primacy and competition from new formats". Such trends are likely to continue, especially as the delivery systems of online retailers have become exceptionally refined and the systems for handling customers’ requirements become very sophisticated, more consumer orientated and now widespread. From being unusual this distribution channel is now routinely used for a large proportion of the consumer goods market. Such

trends make it increasingly unlikely that many segments of the investment market will ever recover the 2007 peak.

In 2016 the residential market maintained the improvement started in 2013 after four years of little change. In Scotland, the LSL House Price Index rose 2.2%, lower than the rises of 2.5% in 2015, 4.2% in 2014 and 3.1% in 2013. In December 2016, the average house price in Scotland was £172,204. In England and Wales, the LSL House Price Index rose 3.1%, less than the 6.6% in 2015 and the exceptional 9.0% in 2014. In December 2016, the average house price in England and Wales was £297,678. In 2015 prices in Central London fell by 8.7% and falls continued there in 2016 with prices in Westminster down 3.2%. In London overall the average price has fallen each month since March 2016, but still gained 1.3% over the year. Boroughs peripheral to central London, SE areas, and cities peripheral to the London urban area all performed well in 2016. Peripheral London boroughs such as Barking and Dagenham rose 12%, Slough and Southend-on-Sea rose over 10% while Birmingham and Greater Manchester experienced new peak prices. Outlying areas, the North East, Yorkshire and Humberside and Wales rose 2% or less. The ripple effect evident last year has continued to spread, but not to the outlying areas, or not yet.

Within the 2.2% average price rise in Scotland in 2016 there are wide variations. The most notable change is the continuing fall in Aberdeen prices of 4.0% in 2016, following 6.8% in 2015. In Glasgow prices rose 5.9% in 2016 following 9.5% in 2015, but Edinburgh price changes are in line with the overall average both years. Higher Glasgow prices rippled out to East Renfrewshire and West Dunbartonshire, giving rises of 11.5% and 7.1% and the lower Aberdeen prices extended to Aberdeenshire where prices fell 4.0%. The outlying areas had no discernible pattern with Shetland rising 13.2% and Inverclyde falling 9.4%.

While the past is no guide to the future, recent trends will continue in Scotland. House markets in areas associated with the oil industry will continue to fall, while cities apart from Aberdeen will tend to continue to grow more rapidly than the Scottish average. Independent forecasts for UK prices published by HMT are for rises of 2.8% in 2017 and of 1.5% in 2018. The OBR March 2017 review has reduced their November 2016 forecast of HPI in 2017 from 6.2% to 3.6% and expect prices to rise by about 22.5% in five years' time. They expect "house price inflation to persist at rates somewhat above earnings growth, consistent with historical trends in the UK". Savills distinguish between "Mainstream" and "Prime" housing markets. UK Mainstream prices, including London, are expected to rise in the years from 2017 by 0.0%, 2.0%, 5.5%, 3.0% and 2.0%, rising 13.0% over that five-year period. In Scotland, "Mainstream" prices are expected to "rise" by -2.5% in 2017 and then by 1.5%, 5.0%,2.5% and 2.5% or by 9.0% over five years. These projections are lower than those made last year, and even lower than those made two years ago, and more subject to error as the "Leave" vote "has the capacity to shape the market over the next five years", but these projections are for a "slowdown" rather than a “reversal” as experienced from 2007.

The "Prime" housing market is equally affected by the "Leave" slowdown but is projected to recover more strongly from 2019. In 2017 Prime house prices are not expected to change appreciably, although they are expected to fall in London. The five year "Prime" forecast shows a 21% gain in central London, 20% gains in "commuting" areas near London and gains of around 12%-17% elsewhere, including Scotland.

The continuing stability forecast for the UK economy together with adequate credit, at least within the limits of the Bank's criteria, and crucially for first-time buyers, the Government Help to Buy schemes, will sustain demand. House supply entails a long production cycle, including particularly planning, and continues to be restricted by the elimination of many small house builders and by the cost and availability of finance for them. Given forecast political stability, prices will continue to increase, especially for family homes for which the supply seems most constrained and for which the potential demand seems greatest.

Conclusion

The UK economy has recovered quickly form the unexpected 'shock' of the "Leave" vote in June 2016 and current growth rates are returning to long-term trend rates. The uncertainty of the outcome of the

forthcoming Brexit negotiations and the expected settlement with the EU will adversely affect UK growth over the next few years.

Scottish independence would have a deleterious affect on the Scottish economy, given its inherent structural difficulties and the expected continuing low oil price. The clamour for Independence is fuelled by the uncertainties of the outcome of the "Leave" negotiations and by inaccurate forecasts, including the misplaced fear of "hard Brexit". Much of this exaggeration will attenuate over the next few years as growth continues. At the same time the reality of the difficulties faced by an Independent Scotland, especially if in the EU, will influence the electorate sufficiently to result in a "Remain" majority, if a referendum is called.

I judge market and economic conditions to be sufficiently promising, notwithstanding the Brexit negotiations, to bring forward selected sites for development. 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.

I D Lowe
Chairman
30 March 2017

Consolidated income statement for the six months ended 31 December 2016

	Note	6 months ended 31 Dec 2016 £000	6 months ended 31 Dec 2015 £000	Year ended 30 June 2016 £000
Revenue from development property sales		**145**	220	438
Gross rental income		**229**	175	351
Property charges		**(104)**	(114)	(241)
Net rental and related income		**270**	281	548
Cost of development properties sales		**(103)**	(217)	(391)
Administrative expenses		**(305)**	(332)	(635)
Other income		**11**	1	15
Net operating loss before investment property disposals and valuation movements		**(127)**	(267)	(463)
Gain on sale of investment properties		**-**	99	99
Valuation gains on investment properties		**-**	-	675
Valuation losses on investment properties		**-**	-	(185)
Net valuation gains on investment properties		**-**	99	589
Operating (loss)/profit		**(127)**	(168)	126
Finance income		**-**	-	1
Finance expenses		**(11)**	(12)	(22)
Net financing costs		**(11)**	(12)	(21)
(Loss)/profit before taxation		**(138)**	(180)	105
Income tax expense	5	**-**	-	-
(Loss)/profit for the financial period attributable to equity holders of the Company		**(138)**	(180)	105
(Loss)/profit per share				
Basic (loss)/profit per share (pence)	4	**(1.17p)**	(1.53p)	0.89p
Diluted (loss)/profit per share (pence)	4	**(1.17p)**	(1.53p)	0.89p

Consolidated statement of changes in equity for the six months ended 31 December 2016

	Share capital £000	Other reserves £000	Retained earnings £000	Total £000
At 1 July 2016	2,357	2,920	12,738	18,015
Loss for the period	-	-	(138)	(138)
At 31 December 2016	**2,357**	**2,920**	**12,600**	**17,877**
At 1 July 2015	2,357	2,920	12,633	17,910
Loss for the period	-	-	(180)	(187)
At 31 December 2015	2,357	2,920	12,453	17,158
At 1 July 2015	2,357	2,920	12,633	17,345
Profit for the period	-	-	105	105
At 30 June 2016	2,357	2,920	12,738	18,015

Other reserves consist of the share premium account £2,745,000 and the capital redemption reserve of £175,000.

Consolidated balance sheet as at 31 December 2016

	Note	31 Dec 2016 £000	31 Dec 2015 £000	30 June 2016 £000
Non current assets				
Investment property		**10,905**	10,415	10,905
Property, plant and equipment		**17**	25	15
Investments		**1**	1	1
Total non-current assets		**10,923**	10,441	10,921
Current assets				
Trading properties		**11,462**	11,273	11,166
Trade and other receivables		**229**	161	153
Cash and cash equivalents		**18**	179	103
Total current assets		**11,709**	11,613	11,422
Total assets		**22,632**	22,054	22,343
Current liabilities				
Trade and other payables		**(815)**	(694)	(698)
Interest bearing loans and borrowings		**-**	(3,530)	-
Total current liabilities		**(815)**	(4,224)	(698)
Non current liabilities				
Interest bearing loans and borrowings		**(3,940)**	(100)	(3,630)
Total liabilities		**(4,755)**	(4,324)	(4,328)
Net assets		**17,877**	17,730	18,015
Equity				
Issued share capital	6	**2,357**	2,357	2,357
Other reserves		**2,920**	2,920	2,920
Retained earnings		**12,600**	12,453	12,738
Total equity attributable to equity holders of the parent company		**17,877**	17,730	18,015
Net asset value per share		**151.7p**	150.5p	152.88p

Consolidated cash flow statement for the six months ended 31 December 2016

	6 months ended 31 Dec 2016 £000	6 months ended 31 Dec 2015 £000	Year ended 30 June 2016 £000
(Loss)/profit for the period	**(138)**	(180)	105
Adjustments			
Profit on sale of investment property	**-**	(99)	(99)
Investment property valuation movements	**-**	-	(490)
Depreciation	**-**	-	11
Net finance expense	**11**	11	22
Operating cash flows before movements in working capital	**(127)**	(268)	(451)
(Increase)/decrease in trading properties	**(296)**	144	252
(Increase) in trade and other receivables	**(76)**	(65)	(57)
Increase in trade and other payables	**107**	39	30
Cash outflows from operating activities	**(392)**	(150)	(226)
Interest received	**-**	-	1
Cash outflows from operating activities	**(392)**	(150)	(225)
Investing activities			
Proceeds from sale of investment property		200	199
Purchases of property, plant and equipment	**(3)**	(2)	(2)
Cash (outflows)/inflows from investing activities	**(3)**	198	197
Financing activities			
Increase in borrowings	**310**	-	-
Cash flows from financing activities	**-**	-	-
Net (decrease)/increase in cash and cash equivalents	**(85)**	48	(28)
Cash and cash equivalents at beginning of period	**103**	131	131
Cash and cash equivalents at end of period	**18**	179	103

Notes to the interim statement

1 This interim statement for the six month period to 31 December 2016 is unaudited and was approved by the directors on 30 March 2017. Caledonian Trust PLC (the "Company") is a company 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

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this interim statement.

3 Accounting policies

Basis of preparation

The consolidated interim financial statements of the Company for the six months ended 31 December 2016 comprise 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 2016 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 2016 are available on the Company's website at www.caledoniantrust.com and have been delivered to the Registrar of Companies. These accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. 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 Financial Reporting Standards as adopted by the European Union ("adopted IFRS"). The financial information is presented in sterling and rounded to the nearest thousand.

The financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 30 June 2016.

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 2016 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 2016.

4 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 2016 £000	**6 months ended 31 Dec 2015 £000**	**Year ended 30 June 2016 £000**
(Loss)/profit for financial period	**(138)**	(180)	105
	===	===	===
	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	**(1.17p)**	(1.52p)	0.89p
Diluted (loss)/profit per share	**(1.17p)**	(1.52p)	0.89p

5 Income tax

Taxation for the 6 months ended 31 December 2016 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2017. 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 2016 there is a deferred tax asset which is not recognised in these accounts.

6 Issued share capital

	31 December 2016		31 December 2015		30 June 2016	
	No 000	**£000**	No. 000	£000	No. 000	£000
Issued and fully paid						
Ordinary shares of 20p each	**11,784**	**2,357**	11,784	2,357	11,784	2,357
	=====	**====**	=====	====	=====	====