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29 March 2018

Caledonian Trust plc

("Caledonian Trust" or the "Company")

Unaudited interim results for the six months ended 31 December 2017

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its unaudited interim results for the six months 31 December 2017.

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Introduction

The Group made a pre-tax profit of £2,824,000 in the six months to 31 December 2017 compared with a pre-tax loss of £138,000 for the same period last year. The profit per share was 24p and the NAV per share was 185.7p compared with a loss per share of 1.17p and NAV per share of 151.7p last year.

In the period under review no investment property was sold but investment property values have increased by £3 million reflecting the prospective conditional sale of St Margaret's House and an associated uplift in valuation. Income from rent and service charges was £208,000 compared with £229,000 last year. Administrative expenses were £300,000 compared with £305,000 last year.

Review of Activities

The Group's emphasis continues to be on development, including works to secure existing planning consents, the provision of infrastructure for development plots, and the marketing of house plots and houses. In order to fund these activities into 2018, pending the sale of the two new Brunstane houses currently under offer, the Company is currently in discussions with Leafrealm Limited in respect of additional loan funding of up to a further £100,000 on the same terms and conditions as before. The Company will make further announcements at the appropriate time with regards to this potential additional funding.

These activities, crucially important for the continuing development of the Group, have been eclipsed by the post year end conditional sale of St Margaret's House for £15 million in cash, the largest of our four development sites in Edinburgh. The sale process will take up to eighteen months to complete and is conditional on, *inter alia*, detailed planning permission being obtained by the purchaser. Whenever appropriate during that period we will issue relevant announcements to provide further updates for shareholders.

The sale was effected rapidly, which stands in sharp contrast with the meticulous work on the project since 2002 when the original lease was determined. St Margaret's has become particularly attractive as a result of two important catalytic market changes. The first change, long expected, I identified last year as the redevelopment of the Meadowbank Stadium "A large commercial development adjacent to St

Margaret's and the siting of the main sports complex on the street will greatly improve the streetscape, and extend it on an uninterrupted basis as far as St Margaret's, so integrating it into the City".

The second change is an amalgam of factors related to student housing which fused together: the expanding student population in Edinburgh; the decline of "traditional" landlords for many reasons including credit availability; HMO regulations and a less favourable tax regime; enhanced student aspirations and, especially amongst non-indigenous population, preparedness to pay for higher standards; and the recent acceptance by investment institutions of student housing as an appropriate investment, reinforced by its recent performance as an investment class. Residual analyses have long shown the high value of student accommodation derived from the low investment yields obtainable from such long-term quality covenants and the expected favourable rental growth. These two significant changes resulted in several unsolicited development and investment interests in St Margaret's at different quantum levels to those made previously.

These interests were generally of high provenance but we had been discussing the development prospects of St Margaret's for several years with Graeme Bone of Drum Property Group. Such longstanding familiarity with a local developer who has been nominated as "Developer of the Year", provides confidence to the Board on the deliverability of a successful sale which provides value for all shareholders.

The Scottish Ministers, previously the Secretary of State for the Environment, tenanted St Margaret's House until November 2002. Prior to the lease determination we served an interim schedule of dilapidations and then a costed final schedule for about £4.0m towards which the tenants paid a derisory £750,000 as a "full and final payment". The tenants steadfastly refused to engage in negotiating a settlement, forcing us to raise proceedings in January 2003 in the Commercial Court. On Friday 14 January 2005 just before the scheduled Monday hearing Counsel for the Scottish Ministers proposed a settlement for circa £2 million. Our claim included some elements which our Counsel found difficult to substantiate in Court, principally VAT and brick and stone cleaning and electrical repairs. Given these difficult elements, the inherent uncertainty and risk in any litigation and the utility of cash, we negotiated a settlement above the offer for £2.1 million.

The 2005 Report and Accounts states that "The settlement of the litigation has opened up wider opportunities" as the site could be promoted for redevelopment without prejudicing the dilapidation claim. We perceived that St Margaret's represented a significant development opportunity but, as any larger scale redevelopment would be prejudiced if the building was demolished, we decided to retain the existing building while planning consent was obtained.

St Margaret's House is located in a triangle bounded by the west coast mainline railway to the north west, "Smokey Brae" to the east and London Road (A1) to the south. In 2006 I reported that "Discussions with the CEC officials over the years have indicated that any redevelopment proposals for St Margaret's House would require to be considered in the context of a master plan for the island site St Margaret's House shares with, inter alia, Meadowbank House", a 125,000ft^2 office building owned and occupied by Registers of Scotland with whom we held discussions for many years, starting the 1990s, on their possible relocation to a new purpose built building on the St Margaret's site.

From 2004, Registers of Scotland, like many Scottish Government Agencies and Departments, were subject to a policy of dispersal away from Edinburgh, having been engaged in a relocation review process for several years. Stage 1 of the review was delivered to the Scottish Ministers in December 2004 and, in line with the review's recommendations, while Ministers ruled out the relocation of the whole Meadowbank staff they required consideration of – Stage 2 of the review – a phased move which could have entailed a new smaller office on the St Margaret's site. This Stage 2 decision was originally expected in late 2005, then at a later date and latterly in the third week of July 2006. On 21 September 2005, in response to a question in the Chamber, the Minister, George Lyon, replied: "The Executive will announce the outcome of Stage 2 of the location review of the Registers of Scotland shortly". Bizarrely on 24 November 2006 the Minister announced that the Executive was "deferring" a decision and had asked Registers of Scotland to report back in a year – a deferral until after the election due in May 2007.

Perhaps the policy change was related to an Audit Scotland comment: "the policy had been operated inconsistently with no systematic evaluation and an absence of explanations …".

In the June 2006 Report we concluded that "While the Group's preferred option was to undertake a development in conjunction with or for the benefit of Registers, outline contingency plans have been prepared. We will now promote a phased development in which the St Margaret's site provides the first phase. Key elements will be a landmark tower on the west boundary suitable for a hotel, office or residential use and a piazza entering off a new street frontage on London Road." Accordingly, in order to secure such planning permission we engaged Michael Laird Architects ("MLA") in 2006 who prepared an Urban Design Analysis report and in July 2007 MLA produced various Draft Development Proposals followed, at the City of Edinburgh Council's suggestion, by a Development Brief for the triangle covering St Margaret's House, the adjacent 125,000ft^2 Meadowbank House, owned and occupied by the Registers of Scotland, and the various small properties lying between the A1 and "Smokey Brae". After many months of consultation and negotiation it was adopted by the Council in August 2009, as a Master Plan for the whole area. In July 2009, based on this Development Brief, we lodged an application for Planning Permission in Principle ("PPP") for a 231,000ft^2 mixed-use development of residential and/or student accommodation, an hotel, offices and other commercial space together with parking for 225 cars. Planning consent for this proposal was issued in September 2011.

The consent that took five years to gain only lasted for three years and we applied to review the PPP in May 2014, for which we had to update many technical reports and undertake several new ones: all a lengthy and expensive process. In June 2015 the consent was renewed, subject to a Section 75 Agreement, which was agreed with the CEC on 10 November 2016 and the PPP issued.

The costs of navigating the changing complications of the planning process over the years has been very high, and the time given to analysis, consideration and planning probably several thousand hours. These unseen costs are more than matched by the professional fees necessarily incurred. Time and money do not ensure success - they only provide a facility for making correct judgements.

When the possibility of a transaction with Registers of Scotland collapsed, and it became necessary, if we were to secure the benefit of a favourable planning situation, to undertake a prolonged planning process, we increased our longstanding efforts to secure tenants. Unfortunately no commercial tenants were forthcoming at that time and to mitigate our costs we agreed a lease on very favourable terms to a charity on 16 April 2007. Subsequently, as the expected requirement for space by this tenant reduced, we secured a second tenant, Edinburgh Palette ("EP") who took a short-term lease of four floors on 1 August 2008 and then subsequently expanded to occupy the whole building, from November 2010.

EP, the "arts" charity, who took this short-term lease, expecting to have only temporary occupation, but to establish themselves as specialist short-term occupiers, and so move from building to building occupying them between being vacant and being redeveloped, have now occupied the building for almost 10 years. Naturally, notwithstanding reality, there is a tendency to expect continuity after so long a period. The current, "improved", rental we recover for an internal lease is just over £1/ft^2 and we have been trying unsuccessfully to get EP to agree limited changes that would allow higher rents, if only to allow them to establish elsewhere dependent on less charitable support.

The creation, the development and the management of the existing facility by EP has in many regards been quite outstanding and I am sure that its management will make the adjustments necessary to ensure EP's viability. Unfortunately, the necessarily abrupt nature of our serving of the notice of the proposed sale of St Margaret's with no preliminary discussion was perceived as insensitive and so caused distress, but I think that the explanation that, due to the regulatory framework that applies to the Group and commercial sensitivity, we were prohibited from giving prior warning has been widely understood, if not universally accepted. The notice period is uncertain, but we have indicated that in practice, given the six months' notice in the lease and time required for planning, EP's occupation is to all intents secure for well over a year – longer security than ever previously.

Many of the sub-tenants accept the transience of their occupation and others see it in the context of, or as part of the major change in the area associated with the redevelopment at Meadowbank. The Company has performed a great service to the artists, artisans, small companies and charities that have been privileged to constitute and be part of the unique great initiative that EP have created.

Our second Edinburgh site 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 (eight minutes) and on to South Gyle and Fife 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. Later 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. The replacement contractor completed the houses in November 2017 for no material increase in price. The houses were marketed in mid November and attracted immediate interest. Following the first four viewings we received four notes of interest and three offers in December. Completion is due in the second calendar quarter of 2018 on both houses at above the asking prices. The funds from the sales of these properties will provide the Group with necessary additional working capital.

Work started over three 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 including the Horse Mill. Tenders were issued for the 7,300ft^2 Horse Mill Phase, but, due to complexity and uncertainty, many contractors were unwilling to tender and the remaining tenders were well in excess of budget. Since then we have reconfigured the houses and added more en-suites and we have completed some of the complex building work, redesigned and simplified the construction methods and re-specified the materials: it is now much simpler. We are negotiating a satisfactory tender with the contractor who completed the new houses being sold. We expect to finance the remainder of the project at good commercial rates for a project slot in the second calendar quarter of 2018. I expect the Horsemill phase to produce a material surplus over all further building costs.

The completion of the extensive stone reconstruction work required for the Horsemill Phase opens up the next phase. The “Steading” phase over 7,750ft^2, where the site is already cleared, and as it is to be all “new build” excepting one elevation, which should allow much higher development margins and a Gross Development value of £2.7m. East of the “Steading” lies a derelict farmhouse and piggeries and beyond them an open area, all of which properties were abstracted from the Green Belt in the Edinburgh Local Development Plan adopted in November 2016. Proposals for the development of this two-acre site, and the existing ruinous farmhouse and piggeries have been accepted in principle, and the site is suitable for a development of 19 new-build houses over 25,149ft^2. East of our two-acre site the “New Brunstane” Master Plan has been approved for an extensive residential development for which ground investigations have been completed, and part of the site is being marketed.

The third of our Edinburgh sites is in 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 have completed 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 completed an extensive archaeological survey. The investigations have revealed that the extent of those works is much reduced compared to earlier estimates. Work has been delayed for many months in negotiating an agreement to divert a small public sewer currently running through the site. We propose to obtain variations of the existing residential consent to optimise layouts, features and finishes for the current market.

Development finance for Belford Road would be available but at a very high price. Commercial rates, say 4.5% over base are not available from some lenders on the anomalous basis that, although the site value is several £m, the cost to the Company, including the original purchase of circa £600,000, is only about £1m but the Banks have maximum Loan to Cost value of 60%, a low ratio that would require a substantial equity input. If for example the site cost was £5m then an additional facility of £2.4m would be available. The joys of automated banking! In due course we will seek to have this rule varied given the Company's current successful operation and the unusually low purchase cost of this and indeed most of our development sites.

The last of our sites in the Edinburgh area is at Wallyford, Musselburgh, where 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 are completing at prices of between £200/ft^2 and £250/ft^2. South of Wallyford groundworks for a 1,050-unit housing development have been substantially completed and three major housebuilders are on site and the construction of the new village centre and primary school are well advanced. We await an improved planning consent for the semi-detached houses which has been delayed as, incredibly, a core path was mistakenly laid across part of our site! The site cost for 10 houses and the foundation work already undertaken for two houses has cost less than £270,000, giving the same anomalous credit restrictions outlined for Belford Road.

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 less favourable than elsewhere, with prices in the Scottish Borders falling 7.3% in 2015 and rising by only 0.3% in 2016 and by 2.4% in 2017.

Gartshore is seven miles from central Glasgow, near Kirkintilloch, on the Forth and Clyde Canal and is the nucleus of the large estate, formerly owned by the Whitelaw family. We are promoting the creation of a new village community of a few hundred cottages and houses, together with local amenities within the existing designed landscape which complements the proposed rural high-amenity business park, hotel and leisure centre. This long-term project 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 to illustrate the history of the estate and our proposals in a most attractive 12,000ft^2 purpose-built listed stables' block. Maintenance of the elegant clock tower is delaying the opening of the exhibition centre. Prices in East Dunbartonshire, now the highest in Scotland, rose by 12.2% in the year to December 2017.

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. Work on these sites has been restricted to securing consents and enduring existing consents as the rural market, in spite of recent isolated improvements, continues to be much less attractive than the urban market. 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, subsequent to the recent signing of a Section 75 Planning Agreement, we 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 are completing the phosphate reduction necessary at a cost of over £100,000 to allow our development of ten houses over 21,831ft^2. At Ardonachie early in 2017 we demolished some of the farm buildings and so endured the consent for ten units over 16,493ft^2.

The opening of the Queensferry Crossing and the completion of the associated road works has improved access to all our development sites north of the Forth estuary. North of the existing dual carriageway beyond Perth the A9 is to be dualled over a distance of circa seven miles from Luncarty (four miles north of Perth) to Birnam ("wood to Dunsinane hill" of Macbeth fame!), giving an uninterrupted dual carriageway to our site at Ardonachie. 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 carriage to Perth and all central Scotland.

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 due course in the local housing market.

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. In the spring we will market 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 and two plots set in a small field just off the B8024 Kilberry Road where the road access has just been formed and the consent endured. We are renewing consents for three plots nearby but off the road leading to the Estate and undertaking drainage and landscaping to improve the amenity. The market in Argyll remains depressed, falling 1% in 2017, and in these circumstances we will continue to improve the amenity of the property and the production capacity of the farm and forestry lands but refrain from further capital investment until market prospects improve.

Economic Prospects

"Guns or butter": this used to be every college freshman's introduction to the economic analysis of the benefits of trade, but in Harvard's Professor Mankiw's Principles of Economics there is a more "fanciful" analogy: television commercials or grass mowing! In his analogy Tom Brady, an iconic American football player earns $20,000 for a two hour TV commercial and, being supremely fit, can mow his own lawn in two hours. A college fan, Forrest Gump, can mow the same lawn in four hours at a cost of $40, his opportunity cost of not working at McDonalds for four hours.

In absolute time Tom Brady has an advantage: he takes only two hours, but Gump takes four and why, therefore, does Brady, who can do the mowing more quickly, hire Gump to mow? Brady's opportunity cost, the cost of giving up the TV commercial is $20,000, but Gump's opportunity cost of giving up McDonalds is $40, so if Brady pays Gump more than $40 and less than $20,000, both are better off!! A generous Brady likes the kid and pays $100, so Gump is $60 better off than working at McDonalds and Brady is $19,900 better off having done his TV commercial.

The economic advantage of trade, implicitly encompassing the principle of comparative advantage, was formally enunciated in 1776 by Adam Smith "It is a maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbors, and to purchase with a part of its produce, or what is the same thing, with the price of part of it, whatever else they have occasion for."

In 1817 David Ricardo demonstrated and expanded Adam Smith's theory in the context of international trade. He considered an example with two goods (wine and cloth) and two countries (England and Portugal). He showed that both countries can gain by opening up trade and specialising, based on comparative advantage. Ricardo's theory is the starting point of modern international economics and the central argument for free trade has not changed in the past two centuries. Even though the field of economics has broadened its scope and refined its theories since the time of Smith and Ricardo, economists' opposition to trade restrictions is still based largely on the principle of comparative advantage.

In my view the potential economic loss of leaving the EU now is considerably less than the opportunity cost of not joining the EEC in 1973. In 1973 the EEC accounted for a much larger share of both world GDP and of the UK's trade; tariffs on goods were generally much higher; goods formed a much larger part of trade, as "trade" in services was much less significant; and economic growth in the EEC was much higher than in the UK. All these factors have since changed.

The continuing economic advantages of EU membership seem likely to continue to diminish. EU trade barriers on manufactured goods are now less than 4% resulting in both the value of being in, and the cost of coming out, being less! As global GNP expands the EU share will continue to diminish and trade within the EU become relatively less important; services, where there is effectively no "common market" in the EU will continue to expand and computer and internet technology further erode the significance of proximity in developing trade. Trade barriers are likely to continue to be reduced as global trade continues to expand.

All tariffs and trade restrictions inhibit trade and reduce economic growth and the EU seems unlikely to participate in any continuing reduction in tariffs but retains tariffs, significant non-tariff restrictions and regulations limiting free competition in services, and in some industries, such as Agriculture and Horticulture, is grossly protectionist. Indeed, the underlying antithesis to free trade is manifest in the "Brexit" negotiations where tariffs, trade restrictions and non-tariffs barriers are being widely and consistently deployed as bargaining chips to secure non-economic goals. In short, economic benefit is mediated to an extent by perceived political gain.

The difficulty in forecasting accurately the effect of the UK's withdrawal from the EU quickly became evident as widespread gloomy forecasts for the economy subsequent to the referendum in 2016 such as the FT's Chief Economics Editor Martin Wolf's forecast "it would be astonishing if there were to be no recession" proved wildly incorrect.

The errors of economic forecasts, especially at inflexion points are colourfully illustrated by many forecasts at the time of the Great Depression, starting in 1929. Particularly notable was that of Irving Fisher, the celebrated Yale economist, who on 17 October 1929, a week before the Wall Street crash, wrote in the New York Times: "Stock prices have reached what looks like a permanently high plateau. I do not feel there will be soon if ever a 50 or 60 point break from present levels, such as (bears) have predicted. I expect to see the stock market a good deal higher within a few months", and on 14 November wrote "The end of the decline of the Stock Market will probably not be long, only a few more days at most." Fisher's views were widely held: "We will not have any more crashes in our time" (J M Keynes 1927), "… despite its severity, we believe that the slump in stock prices will prove an intermediate movement and not the precursor of a business depression such as would entail prolonged further liquidation…" and "… a serious depression seems improbable; [we expect] recovery of business next spring, with further improvement in the fall." (Harvard Economic Society, 2 and 10 November 1929); "Financial storm definitely passed" (Bernard Buruch to W S Churchill 15 November 1929) and "I am convinced that through these reasons we have re-established confidence" (President Hoover December 1929). Fisher's forecast is reported as "the worst share tip in history". The crisis broke on Thursday 24 October 1929, when the market dropped by 11%. Black Thursday was followed by a 13% fall on Black Monday and a further 12% tumble on Black Tuesday. By early November, Fisher was ruined and the stock market was in a downward spiral ending only in "June 1932, at which point companies quoted in the New York Stock Exchange had lost 90% of their value".

The crash appeared "out of the blue," but almost all subsequent analysis emphasises the inherent fragility of the late 1920s economy. A similar analysis of the recent "Great Depression" is encapsulated by HM The Queen's question of Professor Luis Garicano of the LSE "If these things were so large, how come everyone missed them?".

The UK's withdrawal from the EU is such a major turning point, albeit one foreseen, making accurate forecasting very difficult, a difficulty compounded by the overlay of political considerations.

The UK joined the European Economic Community in 1973, an organisation established by the Treaty of Rome in 1957 "determined to lay the foundations of an ever-closer union among the people of Europe", a European Union, as it is now more correctly termed. The founding motivation was always clear, but rarely emphasised, and as a result the general public perception was, as admirably put by Philip Stevens, writing in the FT, "for all its decades of membership, Britain has never really joined the EU. … it has never properly grasped the psychology of European integration. For France, Germany, Italy and the rest, the union was a political project with emotional roots deeper than the economic rationale. For Brits, it was a commercial transaction – a club they had signed up to by dint of straitened economic circumstance rather than political choice." A mindset, the FT comments, that heralds a disorderly exit.

EU actions are widely influenced by political consideration. The EU's inception, the Schuman plan (prepared by Monnet), created the ECSC whose purpose was stated to be "through the consolidation of basic production and the institution of a new High Authority (ECSC) whose decisions will bind France, Germany and any other countries that join, the proposal represents the first concrete step towards a European federation." The Schuman declaration said "Europe will not be made at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity", an incremental approach, building on institutions such as the ECSC, to fashion policy.

President de Gaulle's decision in 1943 to say "non" to the UK proposal to join the EEC is consistent with a policy to maintain continental European control of the consolidation of "Europe", the UK being considered not to share such goals but to be politically and economically more closely aligned with the USA, a bête noire of Gaullism.

The influence of politics over economics is manifested by the formation of the Euro in 1999 a policy which recently endangered the whole EU project and has resulted in the relatively poor economic performance of the Eurozone and a long and continuing period of economic distress in many southern eurozone economies.

That political considerations continue to lie at the centre of the EU is evident from the Commission's current proposal to extend membership of the EU27 to six other nations, Montenegro, Serbia, Macedonia, Albania, Bosnia/Herzegovina and Kosovo from 2025.

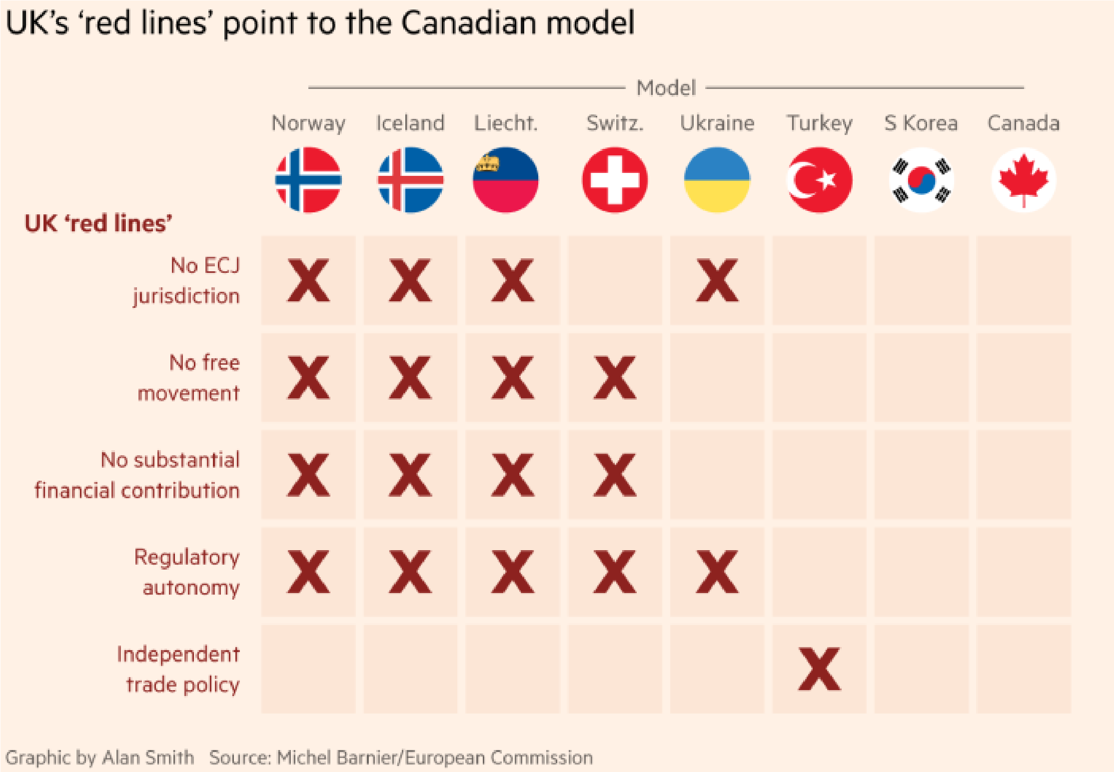
The significance of politics gives the EU a strong bargaining position with the UK. Significantly, as the EU economy is about 10 times larger than the UK's, any deleterious consequences of the UK withdrawal are distributed over 10 times as many people, spreading their impact. UK Leavers have consistently

promoted the economic advantages of the UK market – for instance where will the Germans sell their cars? – but how much does that matter if there is a greater policy goal? Gideon Rachman, writing in the FT puts it:- "Leavers already have a record of consistently underestimating the resilience of the European project. This analytical flaw stems partly from a failure to understand the utter determination of the European elite to preserve the bloc's integrity."

The EU negotiators have accreted an additional advantage, claiming that the process is effectively a legal one, one dependent on the "acquis" or accumulated legislation which, together with the Commission's instructions, binds their hands. The reliance on 'acquis' is disingenuous, as the EU is highly politicised and capable of, and accustomed to, interpreting existing laws with extreme flexibility, to ignoring laws or, if necessary, creating new laws. France and Germany broke the EU Stability and Growth pact with impunity; there was no bail out for the euro, but Greece was bailed; and the Commission is pursuing Poland for breaching the law, but ignoring Hungary's breaches.

The EU maintains there can be no "cherry-picking" but reliance on 'acquis' is manifestly a bargaining position for which the EU exacts a high price. The UK may have harvested one cherry but it has the appearance of a Morello cherry rather than of a sweet cherry. The bitter fruit a "draft withdrawal agreement" lasting for 21 months until December 2019, solves little, but effects a standstill after the UK leaves the EU in March 2019 for 21 months in which to agree the outstanding issues. It is not a transition agreement as there is nothing to which to transit. During this period the UK will be subject to all the obligations of the EU treaties without being part of the EU. This delay may be considered insulting by rabid "Leavers", but the real concern is that, having given concessions to the EU who have carefully segmented and drawn out the negotiations towards the limit of the available time, and now have gained concessions to extend them further, so significant UK objectives have not yet been attained. It has been a continuing weakness of the UK position that, given a divided political support, the UK is seen to require a "deal": in reality no deal has never been better than a bad deal and the UK is paying a price for such weakness.

The European Commission's understanding of the UK's position is represented by the FT in the diagram below:-



For the UK to avoid all the "Xs" the only model acceptable is that of Canada or South Korea. In Canada's case, the EU- Canada Comprehensive Economic and Trade Agreement, or CETA which both abolish trade barriers and allows mutual recognition of many professions, and intellectual property rights and regulates certain investment disputes. Earlier this month the UK set out its requirements for several "options", concessions and exemptions, such as segmenting the single market, privileged access for the City of London and bespoke customs arrangements. The FT describes these as "have your cake and eat it demands" (surely, "eat your cake and have it"!). Time will tell – and there is not much time - as November is considered the latest date to conclude the negotiations if ratification is to be concluded by March 2019.

A "Canadian" trade deal, even "plus, plus" will restrict trade in goods and even more so for services. The effect of such restrictions will be much greater initially than later as adjustments are made and new trade patterns develop. The extent of the long-term damage to 2030 to the UK economy has been widely assessed with even wider conclusions, some "surprisingly" seem correlated with the political bias of the forecaster. Most estimates are of GDP in 2030 compared to an assumed "normal" growth in the UK economy of circa 2.3%. The FT summarises 10 such "Estimates of economic impact of a FTA" (on GDP (sic!)) from which I exclude the pre-referendum Treasury's -6.5% forecast and both extreme forecasts, given by LSE/CEP and Economists for Free Trade. The seven remaining central forecasts shown an average loss of 2.75% by 2030 or 0.20% per year compound. Twelve years of 2.3% growth would result in a UK GDP increase of 31.4% but a 0.20% reduction per year could reduce this to approximately 28.7%.

NIESR, one of the seven forecasters cited, forecast a 2.50% reduction in GNP by 2030, but also forecast that, as a result of lower population growth, the loss of GNP per head by 2030 would only be 0.8%. The FT affirm that in the table referred to above all the figures shown in the chart relate to total GDP, as the subtitle indicates rather than GNP per person.

Cambridge Economics in a separate study "Preparing for Brexit" used a different "method" from NIESR, OECD, and HM Treasury to forecast the difference in GVA by 2030 from leaving the EU under different scenarios and their results were similar to those of NIESR, quoted above. An analysis of Cambridge Economics' report by Dr Graham Gudgin of Cambridge allows the per capita GVA figure to be derived from the gross GVA figure by combining the estimated percentage reduction in population growth to

2030 of 2.2% with the percentage total GVA reduction in growth of 2.7%, to give a reduction in GVA per head in 2030 of only 0.5%. The same arbitrary adjustment to the OECD and HMT forecasts – which forecast the most unfavourable outcomes gives per capita reductions of 2.9% and 4.0% respectively, assuming a FTA.

How accurate and how relevant are the forecasts? They cannot all be accurate, as they are widely varied! Moreover, as shown above, earlier forecasters missed the Great Depression and the Great Recession. History is not kind to "establishment" forecasters who have tended to be profoundly wrong at such critical junctions, having made what Roger Bootle calls "serious errors of judgement" on the effect of policy changes for almost 100 years. In 1931 the Treasury, the Bank and almost all the established economic forecasters agreed that if the UK left the Gold Standard - if, in today's jargon, we "crashed out" we would fall over a "cliff edge". Per contra this policy change preceded a substantial period of economic growth as Keynes, a lonely exception, had forecast. A Government Minister, Sidney Webb, in echoes of today's debate, said "No one told us we could do that …!" Nearly 50 years later there was widespread opposition to the Thatcher reforms from the establishment and, particularly, the CBI. As with Keynes earlier, there was some support for the reform, but the majority opposition crystallised in the famous letter of criticism written by 364 economists to the Times. The Thatcher reforms transformed the UK economy from a laggard to a leader in relative economic performance.

The UK joined the ERM enthusiastically supported by the economic establishment, possibly as a Trojan horse for the Euro: the Delores principle – make the institutional change and policy, permanence and practicality follow! This proved a disaster from which the UK was rescued when it was forced out of the ERM in September 1992. With the Trojan horse reduced to kindling the Treasury and the establishment revealed their true colours with a full cavalry charge for the Euro, strongly supported by the City. The euro has been a disaster as many of its promoters have gallantly admitted and, indeed, given the absence of political unity, rather than unifying the EU, it undermines it.

Prior to the EU referendum the "Remain" campaign was supported by most of the economic establishment, who, together with the Treasury, forecast an economic downturn unless Remain won. Indeed, the Treasury forecast a recession with GDP falling quickly by 3.6%.

The HMG forecast uses a different modelling system from the one used by the Treasury pre-referendum, possibly because the Treasury one was so obviously wrong! The model 'GTAP' used by HMG has been used by other economic forecasters where the results show small - 0.8% - long-term UK benefits from unilateral free trade and greater benefits from multilateral free trade arrangements. In spite of using the same model a key difference been the Treasury and other forecasters using the same Treasury model is the assumption of "friction" at the borders. The non Treasury view is that such friction is overstated as the World Bank showed that, between 15 developed countries in 2016, 98% of the trade required no physical inspections and for the remaining 2% the median clearing time was one day. In such instances there is virtually no "friction".

Given the complexity, the multiplicity and the inconsistency of all the forecast no defensible position can be taken on the precise effect of Brexit by 2030! Economic forecasting in the short-term is unreliable and over 12 years arguments over ± 0.25 percentage point differences in GNP seem surreal. However, it is self-evident that the adjustment in the economy from the present EU membership to any new trading relationship cannot be made without upset and destruction in some areas, in some industries and to some people. Almost without exception the long-term "costs" of leaving the EU are measured in real GNP, but the effect will be experienced largely in GNP per head, not total GNP and such a qualification would significantly reduce the forecast economic "cost".

The potential loss of GDP from leaving the EU can be put in perspective by considering other sources of 'losses' of GDP and their affects. In the Great Recession of 2008 real GDP dropped by 5% over two years, in contrast to a lesser potential loss of 2.0% over several years. A much greater thief of actual GDP growth, compared to potential GDP, has been the significant reduction in productivity. In the eight years before the 2008 recession productivity rose 19% or about 2.35% per annum following a 20% rise in the previous eight years, but since 2008 productivity has risen less than 0.2% per annum. The OBR estimates that output per hour is currently 21% below an extrapolation of the pre-crisis trend. By the beginning of 2023 the OBR, assuming an improvement in productivity to about 1% per annum, estimates that output per hour in 2023 will be 27% below its pre-crisis trend. "Productivity" is much less tangible than images of queued ports and extensive bonded warehouses and factory closures and so may seem less important than the loss of trading opportunities but as Paul Krugman, the Nobel Laureate, says "productivity isn't everything, but in the long run it is almost everything". The relative insignificance of the importance attached to improving productivity must lead to an enquiry as to why discussion of withdrawal is so pervasive: it is the topic of the day, surely, but I wonder if political motives may not underlie such all-encompassing interest.

In contrast to the wide range of forecasts for the consequences of leaving the EU, forecasts for the UK economy vary little. GDP growth was 1.7% in 2017 and is expected to increase marginally to at least 1.8% in 2018 by the Bank, Oxford Economics and NIESR but to be below that level by the IMF, OBR, and the EC, and the OECD forecasts only 1.2%. In 2019 forecast growth is at or below 2018 forecasts with the OECD and the EC falling back to 1.1%, but from 2020 growth forecasts are at or above current levels. These forecasts do not suggest that the economic consequences of leaving the EU will be significant.

Scotland's growth continues to lag UK growth and in 2016 was only 0.4% but is expected to reach 0.8% in 2017, just under half of the UK's 1.7%. Over the next five years the EY ITEM Club expect Scottish growth to be 1.7%, 0.3 percentage points below the 2.0% forecast for the UK. Scotland is far from uniform, as the economic crisis in the north east exemplifies. However, as London and the South East is to the UK, so is Edinburgh to Scotland. The ONS Regional gross value added ("GVA") figures show that in 2016 (the latest available), whereas the UK had a growth in GVA per head of 2.8%, and Scotland had a lower growth of 2.4% per head, the City of Edinburgh had a GVA growth per head of 2.9%. Edinburgh's total growth in GVA was 4.5%, the fourth highest performing city in the UK after London, Cardiff and Greater Manchester. The growth total of GVA in Edinburgh was 1.53 times that of Scotland whereas the growth of GVA in London was 1.38 times that of the UK. In spite of an indifferent UK economic performance and of a poor Scottish one, Edinburgh's economy is booming.

The uncertainty posed by leaving the EU is at times confounded with an economic downturn but the evidence and the forecasts suggest that leaving the EU will at worst have only a marginal effect on the growth of GDP. Even with a lower growth environment some localities, including Edinburgh, will continue to enjoy average growth significantly above the UK average.

Property Prospects

The IPD Index commercial property return was 11.0% in 2017 and comprised c. 5.5% "Income" return and 5.3% "Capital" return, as investment values rose slightly. The property return of 11.0% exceeded the 3.0% return from Gilts but was less than the 13.1% return from the FTSE all share index. Over the year industrials returned a very high 22.5%, offices 10.0% and Retail only 6.2%.

The CBRE All Property Yield in December 2017 was 5.2%, a 0.2 percentage point decrease in the year. The 10 Year Gilt Yield fell 0.05 percentage points in the year to December 2017 to 1.19%, 4.3 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 5.26%, or equivalent to a fall in property values of 8.7%, assuming unchanged rents. The All Property Rent Index was 200 in December 2017, compared with 131 in 2007 at the market peak. The 2007 Rent Index adjusted for RPI is 285 and the current Rent Index of 200 represents a fall in real value of 29.9%.

This time last year the Investment Property Forum forecast total returns of 3.2% far below the 11.3% achieved. For industrials rents were expected to grow by 2.7% and capital values by 3.3% for an outturn of 8.8%, but they achieved 6.6% and 12.8% respectively to gain 22.5% overall. The office total return was forecast as 2.5% with rents and capital values both forecast to fall, but the total return was 10.0%, comprising capital growth of 4.3% and rental growth of 2.6%.

Last year I said "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".

As forecast Industrials did have increased returns but at a much higher level than forecast and for offices they were plainly wrong – I suspect the "Leave" effect was over estimated. The IPF forecast for 2018 is for a 4.6% total return, not much above the 2017 forecast of 3.2%, as rental growth is expected to be mixed and capital values decline slightly by 0.2% Industrials are expected to be by far the best performing sector with a 9.0% overall return.

For the next four years IPF forecast total returns from 3.9% to 4.8%, as rents rise slowly – below expected inflation – and gains are offset by falls in capital value.

For two years I have said, "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 larger 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."

The improvement in 2017 in the residential market in Scotland has been marked and average house prices in 2017 have grown faster than any other region in Britain. The LSL House Price Index rose 4.5% well above the 2.2% in 2016 and rises of 2.5% in 2015, 4.2% in 2014 and 3.1% in 2013. In December 2017, the average house price in Scotland was £177,161. In spite of recent rises Scotland's "affordability ratio" – comparing median full time earnings to median house prices is the lowest in all the British regions at 4.7% compared with 7.8% for England.

In England and Wales the LSL House Price Index rose only 0.2% in 2017, a fall from the 6.3% rise in 2016. This fall is due almost entirely to the London market where prices fell 4.1% in contrast to growth of 3.0% in the rest of England and Wales. Prices in the most expensive areas of London have fallen furthest with falls of 19.4% in the City of Westminster, 13.6% in Hammersmith and Fulham and 9.3% in Kensington and Chelsea. In contrast cities outside London have performed well with prices up 8.9% in Bristol, 6.9% in Merseyside and 5.5% Birmingham. In the regions house price growth continues to increase in the South West, North West and Wales but is reducing in all other areas, notably the South East.

Within the 4.5% average price rise in Scotland in 2017 there are wide variations. In Aberdeen prices are virtually unchanged in 2017 after a fall of 4.0% in 2016, following one of 6.8% in 2015. In Glasgow prices rose 9.2% in 2017 following a rise of 5.0% in 2016 and of 9.5% in 2015, but Edinburgh price rises of 3.9%, are in line with their overall average in the last three years. Higher Glasgow prices rippled out to East and West Dunbartonshire, giving rises of 12.2% and 8.1% respectively. The outlying areas had no discernible pattern with Highlands, Orkney and nan Eilean Siar rising up to 10%, but Argyll & Bute falling 1.0%.

These trends seem likely to continue except where unusual circumstances or small samples distort the figures, as I suspect in Orkney, and where a concentration of expensive new houses becomes available as in certain suburbs of Glasgow. Edinburgh will also pose an exception, LSL statistics are quite contrary to Savills' analysis and to ESPC evidence. Savills present a contrary view, perhaps based on different samples and more recent evidence of the Edinburgh market, saying "Edinburgh saw the highest price growth of any UK city at the end (sic!) of 2017 with prime transactional growth spreading to suburban locations and prices rising over 10.0%. The ESPC report that the City of Edinburgh property price rose 7.9% in the year to February 2018 with striking rises of over 20% in areas such as Dalry, Joppa, Trinity and Liberton. Anomalously they report Edinburgh City Centre properties as increasing only 2.8%, nearer the LSL estimate, with some suburban areas such as Queensferry and Corstorphine declining by about 10%.

Independent forecasts for UK prices published by HMT are for rises of 2.5% in 2018 and of 2.5% in 2019, rising to 2.9%, 3.0% and 3.3% in the next three years. The OBR has reduced its forecast for home price growth for 2018 to 2.4% but rising steadily to about 3.5% in the five years to 2023. Their forecast is based on changes in real incomes which they expect to fall as a result of the sterling devaluation following the referendum vote.

Savills distinguish between "Mainstream" and "Prime" housing markets. UK Mainstream prices, including London, are expected to rise in the five years from 2018 by 1.0%, 2.5%, 5.0%, 2.5% and 2.5%, rising 14.2% over that five-year period. In Scotland, "Mainstream" prices are expected to "rise" by 1.5% in 2018 and then by 3.5%, 5.0%, 3.0% and 3.0% or by 17.0% over five years. These projections are higher than those made last year, especially for Scotland where the five-year growth was previously forecast at 9.0%.

Savills projections for "Prime" house prices in the five years from 2018 have not changed appreciably since last year, except that rises in 'commuting' areas near London reduced to 10% - 15% while London remains at 20% and Scotland at 14%. In general rises in 2018 and 2019 are small, negative in outer London but rise appreciably in 2020 to 2022, reaching 8.0% in Central London.

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 almost 60% of the small house builders and by the cost and availability of finance to the remainder. Given forecast political stability, prices will continue to increase slowly, especially for family houses for which supply seems most constrained and for which the potential demand seems greatest.

Conclusion

The UK economy recovered quickly from the unexpected 'shock' of the "Leave" vote in June 2016 and current growth rates are below long-term trend rates. The uncertainty of the outcome of the forthcoming negotiations to leave the EU and the expected settlement with the EU will adversely affect UK growth over the next two to three years. The consequences of leaving the EU have gained very considerable publicity in both the popular and the financial press, but the analysis of the possible effects is very varied and some are without sound foundation. However responsible analyses shows that while the accumulative effect over 12 years to 2030 may be considered high the effect per year on average of say 0.2% per annum is barely perceptible and within the range of statistical error. If the growth figures are analysed on a per capita basis then the economic affect becomes even less significant.

There is a reasonable disquiet in accepting any of the many forecasts, given the very long timescale, the uncertainty of the many variables and the questionable, if not poor, record both of the specific forecasters and of forecasters in general. I perceive the risk to the UK economy of leaving the EU as generally overstated, and, if not overstated, not differing from other non-economically optimal policy choices such as green power, banning fracking, restrictive planning policy and the tolerance of concentrated market power in some economic areas.

The opportunities for improving economic output are varied particularly in fostering a return to the previous levels of increase in productivity which would benefit the economy by the equivalent of a factor several times the size of some forecasts of economic loss from leaving the EU.

I judge market and economic conditions to be sufficiently promising, notwithstanding the negotiations to leave the EU, to bring forward selected sites for development as and when possible. In our existing portfolio, most development properties are valued at cost, usually based on existing use, and when these sites are developed or sold, I expect their considerable upside will be realised. Some investment properties may also have considerable development value, as we expect to realise at St Margaret's.

I D Lowe
Chairman
29 March 2018

Caledonian Trust PLC
Registered Number 01040126

Consolidated income statement for the six months ended 31 December 2017

	Note	**6 months ended 31 Dec 2017 £000**	6 months ended 31 Dec 2016 £000	Year ended 30 Jun 2017 £000
Revenue				
Revenue from development property sales		**-**	145	145
Gross rental income from investment properties		**208**	229	410
		208	374	555
Total Revenue				
Cost of development property sales		**-**	(103)	(108)
Property charges		**(84)**	(104)	(232)
Cost of Sales		**(84)**	(207)	(340)
Gross Profit		**124**	167	215
Administrative expenses		**(300)**	(305)	(611)
Other income		**9**	11	15
Net operating loss before investment property disposals and valuation movements		**(167)**	(127)	(381)
Gain on sale of investment properties		**-**	-	259
Valuation gains on investment properties	4	**3,000**	-	1,200
Valuation losses on investment properties		**-**	-	(25)
Net gains on investment properties		**3,000**	-	1,434
Operating profit/(loss)		**2,833**	(127)	1,053
Financial income		**-**	-	1
Financial expenses		**(9)**	(11)	(14)
Net financing costs		**(9)**	(11)	(13)
Profit/(loss) before taxation		**2,824**	(138)	1,040
Income tax	5	**-**	-	-
Profit/(loss) and total comprehensive income for the financial period attributable to equity holders of the parent Company		**2,824**	(138)	1,040
Profit/(loss) per share				
Basic and diluted profit/(loss) per share (pence)	6	**24.0p**	(1.17p)	8.83p

Caledonian Trust PLC
Registered Number 01040126

Consolidated statement of changes in equity as at 31 December 2017

	Share Capital £000	Capital redemption reserve £000	Share premium account £000	Retained earnings £000	Total £000
At 1 July 2017	2,357	175	2,745	13,778	19,055
Profit and total comprehensive income for the period	-	-	-	2,824	2,824
At 31 December 2017	**2,357**	**175**	**2,745**	**16,602**	**21,879**
At 1 July 2016	2,357	175	2,745	12,738	18,015
(Loss) and total comprehensive income for the period	-	-	-	(138)	(138)
At 31 December 2016	2,357	175	2,745	12,600	17,877
At 1 July 2016	2,357	175	2,745	12,738	18,015
Profit and total comprehensive income for the period	-	-	-	1,040	1,040
At 30 June 2017	2,357	175	2,745	13,778	19,055

Caledonian Trust PLC
Registered Number 01040126

Consolidated balance sheet as at 31 December 2017

	Note	**31 Dec 2017 £000**	31 Dec 2016 £000	30 Jun 2017 £000

Non-current assets				
Investment property	7	**15,080**	10,905	12,080
Plant and equipment		**13**	17	10
Investments		**1**	1	1
Total non-current assets		**15,094**	10,923	12,091
Current assets				
Trading properties		**11,787**	11,462	11,633
Trade and other receivables		**184**	229	396
Cash and cash equivalents		**15**	18	55
Total current assets		**11,986**	11,709	12,084
Total assets		**27,080**	22,632	24,175
Current liabilities				
Trade and other payables		**(896)**	(815)	(835)
Interest bearing loans and borrowings		**(360)**	-	(360)
Total current liabilities		**(1,256)**	(815)	(1,195)
			-	
Non-current liabilities				
Interest bearing loans and borrowing		**(3,945)**	(3,940)	(3,925)
Total liabilities		**(5,201)**	(4,755)	(5,120)
Net assets		**21,879**	17,877	19,055
Equity				
Issued share capital	8	**2,357**	2,357	2,357
Capital redemption reserve		**175**	175	175
Share premium account		**2,745**	2,745	2,745
Retained earnings		**16,602**	12,600	13,778
Total equity attributable to equity holders of the parent Company		**21,879**	17,877	19,055
NET ASSET VALUE PER SHARE		**185.67p**	151.7p	161.71p

Caledonian Trust PLC
Registered Number 01040126

Consolidated cash flow statement for the six months ended 31 December 2017

	6 months ended 31 Dec 2017 £000	6 months ended 31 Dec 2016 £000	Year ended 30 Jun 2017 £000
Cash flows from operating activities			
Profit/(loss) for the period	**2,824**	(138)	1,040
Adjustments for:			
Gain on sale of investment property	**-**	-	(259)
Net gains on revaluation of investment properties	**(3,000)**	-	(1,175)
Depreciation	**-**	-	7
Net finance expense	**9**	11	13
Operating cash flows before movements in working capital	**(167)**	(127)	(374)
(Increase) in trading properties	**(154)**	(296)	(468)
Decrease/(increase) in trade and other receivables	**212**	(76)	(243)
Increase in trade and other payables	**52**	107	124
Cash absorbed by the operations	**(57)**	(392)	(961)
Interest received	**-**	-	1
Net cash outflow from operating activities	**(57)**	(392)	(960)
Investment activities			
Proceeds from sale of investment property	**-**	-	266
Acquisition of plant and equipment	**(3)**	(3)	(9)
Cash flows generated from investing activities	**(3)**	(3)	257
Increase in borrowings	**20**	310	655
Cash flows generated from financing activities	**20**	310	655
Net decrease in cash and cash equivalents	**(40)**	(85)	(48)
Cash and cash equivalents at beginning of period	**55**	103	103
Cash and cash equivalents at end of period	**15**	18	55

1 This interim statement for the six month period to 31 December 2017 is unaudited and was approved by the directors on 29 March 2018. 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 2017 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 2017 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 2017 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 Accounting Standard IAS34 "Interim Financial Reporting". 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 2017.

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 2017 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 2017.

4 Valuation gains/(losses) on investment properties

	31 Dec 2017 £000	31 Dec 2016 £000	30 Jun 2017 £000
Valuation gains in investment properties	**3,000**	-	1,200

Valuation losses on investment properties	**-**	-	(25)
Net valuation gains on investment properties	**3,000**	-	1,200

As set out in note 7, the valuation gain in the period ended 31 December 2017 relates to progress on St Margaret's House, Edinburgh, which is the subject of a conditional sale agreement dated 2 February 2018.

5 Income tax

Taxation for the 6 months ended 31 December 2017 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2018. 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 2017 there is a deferred tax asset which is not recognised in these accounts.

6 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 2017 £000	6 months ended 31 Dec 2016 £000	Year ended 30 Jun 2017 £000
Profit/(loss) for financial period	**2,824**	(138)	1,040
	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 profit/(loss) per share	**24.0p**	(1.17p)	8.83p
Diluted profit/(loss) per share	**24.0p**	(1.17p)	8.83p

7 Investment Properties

	31 Dec 2017 £000	31 Dec 2016 £000	30 Jun 2017 £000

Valuation			
Opening valuation	**12,080**	10,905	10,905
Revaluation in period	**3,000**	-	1,175
Closing valuation	**15,080**	10,905	12,080

The carrying value of investment property is the fair value at the balance sheet date at directors' valuation and based on valuations as at 30 June 2016 by Montagu Evans, Chartered Surveyors, and for one property, by Rettie & Co. The external valuers are not connected with the Company. The directors' valuation at 31 December 2017 reflects progress on the potential for redevelopment of St Margaret's House, Edinburgh. As set out in the Chairman's Statement, a conditional agreement for sale of St Margaret's House was entered into on 2 February 2018.

8 Financial instruments

Fair values

Fair values versus carrying amounts

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

	31 Dec 2017		31 Dec 2016		30 Jun 2017	
	Fair value £000	**Carrying amount £000**	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000
Trade and other receivables	**166**	**166**	214	214	370	370
Cash and cash equivalents	**15**	**15**	18	18	55	55
	181	**181**	232	232	425	425
Loans from related parties	**4,305**	**4,305**	3,940	3,940	4,285	4,285
Trade and other payables	**896**	**896**	815	815	835	835
	5,201	**5,201**	4,755	4,755	5,120	5,120

Estimation of fair values

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

Available for sale financial assets – as such assets are listed, the fair value is determined at the market price.

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

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

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

9 Issued share capital

	31 Dec 2017		31 Dec 2016		30 Jun 2017	
	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

-- ENDS --