Capital & Regional

Annual Report 2006

# Capital & Regional celebrates its 21st anniversary

## The Right people... we aim to build best of class specialist management teams with strength, depth and humour


Our people make
ALL the difference

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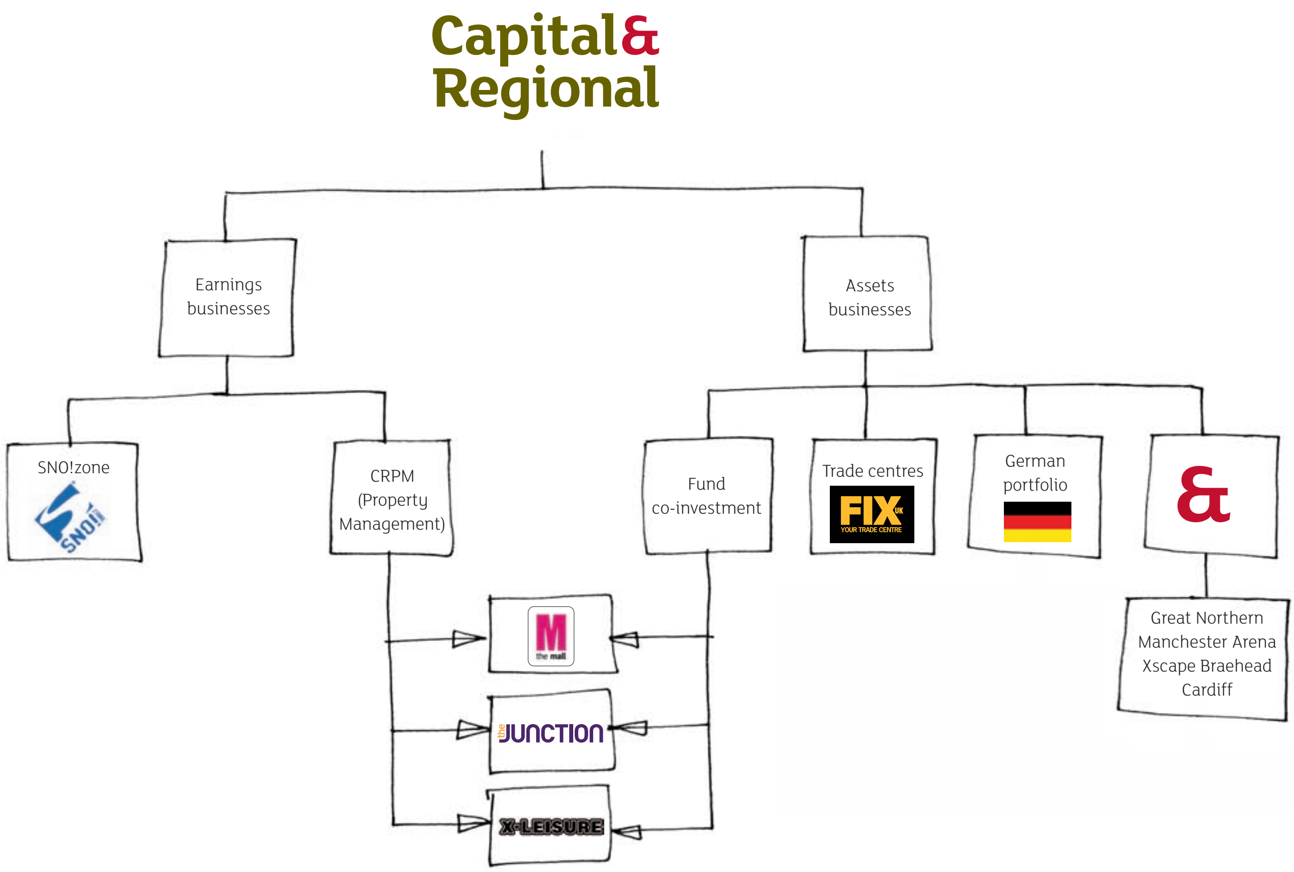
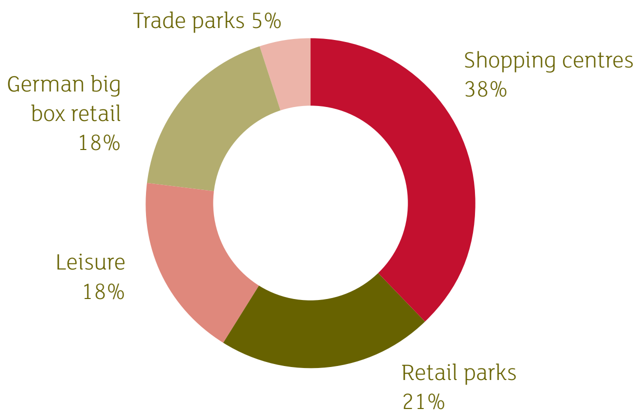
- The right people... we aim to build best-of-class specialist management teams
- The right money... we are structured as a co-investing asset manager, aiming to access the most efficient equity and debt for each of our activities

## Group structure

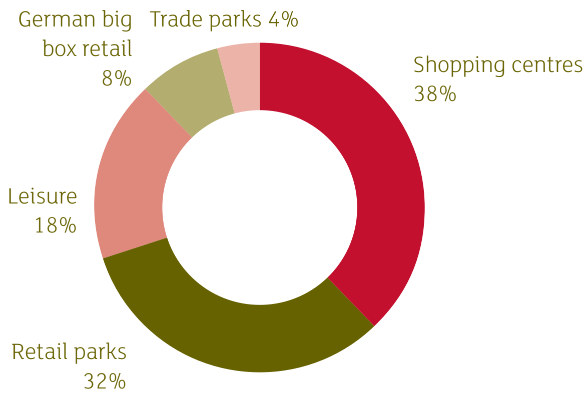


## Portfolio by market segment

2006

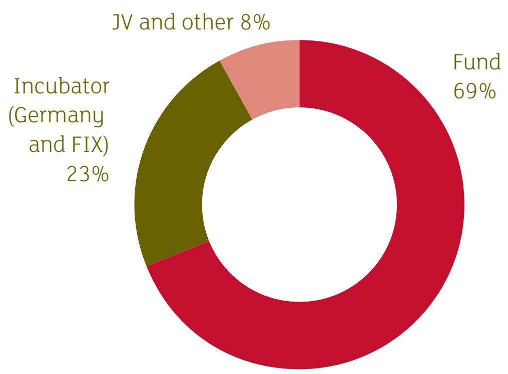



2005

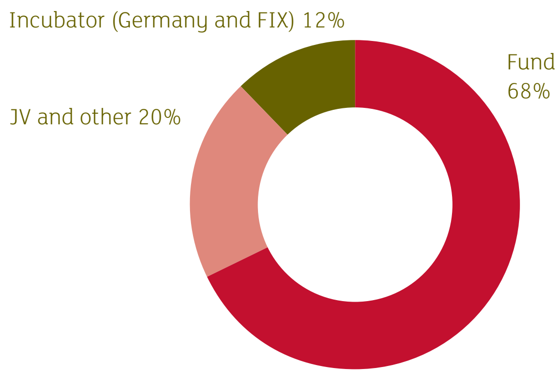



## Portfolio by ownership structure

2006



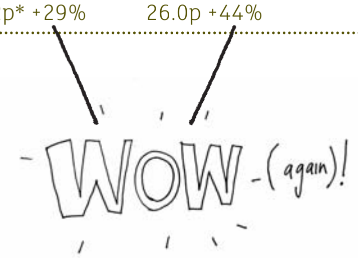

2005




## Track record

| | NAV growth | NAV per share | Dividend per share | Dividend growth |
|---|---|---|---|---|
| December 1996 | 19% pa | 223p +19% | 3.0p +20% | 24% pa |
| December 1997 | | 272p +22% | 3.5p +17% | |
| December 1998 | | 321p +18% | 4.25p +21% | |
| December 1999 | | 370p +17% | 5.0p +18% | |
| December 2000 | | 350p -5% | 5.5p +10% | |
| December 2001 | | 336p -4% | 6.0p +11% | |
| December 2002 | 34% pa | 392p +17% | 7.0p +17% | 42% pa |
| December 2003 | | 521p +33% | 9.0p +29% | |
| December 2004 | | 710p +36% | 14.0p +56% | |
| December 2005 | | 985p* +38% | 18.0p +40% | |
| December 2006 | | 1272p* +29% | 26.0p +44% | |

* Switch to IFRS triple net NAV.



## 2006

- 6 January — The Mall acquisition of four shopping centres for £535 million completes
- 20 January — Acquisition of six further big box retail properties in Germany for €115 million
- 1 February — Pre-let to Asda at Capital Retail Park, Cardiff
- 3 March — The Mall sells shopping centres at Redhill and Bradford
- 24 March — The Mall attracts four new investors for £90 million
- 5 July — Acquisition of €214 million German retail portfolio
- 10 July — Acquisition of 30% interest in Manchester Arena
- 4 August — X-Leisure completes £5.5 million makeover of Tower Park, Poole
- 24 August — X-Leisure brings Habitat to 02 Centre
- 2 September — The Mall raises a further £375 million with Mall bond tap issue
- 12 September — Sale of 12.25 million Mall units to National Pensions Reserve Fund of Ireland for £30 million
- 12 September — Junction sells four secondary retail parks for a combined total of £159.8 million
- 13 October — Sale of Morfa Shopping Park, Swansea for £105 million to Junction
- 23 November — Further acquisitions in Germany for €50 million
- 15 December — X-Leisure exchanges on the sale of Star City, Birmingham for £85.5 million

## 2007

- 15 January — X-Leisure completes on the Star City sale
- 12 February — Acquisition of portfolio of six FIX UK properties
- 23 February — Completion on sale of Xscape Milton Keynes and Castleford to the X-Leisure fund

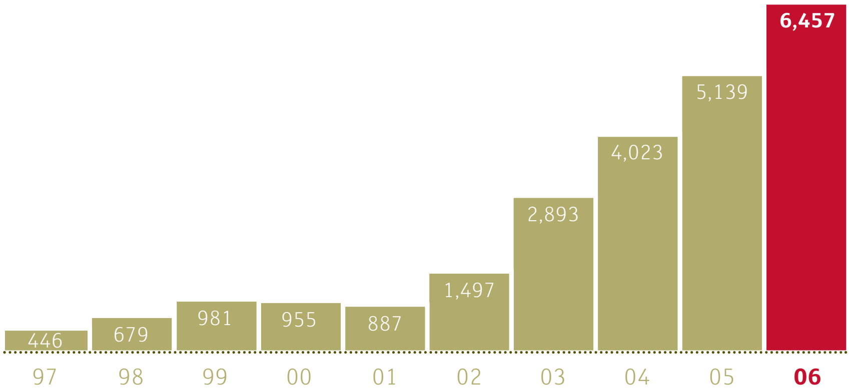
VERY ACTIVE!

## Portfolio

The growth in the portfolios has enabled us to develop stronger and deeper expertise in our chosen markets. Fund investors and shareholders enjoy the benefits of scale.

**£6.5bn**

**Property under management**
£ million

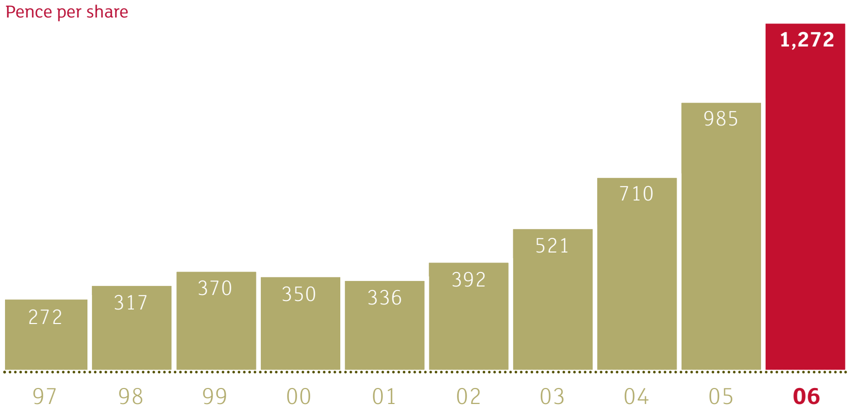



## NAV growth

Net assets per share have grown faster than most of our competitors due to asset management initiatives, acceleration from our earnings businesses and efficient financial structures.

**29%**

**Growth in adjusted fully diluted net asset value (NAV) per share**
Pence per share

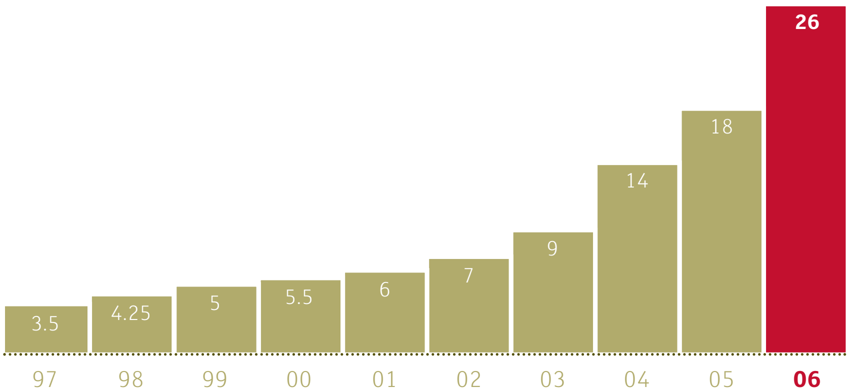



## Dividend growth

Our dividends have increased with our recurring cashflows, which are enhanced by our earnings businesses. We do not distribute performance fees, which are reinvested in the growth of the business.

**44%**

**Dividend growth**
Pence per share



## Overview

## The Company has delivered another striking performance in 2006, with a total return on equity of 32%.

Our share price has also performed strongly. Total shareholder return (dividends plus the increase in the share price over the year) was 81%, the highest of our peer Group of 13 companies in the FTSE Real Estate sector capitalised at more than £1 billion.

### Dividend

The Board is recommending a final dividend of 17p (2005: 11p), bringing the total for the year to 26p (2005: 18p), a 44% increase. Over the past ten years dividends have increased at an average rate of 24% per annum.

| Dividend | Year on year increase | **2006** | 2005 |
|---|---|---|---|
| Interim | 29% | **9p** | 7p |
| Final | 55% | **17p** | 11p |
| Total | 44% | **26p** | 18p |

The proposed distribution for 2006 is fully covered by our recurring profits alone, allowing performance fees earned from the funds to be reinvested in the growth of the business.

### The Board

During the year we appointed two new independent non-executive directors. Philip Newton was until recently the chief executive of Merchant Retail Group plc, where he built up the successful Perfume Shop chain. Manjit Wolstenholme, formerly a member of Gleacher Shacklock LLC and co-head of investment banking at Dresdner Kleinwort Wasserstein has also taken over as chair of the Remuneration Committee.

### Responsible business

We are strongly aware of our responsibilities to staff and to the wider community. We have long regarded it as good business to engage with all stakeholders, and have more recently taken steps to co-ordinate and measure our efforts. To this end we have appointed a Board Committee chaired by Alan Coppin to supervise this initiative.

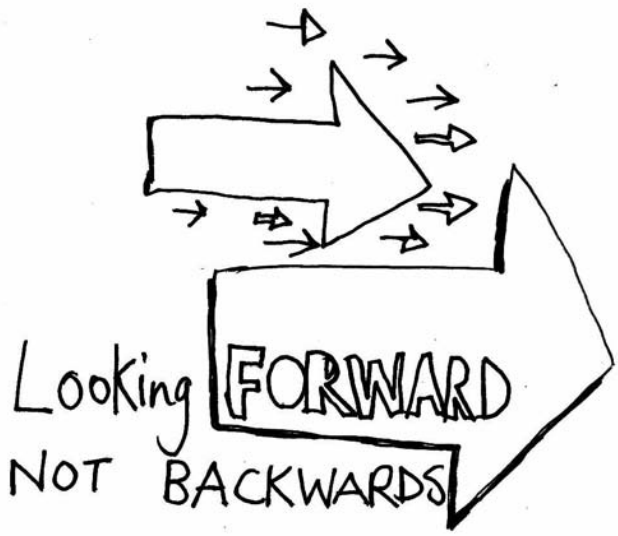
In particular, we believe that good day-to-day shopping centre management can make a real difference to the environment. We have taken a lead with the Enviromall Partnership, where we have linked with a number of industry bodies to develop benchmarks for the industry.

### Our twenty-first anniversary

2007 is our twenty-first anniversary as a publicly traded company. We started on the Unlisted Securities Market (the predecessor of AIM) in 1986 with 55 employees and an initial market capitalisation of £7 million. Today we have 936 employees and a market capitalisation of well over £1 billion. That journey would not have been possible without the exceptional efforts and contribution of employees past and present and I would like to thank them warmly.

At our coming of age, we can look back at our success so far with some satisfaction and pride but more importantly, we are looking forward to applying the strength and experience we have built up to make the very best of the opportunities in the years to come.

**Tom Chandos**
**Chairman**




**Tom Chandos**
Chairman

## Overview

### Our performance in 2006 has been superb. Certainly it was enhanced by yield compression but even without this the returns would have been in the early teens. This demonstrates the core strengths of our business model.

Five years ago we refocused the Company on creating funds which we invested in as well as managed, and the results have been good. We earn significant management and performance fees from the assets that we manage which cover our management overhead and boost our co-investment returns. We are continuing to diversify into asset areas that are ripe for the application of our specialist skills.

Total property assets under management increased by 26% in 2006, to £6.5 billion. This is more than seven times the portfolio we were managing in 2001.

Most of the growth in our direct property portfolio came from the expansion of our German retail park and FIX UK trade park portfolios, which now account for 23% of our total property exposure. These new ventures are generating excellent returns, and may well become funds in their own right in due course alongside our established UK shopping centre, retail park and leisure property funds.

The **Mall Fund**, with assets of just over £3 billion, now owns 23 shopping centres, about 10% of the covered shopping centre market in the UK. We believe that over the next three to five years this fund can expand to 40 shopping centres, taking its market share to about 20%.

The Mall Fund's performance has been particularly satisfying: since inception it has outperformed its Shopping Centre IRR benchmark at an ungeared level by an average of 3.8% per annum, and has shown a total return to investors averaging 26.8% per annum.

The **Junction Fund** has grown from £336 million in 2002 to £1.6 billion at the end of 2006. There is substantial development and redevelopment to take place in this fund over the next three to five years which could produce substantial returns. Since inception, investors have enjoyed total returns averaging 26.6%.

The **X-Leisure Fund** was created in 2004 with initial assets of £502 million, rising to £807 million at the end of 2006 and £917 million at 28 February 2007. In 2006, The X-Leisure Fund delivered its strongest performance to date with a total return of 30.4% for the year ended 30 December 2006. This positions the fund in the top quartile of all UK property funds.

**Our markets**

We believe the long-term fundamentals for UK retail and leisure remain strong. A growing population with a high propensity to spend is serviced by a restricted supply of retail space, which remains well below other developed economies, particularly the US.

In these circumstances long-term rental growth can be expected. There have been some concerns that retail investment yields have fallen too far. We do not agree.

In particular we see the reduction in IPD shopping centre equivalent yields from 7.3% in 2000 to 5.3% in 2006 as being in line with other real asset classes. The margin over index linked gilts is close to its long-term average and therefore should be sustainable over time.

We continue to watch the development of the UK REIT with interest. We have explained previously why REIT status will not suit C&R, which already has a tax-efficient structure. However, REITS may attract new cash to the sector, and provide acquisition opportunities for us, as long held assets with contingent gains are released.

**Outlook**

We believe that the following factors position us well for the future, whatever the economic background:

- We have experienced management teams, with strength in depth, specialisation and experience. All are highly incentivised to perform.
- We have a management business with long-term fee income streams which enhances our cash flow and strengthens our business.
- We are already seeding the next generation of specialist portfolios, in Germany and trade centres, which may become funds in the future.

This has been our fourth year in a row with returns of more than 30%, ahead of a buoyant market. The foundations of our business are sound, and we remain confident that our management teams will continue to outperform.

**Martin Barber**
**Chief Executive**

**Xavier Pullen**
**Deputy Chief Executive**

**Martin Barber**
Chief Executive

**Xavier Pullen**
Deputy Chief Executive

## Results

### We have focused our key measures of performance in four areas: business building, investment returns, recurring profitability and productivity.

| Key performance indicators | 2006 | 2005 | Growth |
|---|---|---|---|
| Business building | | | |
| Property under management | **£6.5bn** | £5.1bn | 26% |
| Investment returns | | | |
| Year end share price* | **£15.42** | £8.68 | 78% |
| Total shareholder return | **81%** | 28% | |
| Triple net NAV per share (Note 24) | **£12.72** | £9.85 | 29% |
| Return on equity (Note 25) | **32%** | 41% | |
| Recurring profitability | | | |
| Recurring pre-tax profit (Note 2a) | **£32.3m** | £23.1m | 39% |
| Dividend per share | **26p** | 18p | 44% |
| Earnings per share (Note 10) | **46p** | 33p | 39% |
| Productivity | | | |
| Overhead as % of property managed | **0.29%** | 0.31% | |
| CRPM staff turnover | **11.7%** | 13.5% | |

* Source: London Stock Exchange.

**Business building:** During 2006 our property under management increased as follows:

| Portfolio growth 2006 | £m |
|---|---|
| Property under management at 30 December 2005 | **5,139** |
| Acquisitions | |
| Mall purchase of two shopping centres (net) | **387** |
| Additions to FIX UK trade mark portfolio | **33** |
| Additions to German portfolio | **229** |
| Manchester Arena | **67** |
| Other (including capital and development expenditure) | **163** |
| Disposals | |
| Junction sale of four retail parks | **(160)** |
| Revaluation surpluses | **599** |
| Property under management at 30 December 2006 | **6,457** |

In addition to building our property portfolios, we have strengthened our management teams and expanded SNO!zone to three locations.

**Investment returns:** During the year our share price increased by 78% and the dividend we paid brought total shareholder return up to 81%. The property sector in general has moved from a discount to NAV to a premium. We believe that our increase may also reflect a better recognition by the market of the value of our two earnings businesses, CRPM and SNO!zone.

Our total accounting return on equity was 32%, split between the increase in NAV and the dividend. There was a significant contribution from our two earnings businesses, CRPM and SNO!zone, and from the outperformance of our portfolios against the market. Some of the increase was also driven by the rise in property values during the year due to market yield shift.

**Recurring profitability:** During the year our recurring pre-tax profit increased by 39% mainly due to increased profits from our growing German portfolio and from our property management business:

| Increase in recurring pre-tax profit | £m |
|---|---|
| 2005 recurring pre-tax profit | 23.1 |
| Increase attributable to: | |
| UK portfolio | 1.1 |
| German portfolio | 4.9 |
| Property management | 3.2 |
| 2006 recurring pre-tax profit | 32.3 |

We use our recurring pre-tax profit, adjusted for notional tax, to calculate dividend cover.

| Dividend cover (pence per share) | 2006 pps | 2005 pps |
|---|---|---|
| Recurring pre-tax profit per share | **44** | 32 |
| Full notional tax charge at 30% | **(13)** | (10) |
| Net | **31** | 22 |
| Proposed total dividend per share | **26** | 18 |
| Dividend cover | **119%** | 122% |

This is a very conservative indicator of dividend coverage, but we believe it is the correct one for producing sustainable dividend growth as we have in the past. Under the EPRA definition of earnings per share, which would include performance fees, our dividend cover would increase to 177%.

**Productivity:** Since forming the fund management business we have consistently improved productivity by focusing specialist management teams on growing portfolios. This benefits fund investors and C&R shareholders alike. Our fixed overhead has fallen as a percentage of property under management from 0.69% in 2001 to 0.29% now.

**Non-financial measures:** Our divisions monitor performance in ways that suit each individual business. For example, they systematically survey customers, measure carbon emissions, and monitor achievement of recycling targets.

The key non-financial indicator measured for the Group is staff turnover for CRPM which was 11.7% in 2006 and 13.5% in 2005. We continue to be able to retain the key people for running the business. In 2006 we had only one leaver among those participating in our senior management incentive schemes.

**William Sunnucks**
Group Finance Director

Building VALUE!

**The Corporate team**
From left: Tracy Richardson, Anton Manuelpillai, Tim Caufield , Anthony Brady

## Portfolio returns

Each UK portfolio has a benchmark against which we monitor performance:

- Mall IPD shopping centres index expressed as an IRR
- Junction IPD retail parks index, expressed as an IRR
- X-Leisure 12%
- FIX UK IPD all industrials index

At fund level we outperformed at geared and ungeared level in all funds. In the case of the Mall and X-Leisure Funds, the outperformance at both geared and ungeared level was significant. The Junction Fund was slightly ahead of its benchmark following some restructuring of its portfolio and it has outperformed on a three-year basis.

| Fund performance over the last three years | Geared return (IRR) | Ungeared return (IRR) | Benchmark return (IRR) |
|---|---|---|---|
| Mall 2004 | 26.0% | 19.6% | 17.1% |
| Mall 2005 | 22.8% | 16.5% | 16.3% |
| Mall 2006 | 26.3% | 17.6% | 12.7% |
| Junction 2004 | 35.6% | 24.0% | 23.5% |
| Junction 2005 | 34.1% | 23.3% | 22.1% |
| Junction 2006 | 18.3% | 15.0% | 14.7% |
| X-Leisure 2004 (9 months) | 18.0% | 11.4% | 8.9% |
| X-Leisure 2005 | 28.3% | 15.3% | 12.0% |
| X-Leisure 2006 | 30.4% | 19.7% | 12.0% |
| German portfolio | 34.2% | 15.2% | – |
| FIX UK | 37.6% | 20.8%* | 17.6% |

* Excluding acquisition costs.

As in previous years we measure our returns using IRR methodology. The IRR benchmarks are calculated by IPD.

## Earnings businesses

We continue to give information to help investors value our two earnings businesses CRPM and SNO!zone.

### Capital & Regional Property Management (CRPM)

The value of CRPM lies in its management fee stream, and its performance fees, both after deduction of related management costs. The management fee stream is stable, and can be valued using a multiple. The performance fees are different in nature. The profit can be split between management and performance fees as follows:

| Capital & Regional Property Management business (Note 2a) | **2006 £m** | 2005 £m |
|---|---|---|
| Profit and loss account | | |
| Fixed fees | **17.0** | 15.3 |
| Service charge fees | **4.6** | 3.9 |
| Other fees | **5.8** | 3.6 |
| Fixed management expense* | **(14.0)** | (12.6) |
| Profit from management fees | **13.4** | 10.2 |
| Mall performance fee | **35.5** | 29.5 |
| Junction performance fee | **16.7** | 17.3 |
| X-Leisure performance fee | **10.4** | 4.1 |
| Variable overhead – bonuses, CAP, LTIP | **(18.3)** | (18.6) |
| Other non-recurring items | **(2.1)** | – |
| | **42.2** | 32.3 |
| CRPM profit before tax | **55.6** | 42.5 |

* Representing 75% of the total fixed management expenses (based upon management's estimation). The other 25% is allocated against the property investment business. See note 2.

The right to receive performance fees is clearly valuable. Some analysts apply a multiple to past fees, others estimate the NPV of the immediate pipeline plus an option value for fees beyond. Past performance should deliver the Group fees of £62.6 million for 2006 (included as a debtor on the 2006 balance sheet), £44.7 million in 2007 and £22.1 million in 2008 (neither on the balance sheet). The Group's variable overheads, including staff bonuses and management incentive schemes, are paid out of these fees.

**The Corporate team**
From left: Richard Snooks, Doug McAndrew, Sarah Jones, Falguni Desai

### SNO!zone

SNO!zone now operates from three locations, and employs 466 people. It bears a full arm's-length rent, and involves very little working capital. It can be valued by applying a multiple to the earnings stream.

The accounting adjustments relate to the new Xscape in Braehead, which benefited from a nine-month rent free period and a tenant incentive package worth £970,000. The accounting rules require us to spread the benefit over the 25-year period of the lease, rather than in the year in which it was received.

| SNO!zone operating profit (Note 2a) | **2006 £m** | 2005 £m |
|---|---|---|
| Income | **13.1** | 9.3 |
| Expenses | **(10.4)** | (7.6) |
| Cash profit | **2.7** | 1.7 |
| Tenant incentives* | **(0.9)** | – |
| Accounting profit | **1.8** | 1.7 |

* This is the carrying value of tenant incentives at 30 December 2006 after amortisation.

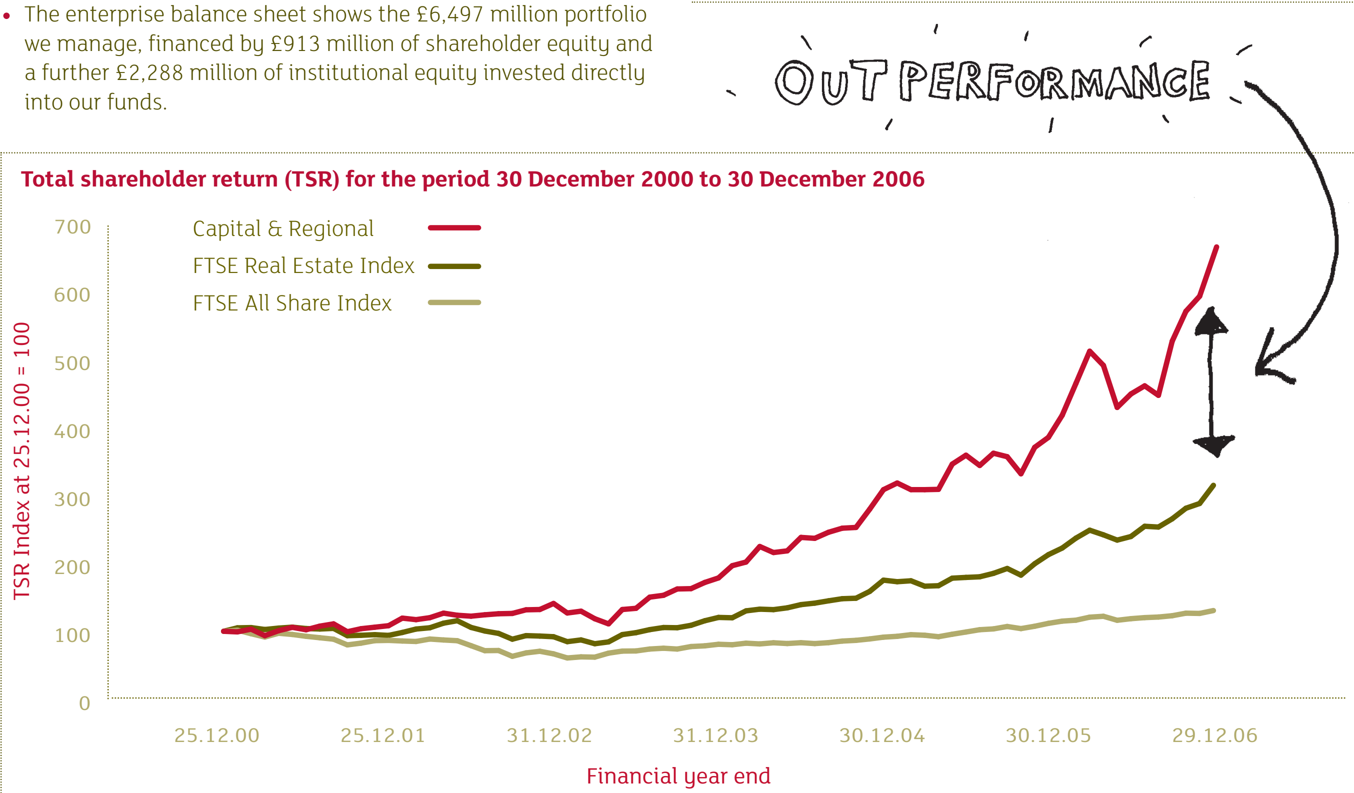
## Balance sheet, debt and hedging

**Balance sheet:** we look at our balance sheet in three ways:

- The enterprise balance sheet shows the £6,497 million portfolio we manage, financed by £913 million of shareholder equity and a further £2,288 million of institutional equity invested directly into our funds.
- The see through balance sheet gives our economic exposure to different market segments, and is the one we use for managing the business. It is notable that we have an increasing proportion of our exposure in the German and FIX UK portfolios.
- Our statutory balance sheet follows the accounting rules. Under these rules the three funds and various joint ventures are consolidated on an equity basis. The debt on this balance sheet excludes our share of fund and JV debt.

| Three balance sheets | Enterprise £m | See through £m | Statutory £m |
|---|---|---|---|
| Shopping centres | 3,185 | 772 | 398 |
| Retail parks | 1,568 | 430 | 245 |
| Leisure property | 1,252 | 359 | 210 |
| German big box retail | 382 | 359 | 382 |
| FIX UK | 110 | 110 | 110 |
| Total property | 6,497 | 2,030 | 1,345 |
| Working capital | (57) | 21 | 25 |
| Debt | (3,239) | (1,138) | (457) |
| Net assets | 3,201 | 913 | 913 |
| C&R shareholders | 913 | 913 | 913 |
| Fund investors | 2,288 | – | – |
| Total equity | 3,201 | 913 | 913 |
| Loan to value | 50% | 56% | 34% |
| Gearing (debt/equity) | 101% | 125% | 50% |

**Total shareholder return (TSR) for the period 30 December 2000 to 30 December 2006**



**Balance sheet judgements:** the key judgements in the balance sheet relate to:

1. Property valuations; all of which are carried out by independent valuers. For 69% of our property exposure held through the three funds, there is a further layer of scrutiny by the Fund Managers, Morley and Hermes.

2. Development provisioning; it often takes some years after a development is completed before all commercial issues are resolved and judgement is therefore needed on the level of provision required for completion costs.

3. Tax provisioning; it normally takes two or more years after each year end for all tax liabilities to be settled with the Inland Revenue. Judgement is needed on the correct level of provision required.

**Debt:** our debt at 30 December 2006 can be summarised as follows:

| Group facilities and drawings (on a see through basis) | 2006 facility amount | 2006 drawn £m | 2005 drawn £m |
|---|---|---|---|
| Working capital facility | 136 | 17 | 0 |
| Other Group sterling loans | 162 | 160 | 260 |
| Group Euro loans (our share) | 266 | 266 | 136 |
| Convertible Loan Stock | 1 | 1 | 3 |
| Associates (our share) | 665 | 598 | 507 |
| Joint ventures (our share) | 97 | 96 | 74 |
| Total | 1,327 | 1,138 | 980 |

Our portfolio level bank facilities are typically secured property lending facilities. There are opportunities to securitise these portfolios, and the £3.1billion Mall portfolio has already issued £1.4 billion of debt at very low margins of 18-19bps.

Our Group bank facility is unsecured, allowing us more flexibility. We aim to have at least £20 million "headroom" in our cash flows at all times over the next 6 to 12 months.

**Cash flow:** we try to minimise cash held on deposit, preferring to repay debt wherever we can. At the year end we had £35 million of cash on the balance sheet, of which £24 million was awaiting investment in our growing German and Trade Centre portfolios. Much of the remainder arose from further distributions from the Glasgow Fort joint venture.

The Group's cash flow is strengthened by its income from CRPM and SNO!zone. These incoming cash flows cover all our overhead and contribute to paying interest and dividends. Performance fees cover our variable overhead, and the balance is being reinvested in the growth of the business.

**Hedging policy:** the key financial risks managed through our finance teams and fund managers are:

- Interest rate movements, normally hedged using interest rate swaps as described above. Gains or losses on the swaps are shown in the income statement.
- Exposure to the euro, hedged through euro denominated borrowings or forward exchange contract. At the end of the year we had a €115 million FX contract in place. Gains or losses on the FX contract will be matched against translation gains or losses on the German portfolio.

We have been tracking the growing property derivatives market with interest, but we haven't participated in it. We have also avoided more complex interest hedging instruments such as swaptions, caps and collars. See page 76 for more details on our management of financial risk.

**Treasury statistics:** the table shows our key statistics over the last five years:

| Treasury statistics (see through basis) | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| % of debt fixed or hedged[1] | 82.3% | 75.1% | 72.0% | 83.0% | 20.5% |
| Weighted average duration of hedge (months) | 48 | 52 | 29 | 69 | 54 |
| Weighted average interest rate %[2] | 5.23% | 5.10% | 5.69% | 5.46% | 5.45% |
| Weighted average interest margin %[3] | 0.67% | 0.74% | 1.11% | 1.08% | 1.10% |
| Interest cover (PBIT/I)[4] | 1.58 | 1.54 | 1.63 | 1.63 | 1.30 |
| Year end gearing (debt/equity %) | 125% | 129% | 126% | 129% | 122% |
| % of euro denominated assets hedged | 96% | 75% | – | – | – |
| Fair value of interest rate swaps (before tax) | 17.0 | (6.5) | 0.3 | 2.8 | (6.6) |

The table shows that:

1. Interest rate swaps have been used to fix the interest on 82% of our debt (including our share of fund and JV debt), and the average duration of the swaps is 48 months. They are valued at £17.0 million which is included in our balance sheet. A further £3.1 million of value relating to fixed loans isn't in the balance sheet, but is adjusted in our triple net NAV.

2. Our weighted average interest rate has risen from 5.10% to 5.23% mainly because of the increase in medium term interest rates.

3. Our weighted average interest margin has fallen from 0.74% to 0.67% reflecting tighter banking margins, and the raising of a further £375 million of Mall bonds at 19bps margin.

4. Our interest cover has increased to 158%.

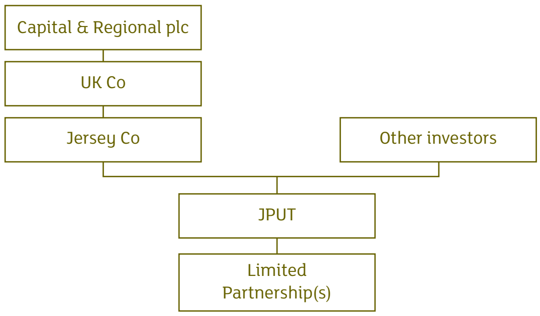
**Valuation of interest rate swaps:** medium term interest rates have risen during the year from 4.53% to 5.40% and as a result our interest rate swaps are valuable.

## Corporate structure

**Standard structure:** with increasing competition from structured overseas money, it is vital that our corporate structure remains competitive. We use a "standard structure" which has the following benefits:

- It enables our fund investors to trade fund units without suffering the 4% Stamp Duty Land Tax which is now applied to Limited Partnership interests as well as land transactions.
- Our shareholders don't suffer double taxation of capital gains, once at company level, and again at shareholder level.
- Day-to-day management of the portfolio is handled onshore by the limited partnerships, under the direction of the various General Partner Boards.

Standard structure




**REIT opportunities:** we are monitoring the opportunities offered by the introduction of a UK REIT regime carefully, and have concluded that at present conversion is not in the interests of our shareholders. The main reasons are:

- We would fail the 75% "balance of business" test because much of our profit comes from management fees, performance fees and SNO!zone.
- Our business might be damaged by operational constraints imposed by rules that are orientated towards passively managed property: we fear that we would be forced into complex structuring if we want to continue to run our own car parks, market halls and ski slopes.
- Our co-investments in the three funds would still be subject to Capital Gains Tax under current REIT legislation, although this anomaly may be corrected in the future.
- The 22% withholding tax would be an administrative burden for many of our shareholders, and in many cases a cost.

We nevertheless welcome the introduction of the new regime and hope that it widens access to commercial property investment. We are closely monitoring developments and will take advantage of opportunities as they arise.

## International Financial Reporting Standards

This is our first full year using IFRS. The impact on our results is shown in the table below:

| IFRS route map | Note | Recurring pre-tax profit £m | Profit after tax £m | Net asset value | NAV pence per share |
|---|---|---|---|---|---|
| UK GAAP | | 27.1 | 39.2 | 887.5 | 12.25p |
| Revaluation uplift | i | | 166.7 | | |
| Deferred tax | ii | | (10.9) | (8.2) | (0.11)p |
| No goodwill amortisation | | | 1.2 | 2.3 | 0.03p |
| Change in fair value of interest rate swaps | iii | | 23.5 | 19.8 | 0.27p |
| Tenant incentive and lease cost amortisation | iv | 2.8 | | | |
| Reclassification of non-recurring element of minority interest share of income | v | 2.6 | 2.6 | | |
| Add back negative goodwill | | | | 10.6 | 0.15p |
| Other | | (0.2) | | 1.1 | 0.02p |
| IFRS | | 32.3 | 222.3 | 913.1 | 12.61p |

(i) Revaluation gains are now included in the income statement.
(ii) Full deferred tax is included in our balance sheet, although it is added back in the EPRA definition of NAV per share.
(iii) Interest rate swaps are revalued annually in the balance sheet and the results put through the profit and loss account.
(iv) Tenant incentives are amortised over the full period of the relevant lease, not the period to the first rent review.
(v) Minority interest arising from group German operations has been reclassified as a liability.

**William Sunnucks**
Group Finance Director

## Strategy and objectives

C&R is a co-investing asset manager with teams specialising in retail and leisure property. We have three well established funds in which we co-invest, and a further two in the making. Our objective is to outperform by steadily building our business on a long-term and sustainable basis. We aim to achieve this from organic growth within the existing businesses, and from identifying and developing teams in further properties with strong economic fundamentals where active management can add value.

## Description of the business

Each of our three funds has its own specialist management team, incentivised to produce high returns for the fund investors. In each case the interests of the fund investors are represented by a fund manager.

| Our funds | Property segment | Fund manager | Property manager |
|---|---|---|---|
| The Mall | Shopping centres | Morley | CRPM team of 62 |
| The Junction | Retail parks | Morley | CRPM team of 32 |
| X-Leisure | Leisure property | Hermes | CRPM team of 32 |

Two further portfolios are in the assembly stage. We will only seek external capital for them when the portfolios have sufficient scale and track record.

| Portfolio | Property segment | Value | Dedicated team |
|---|---|---|---|
| German portfolio | Big box retail | €567m | Two from CRPM + local managers |
| FIX UK | Trade centres | £110m | Seven from CRPM |

In addition we have a number of wholly owned properties and joint ventures. These are only acquired after we have first considered whether they fall into the fund investment criteria. If they do, we offer them first to the fund but there are a number of reasons why they may not meet the fund manager's criteria. We try to restrict ourselves to ventures where our management expertise can add value. The principal ones are listed on page 34.

## Asset management and development opportunities

Our portfolios are rich in asset management opportunities which ultimately drive rental growth and investor returns. Most of these are reconfigurations and refurbishments within the existing portfolios and will generate rental growth. We also have a number of more significant development opportunities which are listed in the table below:

| Development opportunities | Total capital spending potential* | Significant developments | Significant developments 000 sq ft |
|---|---|---|---|
| Mall | £300m – £350m | Blackburn | 100 |
| | | Edgware | 250 |
| | | Wood Green | 100 |
| Junction | £250m – £300m | Thurrock | 400 |
| | | Oldbury | 460 |
| X-Leisure | £35m – £45m | Four schemes | 80 |
| Germany | c £10m | Toenisvorst | 130 |
| FIX UK | c £10m | Five schemes | 150 |
| Other retail park | £65m – £75m | Cardiff | 375 |

* Including refurbishments, reconfigurations and developments.

## Resources

The Group has the following key resources which assist in the pursuit of its objectives:

**People:** our most important resource by far. We have four largely independent divisions, each with its own CEO supported by leasing, financial and marketing expertise. Business development, tax, corporate accounting and IT are the main functions run by the corporate division. Matters of common interest are discussed at weekly meetings of the executive committee of the Board.

**Capital & Regional plc**

Executive Committee

| Shopping centres division | Retail parks division | Leisure division | Corporate division |
|---|---|---|---|
| The Mall | Junction team<br>FIX team | X-Leisure<br>Xscape<br>SNO!zone | Finance<br>IT<br>Germany |

We have 936 people employed on three payrolls: Capital & Regional Property Management for our central teams, Mall People for the At Mall teams and SNO!zone for the people employed by our ski operator at the Xscapes.

| Staff numbers | 2006 | 2005 |
|---|---|---|
| Shopping centres | 62 | 58 |
| Retail Parks including FIX UK | 32 | 24 |
| Leisure | 32 | 27 |
| Corporate | 45 | 38 |
| **CRPM employees** | 171 | 147 |
| Employed at the Malls | 274 | 288 |
| Employed at the leisure centres | 25 | 17 |
| SNO!zone employees | 466 | 217 |
| **Total** | 936 | 669 |

**Reputation and corporate culture:** over 21 years as a public company an external reputation and internal culture has developed which is believed to be an important resource. The success of Centerpoint Properties Trust, originally a C&R subsidiary, has also given C&R a reputation in the USA.

"Shrewd integrity" are two words which we use to descibe our approach to business. Our management is entrepreneurial and sometimes audacious: but we pride ourselves on setting high standards of integrity which enable us to work with the same partners over long periods.

## Brands

The Company has developed six brands as follows:

| Brand | Use |
|---|---|
| the mall | Shopping centre portfolio |
| the Junction | Retail parks portfolio |
| X-LEISURE | Leisure centre portfolio |
| XSCAPE | Leisure complexes anchored by ski slopes and cinemas |
| FIX | Trade centres |
| SNO!! | The ski operator at the three Xscapes |

## Key relationships

**Tenant relationships:** our tenant relationships are of great importance to us. Our largest individual relationships are with Cineworld in our leisure division and B&Q in our retail parks. Our shopping centre business has nearly 1,250 retailers, the largest of which is Boots which accounts for 3.1% of its rent roll. In Germany the Metro Group is an important tenant with which we are beginning to cultivate a relationship via the Hahn group.

**Fund investors:** the institutional investors holding units in our three funds provide two-thirds of the equity on which our business is built. The Mall has 45 such investors, including three from overseas. The Junction has 13 and X-Leisure has 18.

**Fund managers:** our fund managers, with whom we operate the three funds on a day-to-day basis, are also important to our business. Morley Fund Management represents investor interests on the Mall and Junction Funds, and Hermes does the same for the X-Leisure fund. The fund manager contracts are coterminous with our management contracts as follows:

| Fund | Manager | Termination date |
|---|---|---|
| Mall | Morley Fund Management | 31 December 2016 with an option for a further 5 year extension |
| Junction | Morley Fund Management | 31 December 2011 with an option for a further 5 year extension |
| X-Leisure | Hermes Investment Management | 16 March 2016 |

Our suppliers, professional firms, banks and joint venture partners also play an important and much appreciated role in our business.

## Principal risks

Any business has risks, and it is our responsibility to manage them. We have identified below seven particular risk areas of which shareholders should be aware:

- **Retail market risks:** consumer spending patterns fluctuate, and there is always the risk of a systematic downturn and major retailer failures. Our management teams are well prepared to minimise losses and fill vacancies quickly.
- **Property investment market risks:** small changes in property market yields can have a significant effect on the value of our portfolio. These issues are monitored closely by the executive team on a weekly basis and reported publicly each month in our fund unit price valuations.
- **Changes in the tax and regulatory environment:** our business could be affected by tax law changes, including those directed at overseas investors, or by the increasing burden of regulation. These risks are monitored by the Group Finance Director and Chief Executive.
- **Loss of key management:** our property management business is dependent on the active management skills of a small number of people, whose departure could adversely impact the business. This risk is mitigated by the development of a next generation of management and through the Company's long-term remuneration schemes, which defer payments for two to three years and align shareholder and management interests.
- **Development risks:** we have a substantial development programme both inside and outside our funds. This activity is subject to significant market, construction and commercial risks which we mitigate by pre-letting a high proportion of the space, and negotiating fixed price building contracts.
- **Interest rate risks:** interest rate changes impact our cash flow. We normally use interest rate swaps to hedge between 50% and 100% of the risk for an initial period of about five years.
- **Internet retailing and hypermarket diversification:** there are well publicised fears about trade diversion from traditional retail outlets to the internet and major supermarkets. We follow these trends carefully, and have ongoing research programmes that illustrate significantly differing actual purchasing habits by sector.

## Post balance sheet events

Details of the post balance sheet events are set out in Note 30 on page 82.

## "Since its formation in March 2002, the Mall has outperformed its benchmark in every year, as it has again in 2006. Our direct, active operational management approach to shopping centres continues to work well."

**Kenneth Ford,** Chief Executive – The Mall

### What is the Mall?

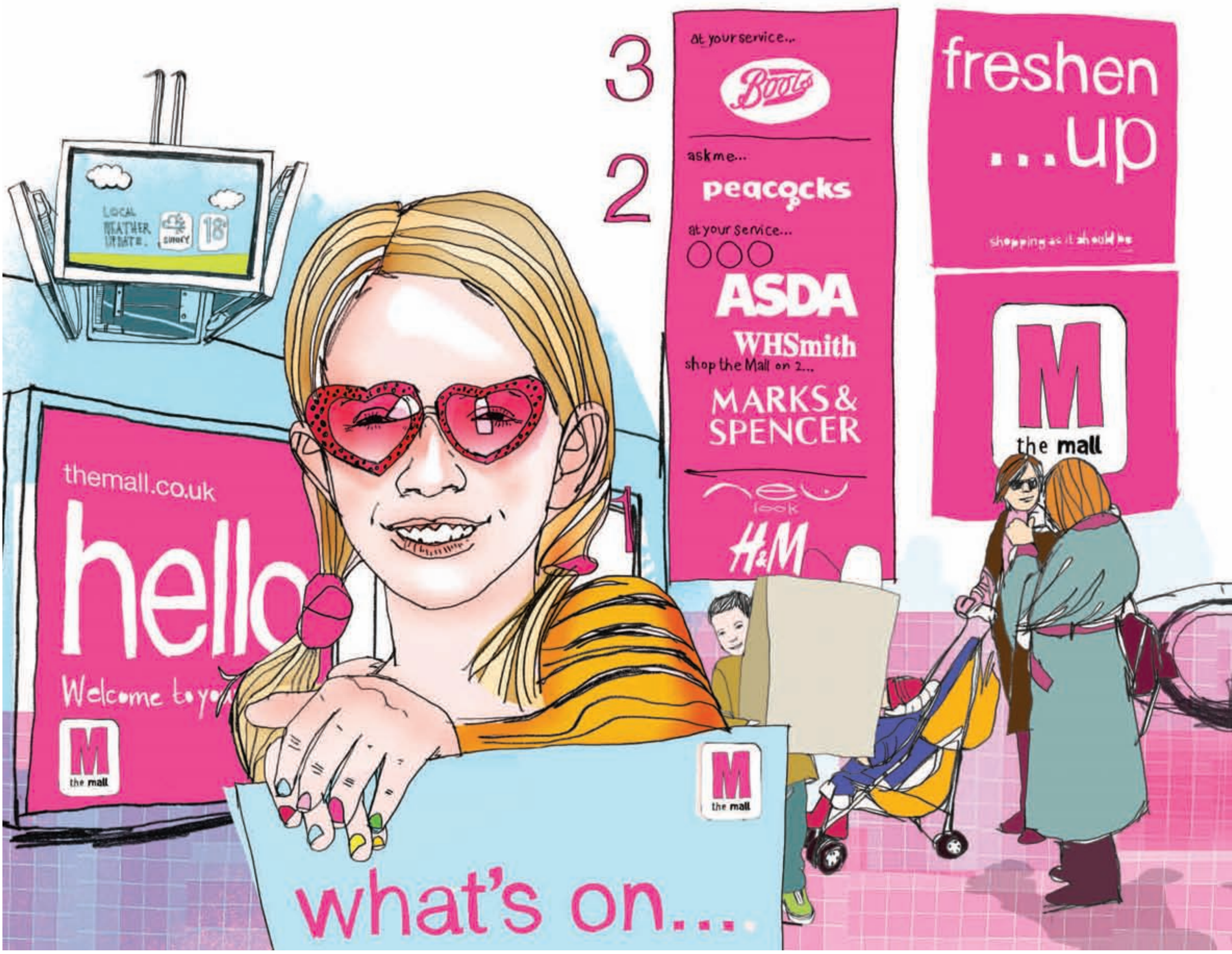
The Mall is the UK's Community Shopping Centre Brand. The Mall Fund owns and operates approximately 10% of the UK's covered retail space making it the largest portfolio of branded shopping centres in the UK. It is managed by a dedicated team of 62 from Capital & Regional's Mall Corporation.

The Fund was formed in March 2002 with just two investors – the Capital & Regional Group and clients of Morley Fund Management. New investors have come in as the portfolio has expanded, and a secondary market for the units has developed. The fund now has 45 investors, including three overseas institutions.

Our Malls have all been acquired under the following investment criteria:

- Town centre locations
- Dominant in localised town catchments or strong in metropolitan catchments
- Minimum 150,000 sq ft lettable area
- Car park or public transport facilities
- Covered, or able to be
- Tenant profile "mass market" or "value" retail
- Revenue and capital growth potential
- Value adding management opportunities

| The Mall | **At 30 December 2006** | At 30 December 2005 |
|---|---|---|
| Gross property asset value | **£3,125m** | £2,338m |
| Number of properties | **23** | 21 |
| Number of lettable units | **2,404** | 2,118 |
| Initial property yield | **4.56%** | 5.09% |
| Equivalent yield | **5.21%** | 5.73% |
| Number of investors | **45** | 36 |
| C&R share | **24.2%** | 26.1% |
| Debt | **£1,500m** | £1,062m |



### Our management approach

We regard The Mall as a business, not just a portfolio of assets. Each Mall is more than a collection of shops, it is a venue at the heart of its community. Local people serving local people. We aim to recruit General Managers with retail experience, and to place them at the centre of our operation. Each Mall has access to marketing, financial, HR, IT and surveying expertise located at our London and Glasgow offices. Our objective is to provide and promote a clean, safe and stimulating shopping environment, with the retail mix relevant to each local community. We both create the right space for retailers, and create, manage and market an exciting branded retail environment for our shoppers.

### Our strategy

There is a significant opportunity to enhance investor returns from further expansion of the portfolio. We are already seeing scale benefits in terms of financing, branding, ancillary incomes and co-operation with retailers and other commercial partners on a portfolio basis. When we buy an extra centre we have a distinct competitive edge – we can immediately link it to our management system, and take steps to improve the retail offer.

In order to raise the equity to increase the size of the portfolio, we need to continue to outperform and to further build up our management infrastructure.

**The Mall Executive team**
**From left: Kenneth Ford, Gaynor Gillespie, Mark Bourgeois, John Wood, Richard Stubbs**

## The retailer market

We have enjoyed a "business as usual" retailer market during 2006. We have seen fewer retailer failures than 2005 and footfall has held up well. We have survey evidence based on nearly 50,000 customer interviews to show that there has been an increase in spend per visit at our Malls, up 18% on 2005 on a 1.8 times per week shopping visit frequency.

In the current competitive climate we believe our relatively low unit rental (average unit rent £69,000 pa) coupled with the cost effective Mall direct management approach, enables retailers to trade profitably at Mall locations.

## Top five Mall tenants by rental income

| | No of units | % of rent |
|---|---|---|
| Boots | 20 | 3.06 |
| Arcadia | 37 | 3.01 |
| Clinton Cards | 33 | 2.48 |
| Superdrug | 18 | 1.90 |
| Woolworths | 10 | 1.88 |

## The shopping centre investment market

There has been debate about whether the low yields are sustainable in the long term. One view is that the fall in equivalent yields from 7.3% in 2000 to 5.3% will now reverse, especially now that interest rates are rising. An alternative view would suggest that yields have fallen in line with real returns available on other real asset classes. While yields on index linked gilts remain at 1.5%-2%, shopping centre yields of 4-5% are easily justifiable.

## Acquisitions and disposals

In January 2006 the Mall completed the purchase of four shopping centres for a total of £535 million in Luton, Uxbridge, Redhill and Bradford, all sourced off market. It sold Redhill and Bradford shortly after purchase as it was judged these centres would not contribute positively to investor returns.

## Our performance pipeline

Our 2007 business plan includes capital expenditure of £347 million over the next five years. This statistic illustrates the volume of asset management opportunities within the portfolio – our performance pipeline. Even the centres we have owned the longest, at Aberdeen (first acquired by C&R in 1993) and Wood Green (1996), are still generating new opportunities.

These opportunities are driven by continuing changes in retail formats. Some chains are growing with new formats, others declining and willing to give up space. Changes in supply chain management have meant that traditional service yards and storage areas are becoming redundant and can be converted to revenue generating space. Expansion opportunities can also arise through the acquisition of neighbouring properties.

This capital expenditure envisaged is relatively low risk. Where possible we build to demand with a substantial element of preletting. Our construction contracts are in the main fixed price. In consultation with The Mall Fund Manager, our appraisal regime estimates the required returns before the expenditure is undertaken.

## Fund debt

The financial strength of the Mall is clearly illustrated by its success in the bond market. In May 2005 it issued £1,066 million of Mall Bonds which were rated AAA by all three rating agencies. In September 2006 a further £375 million were issued. The interest rates payable on these issues were Libor +0.18% and +0.19% respectively, offering investors a significant saving over bank debt.

The fund has also used interest rate swaps to fix its interest on £1,260 million of its debt for an average period of 5.5 years, giving it a weighted average cost of debt of 5.09%.

## Corporate structure

The Malls are owned by a limited partnership, which is managed by Morley Fund Management and Capital & Regional Property Management through the General Partner. The Limited Partner interests are held by The Mall Jersey Property Unit Trust, resident in Jersey. Units at this level can be traded without payment of Stamp Duty Land Tax, or any other transfer taxes.

The Mall's debt is sourced through Mall Funding plc, a securitisation vehicle, which issues bonds and lends the proceeds on to the Mall. The bonds are quoted on the Irish Stock Exchange.

## Performance

| Fund performance over the last three years | Geared return (IRR) | Ungeared return (IRR) | Benchmark return (IRR) |
|---|---|---|---|
| Mall 2004 | 26.0% | 19.6% | 17.1% |
| Mall 2005 | 22.8% | 16.5% | 16.3% |
| Mall 2006 | 26.3% | 17.6% | 12.7% |

The Mall Fund has outperformed its benchmark in every year since its formation, sometimes by significant amounts. This continued in 2006 with an ungeared return nearly 5% above the benchmark. Fund investors enjoyed a geared return of 26.3%.

## The Mall properties

| Shopping centres | Description | Size (sq ft) | Car park spaces | Principal occupiers | Number of lettable units |
|---|---|---|---|---|---|
| **Valued at £50 million to £100 million** | | | | | |
| The Mall, Aberdeen | Freehold single level covered shopping centre. | 190,000 | 400 | Debenhams, Argos, HMV, Superdrug and Ottakers | 36 |
| The Mall, Barnsley | Leasehold covered shopping centre on two floors. | 180,000 | 519 | TK Maxx, Peacocks, Next, Primark and Woolworths | 49 |
| The Mall, Edgware | Freehold single level covered shopping centre. | 192,000 | 1,100 | Marks & Spencer, Sainsbury's, WH Smith, Next, Boots and HMV | 55 |
| The Mall, Gloucester | Leasehold covered shopping centre, on two floors. | 191,000 | 400 | H&M, Marks & Spencer, Woolworths, USC, Republic, Sports Soccer, Market and MK One | 73 |
| The Mall, Romford | Leasehold covered shopping centre on three floors. | 180,000 | 1,000 | Asda, Wilkinson, Peacocks, McDonalds, Toni & Guy and Superdrug | 54 |
| The Mall, Southampton | Freehold covered shopping centre on two floors. | 201,000 | 810 | Matalan, Fopp Records, The Disney Store and Poundland | 93 |
| The Mall, Walthamstow | Leasehold covered shopping centre on two floors. | 260,000 | 870 | Asda, BHS, Boots, Dixons, HMV, Top Shop and Top Man | 71 |
| **Valued at £100 million to £150 million** | | | | | |
| The Mall, Bexleyheath | Leasehold single level covered shopping centre. | 423,000 | 800 | M&S, Bhs, Woolworths, WH Smith, Boots, HMV and Next | 90 |
| The Mall, Epsom | Leasehold single level covered shopping centre with 55,000 sq ft of offices. | 372,000 | 800 | Dickins & Jones, Marks & Spencer, Waitrose, Superdrug, WHSmith, H&M and HMV | 93 |
| The Mall, Falkirk | Freehold covered shopping centre, on two floors. | 170,000 | 400 | Marks & Spencer, Debenhams Desire, Argos, Woolworths, River Island, Boots and HMV | 72 |
| The Mall, Ilford | Freehold covered shopping centre on three floors. | 290,000 | 1,200 | Marks & Spencer, Debenhams, HMV, TK Maxx, WH Smith and Woolworths | 105 |
| The Mall, Preston | Freehold covered shopping centre on three floors. | 287,000 | 400 | Marks & Spencer, H&M, Superdrug, New Look, Wallis, Vision Express and WH Smith | 116 |
| The Mall, Uxbridge | Leasehold single level covered shopping centre with 40,000 sq ft of offices. | 480,000 | 1,150 | Marks & Spencer, Tesco, TK Maxx, Peacocks and Wilkinson | 120 |
| **Valued at £150 million plus** | | | | | |
| The Mall, Blackburn | Leasehold partially covered shopping centre on three floors. | 505,000 | 1,078 | Debenhams, Tesco, Boots, Argos, BHS and Woolworths | 156 |
| The Mall, Bristol | Leasehold covered shopping centre on three floors. | 339,000 | 1,000 | TK Maxx, Boots, Argos, Woolworths, WH Smith, Waterstones and Virgin | 160 |
| The Mall, Camberley | Part leasehold covered shopping centre on one floor. | 394,000 | 1,040 | Argos, Army & Navy, Boots, Littlewoods, Sainsburys and Woolworths | 186 |
| The Mall, Chester | Leasehold single level covered shopping centre. | 242,000 | 521 | Debenhams, River Island, H&M, Laura Ashley, Principles, Top Shop, Top Man and The Pier | 121 |
| The Mall, Luton | Leasehold covered shopping centre on two floors, offices extending to over 65,000 sq ft. | 892,000 | 2,300 | Debenhams, Boots, HMV, Next, Top Shop and Top Man | 163 |
| The Mall, Maidstone | Freehold covered shopping centre, on three floors with offices extending to 40,000 sq ft. | 550,000 | 1,050 | Boots, BHS, TJ Hughes and Wilkinson | 119 |
| The Mall, Middlesbrough | Freehold single level covered shopping centre with offices extending to over 50,000 sq ft. | 423,000 | 550 | Boots, BHS, WHSmith, Top Shop, New Look, George and H&M | 95 |
| The Mall, Norwich | Freehold covered shopping centre on six floors. | 371,000 | 800 | Argos, Boots, H&M, TK Maxx, George, Mothercare, New Look, Virgin Megastore and Vue Cinemas | 124 |
| The Mall, Sutton Coldfield | Freehold partially open shopping centre on a single level with offices extending to approximately 30,000 sq ft. | 550,000 | 960 | House of Fraser, BHS, Marks & Spencer, Woolworths, Boots, Argos and WH Smith | 130 |
| The Mall, Wood Green | Freehold, partially open shopping centre, on two floors with nearly 40,000 sq ft of offices. | 617,000 | 1,500 | Cineworld, Pearsons Department Store, TK Maxx,Wilkinson, Peacocks, Woolworths, HMV, Boots, Argos and WH Smith | 123 |

"During 2006 we commenced a series of initiatives to reposition the portfolio, creating a strong base for future growth in what we anticipate will be a changing retail park market. The initiatives included portfolio restructuring, investment in the properties and an increasing development exposure."

**Andy Lewis-Pratt,** Chief Executive – The Junction

### What is the Junction?

The Junction Fund is a specialist retail warehouse fund with a dedicated in house management team. It owns a £1.6 billion retail park portfolio which includes significant development opportunities. The investment criteria are:

- At least 80,000 sq ft multi-let retail park, freehold or long leasehold.
- Planning consent for open A1, bulky goods or a mix thereof.
- Value enhancement opportunities.
- Either the dominant scheme in local catchment, or ability to become so.

| The Junction | At 30 December 2006 | At 30 December 2005 |
|---|---|---|
| Gross property asset value | **£1,590m** | £1,459m |
| Number of retail parks | **16** | 19 |
| Number of units | **233** | 258 |
| Initial property yield | **3.29%** | 3.50% |
| Equivalent yield | **4.45%** | 4.87% |
| Number of Investors | **13** | 7 |
| Capital & Regional share | **27.3%** | 27.3% |
| Bank debt | **£696m** | £686m |

**Market segments**
Retail warehousing can be split into four categories:

**Fashion parks:** These properties have open A1 planning (this consent allows any sort of retailing), are occupied predominately by typical high street fashion retailers and are a dominant retail destination.

**Prime retail parks:** These properties have open A1 or bulky goods planning (or a mixture of the two). Bulky goods consent generally allows the sale of goods that cannot easily be carried away by the customer with occupiers typically including DIY chains such as B&Q and Homebase, furniture and carpet retailers and electrical outlet stores.

Retail parks with open A1 planning often have a mixture of bulky goods and open A1 retailers, with the latter including operators who only tend to trade out of town. The properties are also well located and are dominant within their catchment or capable of dominance.

The open A1 units will remain easier to let and thus we expect further rental growth from this expanding market. There is an oversupply of bulky goods space as new space has been built and tenants have consolidated but we anticipate rental growth can be achieved through a number of initiatives that we have identified on a location by location basis.


**The Junction team**
From left: Andrew Lewis-Pratt, James Boyd-Phillips, Graham Inglis, John Gatley

**Secondary retail parks:** These properties in most cases have a bulky goods consent, have vacant space and are dominated by competing schemes.

**Solus units:** These properties are single let properties and tend to have a bulky goods consent.

The Junction Fund has never had solus units, although these are in its benchmark index.

During 2006 The Junction sold the retail parks it considered to be secondary, and now has a portfolio of more dominant parks which are positioned for future market developments.

## Market developments

The out-of-town retail park sector has seen strong returns for 2006 as weight of money and investor demand continued to support a number of deals at high prices, particularly during the summer. Investors were attracted to the sector as sustained rental growth for retail warehousing was still anticipated. However, we believe the investment market is now changing, particularly with the potential for yields on secondary stock to weaken.

Opportunities for rental growth are seen to be strongest for fashion parks. Rental growth will also be seen in prime retail parks which benefit from either an open A1 or bulky goods planning consent. Little or no growth in rents is anticipated for solus and secondary properties due to vacancies and lack of tenant demand.

## Top five tenants by rental income

| | Units | % |
|---|---|---|
| 1 B&Q | 6 | 14.53% |
| 2 DSG Retail | 12 | 7.56% |
| 3 Comet | 11 | 5.80% |
| 4 Wickes | 4 | 5.75% |
| 5 Homebase | 3 | 4.49% |

## Development and reconfiguration opportunities

These exist throughout the portfolio. Our 2007 business plan shows capital expenditure in excess of £200 million over the next three years. This can be split between:

- Refurbishments, where space is upgraded for existing tenants e.g. Portsmouth.
- Reconfigurations, where we change the tenant mix, and build new space to suit the requirements of new tenants e.g. Oxford.
- Redevelopments. We have two major schemes in gestation, one in Oldbury and one in Thurrock.

Refurbishments and reconfigurations are normally low risk, as we have pre-lets in place and a fixed price building contract. Our in house development team manages risk on the developments carefully, and will not go ahead without an acceptable level of pre-let, fixed-price building contracts and appropriate development finance.

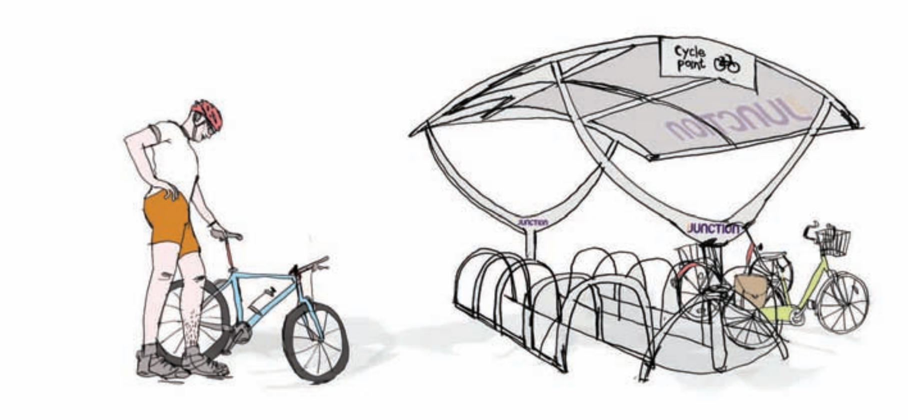
**Oldbury:** The scheme comprises 460,000 sq ft of planning consent covering retail warehousing, food and beverage, leisure and offices. A revised consent was secured at the end of 2006. Site assembly is continuing with the majority of the remaining acquisitions under contract. Pre-letting has commenced with 25% contracted or in negotiation and a construction start targeted for Q3, 2007.

**Thurrock:** The property currently comprises over 400,000 sq ft of existing retail warehousing. A major redevelopment opportunity is being progressed for our existing holding and an adjacent site. However, this is unlikely to commence until late 2008.

## Performance

The Fund is benchmarked against the IPD retail parks index, which includes a number of fashion parks which performed strongly in 2006. The Fund slightly outperformed for the year showing investors like for like rental growth of 3.6%, a highly satisfactory geared return of 18.3% and outperformance over a rolling three year period.

| Fund performance over the last three years | Geared return (IRR) | Ungeared return (IRR) | Benchmark return (IRR) |
|---|---|---|---|
| Junction 2004 | 35.6% | 24.0% | 23.5% |
| Junction 2005 | 34.1% | 23.3% | 22.1% |
| Junction 2006 | 18.3% | 15.0% | 14.7% |




## The Junction properties

| Retail park | Description | Size (sq ft) | Car park spaces | Principal occupiers | Number of lettable units |
|---|---|---|---|---|---|
| **Valued at below £50 million** | | | | | |
| Renfrew Retail Park, Renfrewshire | Mixed retail warehouse and industrial scheme. | 57,089 | n/a | Pets at Home | 4 |
| Broadwell Industrial Estate, Oldbury | Development site with retail and leisure consent. | 37,065 | n/a | n/a | 6 |
| The Junction Blackpole Retail Park, Worcester | Retail warehouse park. | 89,270 | 514 | Comet, LIDL, Carpetright, DSG | 8 |
| **Valued at £50 million to £100 million** | | | | | |
| The Junction Ocean Retail Park and Victory Industrial Estate, Portsmouth | Retail warehouse park with adjacent industrial estate. | 227,099 | 705 | Homebase, DSG, Halfords, Toys R Us | 17 |
| The Junction Great Western Retail Park, Glasgow | Retail warehouse park, located adjacent to a Sainsbury's supermarket and opposite a leisure park. | 184,785 | 1,518 | B&Q, DSG, JJB, SCS | 10 |
| The Junction Abbotsinch Retail Park, Paisley | Retail warehouse park. | 184,581 | 649 | B&Q, DFS, Comet, Land of Leather | 6 |
| The Junction St Georges Retail Park, Leicester | Open A1 retail warehouse park. | 169,372 | 512 | DSG, Next, Toys R Us, Mothercare | 12 |
| The Junction Kittybrewster Retail Park, Aberdeen | Retail warehouse park benefiting from open A1 non-food planning permission. | 141,677 | 883 | TK Maxx, Halfords, Sportsworld, DFS | 13 |
| The Junction Templars Retail Park, Oxford | Retail warehouse park with the benefit of open A1 non-food planning permission. | 136,685 | 485 | B&Q, Halfords, Comet, TK Maxx | 6 |
| The Junction Cambridge Close Retail Park, Aylesbury | Retail warehouse park. | 193,323 | 650 | Wickes, Comet, Argos, Sportsworld | 15 |
| The Junction Wembley Retail Park, Wembley | Located directly north of the new National Stadium, the scheme comprises an industrial and retail warehouse park. | 255,795 | 452 | MFI, Carpetright, Comet, Halfords | 27 |
| The Junction Slough Retail Park, Slough | Retail warehouse park. | 152,929 | 546 | Homebase, Wickes, DFS, Land of Leather | 7 |
| **Valued at £100 million to £150 million** | | | | | |
| The Junction South Aylesford Retail Park, Maidstone | Retail warehouse park. | 167,280 | 551 | Homebase, Comet, BHS, Halfords, Currys | 10 |
| The Junction Morfa Retail Park, Swansea | Retail park with planning consent for bulky, open A1 non-food, food, A3 units and leisure. | 332,912 | 1,074 | B&Q, TK Maxx, Next, New Look, Sportsworld | 16 |
| The Junction Telford Forge Retail Park, Telford | Open non-food A1 retail warehouse park. | 312,857 | 1,343 | Next, Tesco Home Plus, Arcadia, TK Maxx, Boots | 19 |
| The Junction Imperial Park, Bristol | Retail warehouse park with a mixture of bulky and open A1 non-food planning. It has planning permission for further development. | 281,449 | 1,200 | B&Q, Woolworths, Tesco Home Plus, JJB, Argos | 10 |
| The Junction St Andrew's Quay, Hull | Retail warehouse park. | 350,571 | 1,315 | B&Q, DFS, Comet, DSG | 24 |
| **Valued at above £150 million** | | | | | |
| The Junction West Thurrock Retail Park, Essex | Open A1 non-food retail park. | 461,449 | 1,646 | Decathlon, Asda Living, TK Maxx, Furniture Village | 23 |

"2006 was an outstanding year for us, with a consistent performance across the portfolio. Leisure destinations have grown phenomenally in popularity over the past few years, both with consumers and investors."

**PY Gerbeau,** Chief Executive – X-Leisure

| X-Leisure | At 28 February 2007 (est.) | At 30 December 2006 | At 30 December 2005 |
|---|---|---|---|
| Gross property asset value | **£917m** | £807m | £702m |
| Number of properties | **18** | 17 | 17 |
| Number of units | **350** | 285 | 283 |
| Initial property yield | **4.86%** | 4.99% | 5.68% |
| Equivalent yield | **5.58%** | 5.94% | 6.32% |
| Number of Investors | **18** | 18 | 17 |
| C&R share | **20.0%** | 10.6% | 10.7% |
| Bank debt | **£444m** | £403m | £395m |

### What is the X-Leisure Fund?

The X-Leisure Fund is the largest UK specialist fund investing in leisure property. It has been built up using the following investment criteria:

- 50% or more of rental income generated from leisure operators.
- Either is, or is able to be, anchored by a cinema.
- Potential to become the major park in the catchment.
- Active management opportunities or latent performance potential to deliver required performance.

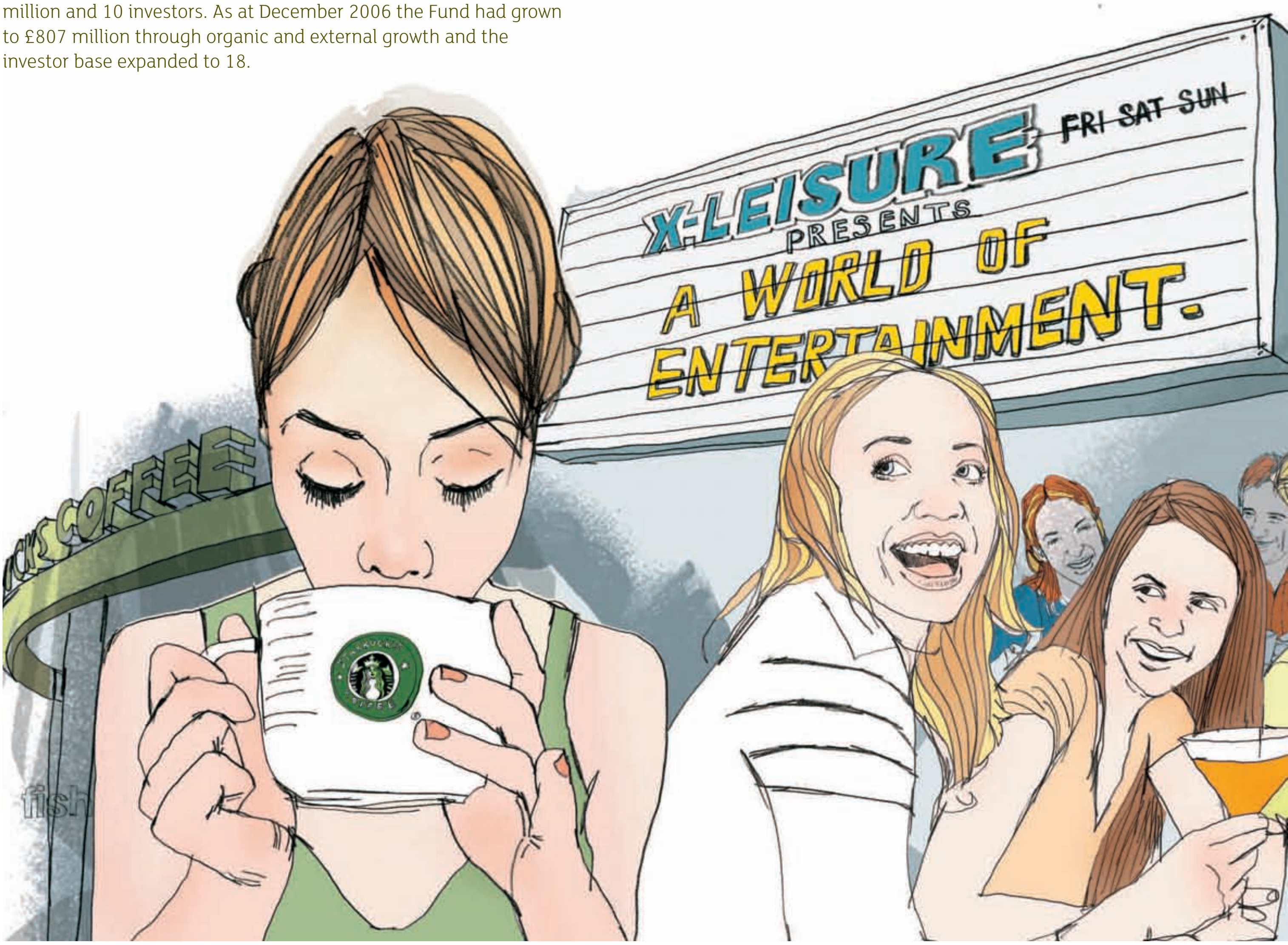
The Fund was created in 2004 through the amalgamation of three leisure funds previously set up and managed by Marylebone Warwick Balfour. Capital & Regional Property Management was appointed Property and Asset Manager and Hermes Investment Management Limited Fund Manager.

At inception the Fund had assets under management of £503 million and 10 investors. As at December 2006 the Fund had grown to £807 million through organic and external growth and the investor base expanded to 18.

### Management approach

The specialist leisure team at C&R brings a range of skills to the portfolio, not just active property management. Three members of the team have previously worked on Eurodisney, Paris and on the turnaround phase of the London Dome. Their operational skills and "destination" expertise are proving invaluable in the management of the portfolio and the enhancement of the visitor experience.

The Marketing and Events function is delivered in totality by an "in house" team with creative, marketing, events and production backgrounds. As a result none of the valuable marketing budget is expended on external agents and consultants in either the strategy or delivery process. The entire budget can be directed at the destination, and limited marketing budgets are therefore stretched to their maximum delivering full programmes of footfall enhancing events and promotions, and awareness raising campaigns.



The benefit of such a specialist non-property team as well as the dedicated and experienced property team, with their exceptionally strong tenant relationships, is demonstrated by the enhanced performance that has been delivered under their management.


**Portfolio activity**

**Cinemas:** During 2006 the Fund made two cinema acquisitions, both just under £10 million. One in Sixfields, Northampton was subsequently sold at a profit as the neighbouring leisure interests could not be acquired, and a lone cinema unit doesn't meet our investment criteria. However the second, in the heart of the Fund's ownership in Brighton Marina, was important to ensure the continued positioning of the cinema as the dominant multiplex in Brighton and Hove and importantly to facilitate the larger residential developments planned for the Marina.

**The X-Leisure team**
From left: PY Gerbeau, Pierre Hardy, Arnaud Palu, Robert Warner, Polly Farrell, Alastair Bell

**Xscapes:** In February 2007, the Fund acquired Xscape, Milton Keynes and Xscape, Castleford through a part cash and part unit deal with a total transaction value of £192 million. These are considered to be two of the best leisure destinations in the UK and will greatly enhance the Fund's portfolio.

For C&R this was a merger of its interests in three separate holdings into one. It accepted units in exchange for its partnership interests and as a result has increased its interest in the Fund from 10.6% to 20.0%

**Star City:** In December 2006, the Fund exchanged contracts for the sale of Star City, Birmingham for £85.5 million. Completion took place in January 2007 at a price well ahead of valuation and showing a £13.7 million gain over its March 2004 value. This disposal was in line with the Fund's active management strategy and reduced its asset weighting in the Midlands area.

**Rent reviews:** across the portfolio 26 rent reviews were settled and 23 new leases completed. The reviews averaged 9.14% more than the December 2005 rental value. Rental value growth has also been strong across the portfolio, especially for restaurants and bars. The total rental value of the portfolio across all sectors, on a like for like basis, but including new developments, increased by 3.64% over the 12 month period.

**Voids:** the portfolio continues to enjoy relatively low voids and as at December 2006 vacancies represented 3.19% of estimated rental value. This compares favourably with the IPD Universe where voids stand at 6.3% of rental value.

## Top five X-Leisure tenants by rental income

| Tenant | Number of units | Net income % |
|---|---|---|
| Cine UK | 9 | 15.1% |
| Vue | 3 | 7.1% |
| Odeon | 3 | 4.3% |
| Spirit Group Retail Limited | 6 | 2.4% |
| Tenpin Ltd | 3 | 2.4% |

Note: the table excludes:-
i) Homebase and Sainsburys leases at O2, Finchley
ii) Star City, now sold

## The commercial leisure property market

We have a positive sentiment towards commercial leisure property and believe that the sector will continue to benefit from yield compression in 2007. Indeed two early transactions in 2007 demonstrate that there could be further yield compression within the leisure sector.

We do not expect the restaurant sector to suffer materially from the indoor smoking ban that comes into force on 1 July 2007. Undoubtedly the bars and nightclubs will face challenges and we are addressing this by the construction, wherever feasible, of outdoor space.

The bowl sector has been attracting attention from the venture capitalist funds and after a few years of limited competition for sites and therefore limited or negative rental growth, the right sites matching the operators' requirements are now commanding competition which is fuelling rental growth. We believe this is likely to continue into 2007.

As always, relative outperformance will come from asset management and the underlying key fundamentals of location, building and supply. The focus for the team is to deliver on the initiatives within the business plan which add rental income and rental value and ensure continued capital growth without a reliance on yield compression to deliver performance.

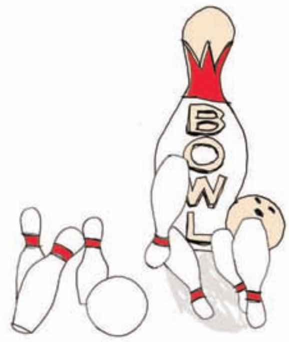
## Performance

There is no directly comparable leisure benchmark, and we therefore set an absolute performance hurdle of 12% as our objective.

In 2006, the X-Leisure Fund delivered its strongest performance to date at 30.4% for the year to December 2006. This positions the Fund in the top quartile of both the AREF and IPD universe.

Since inception in March 2004, the Fund has consistently outperformed the hurdle benchmark of 12% per annum at both geared and ungeared levels.

| Fund performance over the last three years | Geared return (IRR) | Ungeared return (IRR) | Benchmark return (IRR) |
|---|---|---|---|
| X-Leisure 2004 (nine months) | 18.0% | 11.4% | 8.9% |
| X-Leisure 2005 | 28.3% | 15.3% | 12.0% |
| X-Leisure 2006 | 30.4% | 19.7% | 12.0% |




## The X-Leisure properties

| | Description | Size (sq ft) | Principal occupiers | Number of lettable units |
|---|---|---|---|---|
| **Valued at less than £25 million** | | | | |
| Lockmeadow, Maidstone | This destination is home to the 700 year old Maidstone Lockmeadow Market as well as many leisure facilities. | 139,780 | Odeon Cinema, Luminar Leisure, David Lloyd | 10 |
| Queen's Links, Aberdeen | This leisure park, adjoining The Beach Esplanade, features a cinema, bingo and numerous restaurants. | 128,081 | Cine UK, Gala | 9 |
| Bentley Bridge, Wolverhampton | Comprises a multiplex cinema, bars and restaurants. | 108,843 | Cine UK, | 9 |
| Boldon Leisure Park, Tyneside | Cinema & restaurant complex adjacent to Asda. | 53,592 | Cine UK, McDonalds, Frankie & Bennys | 3 |
| **Valued at £25 million to £50 million** | | | | |
| Fountain Park, Edinburgh | Edinburgh's premier leisure destination. | 232,997 | Cine UK, Tenpin, Virgin Active, Mecca Bingo, Stanley Casinos | 12 |
| West India Quay, Docklands London (50%) | This listed building contains bars, restaurants, multiplex cinema, health and fitness centre and the Museum of Docklands. | 70,857 | Cine UK, LA Fitness, | 17 |
| Grants, Croydon | This restored listed building contains a multiplex cinema, bars, nightclubs and restaurants. | 149,002 | Vue Cinema, Holmes Place | 10 |
| Parrs Wood, Manchester | This centre has a mixture of facilities, including family restaurants, health and fitness, bowling, multiplex cinema, bingo, and a hotel. | 234,286 | Cine UK, Holmes Place, Ten Pin | 11 |
| Eureka Park, Ashford | This centre comprises multiplex cinema, family restaurants, health and fitness, a nursery and a hotel. | 101,826 | Cine UK, Travelodge, Living Well | 9 |
| Tower Park, Poole | Comprises a range of attractions, including a multiplex cinema, bingo, bowling, a water park and family restaurants. | 206,148 | Empire, Bowlplex, LA Fitness | 16 |
| Cambridge Leisure Park, Cambridge | This centre has a multiplex cinema, health club, bowling, a hotel and range of bars and restaurants. | 147,024 | Cine UK, LA Fitness, Tenpin | 20 |
| Great North Leisure Park, North Finchley, London | Comprising a multiplex cinema, bowling, restaurants and a swimming pool. | 88,185 | Vue Cinema, Hollywood Bowl | 7 |
| **Valued at £50 million plus** | | | | |
| Star City, Birmingham* | Featuring the UK's largest multiplex cinema and largest casino in Europe, a health and fitness club, restaurants, bars, lifestyle retail and family entertainment. | 392,985 | Vue Cinema, Ten Pin, Stanley Casino, Holmes Place | 30 |
| 02, Finchley Road, London | This "great outdoors" themed centre houses the largest free indoor aquarium in the UK. | 271,620 | Vue Cinema, Sainsburys, Esporta | 23 |
| Brighton Marina, Brighton | The marina combines a mix of retail, leisure and residential, a working harbour and yacht moorings. | 339,325 | Cine UK, Bowlplex, David Lloyd | 75 |
| Riverside, Norwich | This entertainment centre comprises bars, restaurants, nightclubs, multiplex cinema and bowling. | 197,638 | UCI, Hollywood Bowl, Luminar Leisure | 13 |
| Fiveways, Birmingham | In central Birmingham, Fiveways comprises a cinema, casino, restaurants and late night bars. | 186,345 | Cine UK, Grosvenor Casino | 11 |

* As at 30 December 2006 the sale of Star City had exchanged but did not complete until 15 January 2007.

"In 2006 we were delighted to more than double the size of our German portfolio and with the returns we produced. We have expanded our UK based management team which will drive growth and management opportunities in the future."

Xavier Pullen

**Our German portfolio:**

We acquired our first German assets in 2005. Our portfolio has now increased to €567 million comprising 44 properties. Our investment criteria have been:

- Established out-of-town retail locations.
- Large stand-alone hypermarkets and retail parks with sales area of more than 3,500 sq m (current average 9,200 sq m) with substantial land and car parking.
- Strong covenants.
- Shorter leases preferred leading to asset management opportunities.

| German portfolio | **At 30 December 2006** | At 30 December 2005 |
|---|---|---|
| Gross property asset value | **€567m** | €198m |
| Number of properties | **44** | 13 |
| Initial property yield (inc development land) | **6.0%** | 6.6% |
| C&R share | **92.2%** | 87.4% |
| Bank debt | **€419m** | €149m |

**Why Germany?**

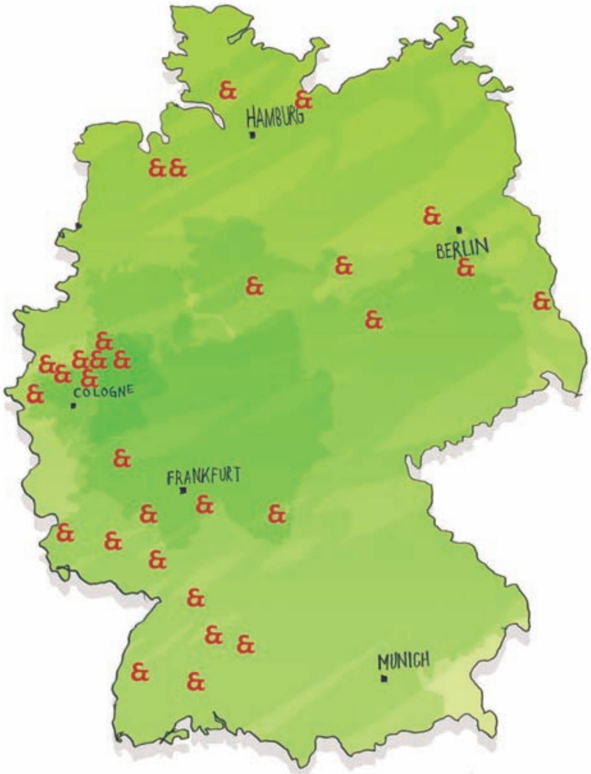
Our expansion into Germany has been management led and focused on a specific market segment. We identified the expertise of the Hahn Group and this led to the focus on big box edge-of-town retail, which has the following attractions:

- Severe restrictions on further out-of-town development.
- Good tenant covenants and long leases.
- Index linked rents.
- High yield off low rental value base.

We are continuing to expand the portfolio, and we will look at ways of accessing third-party equity when the scale of the portfolio and our track record permit.

## Our main tenants

Our German out-of-town retail investments differ markedly from our UK portfolio. We have concentrated on stand-alone retail units with the emphasis mainly on food stores and some DIY.




## German portfolio includes

Aachen-Brand
Selm
Leipheim
Kirchheimbolanden
Heide
Balingen
Köln Gremberg
Brühl
Herne
Sinzheim
Ingelheim
Lübeck
Sobernheim
Leverkusen
Bochum
Dortmund
Mörfelden
Hoesbach
Trier-Kenn
Oschersleben
Stadthagen
Tönisvorst
Krefeld
Elchingen
Bremen (Haferwende)
Cottbus-Gallinchen
Rangsdorf
Bremen
Magdeburg
Velten
Bonn-Beuel

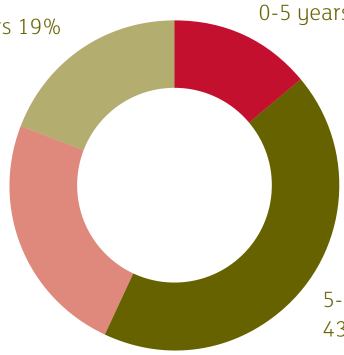

**The Germany team**
From left: Xavier Pullen, Wilhelm zu Wied, Christoph Friedrich

## Top four tenants by floorspace

| Principal tenants | % floorspace |
|---|---|
| Metro and subsidiaries (Real, Extra) | 29.4% |
| AVA & Edeka (Linked Co-operatives) | 6.6% |
| Praktiker | 7.1% |
| Plaza (Coop Schleswig Holstein) | 8.4% |
| Others | 48.5% |
| | 100.0% |

When Walmart sold its German business in 2006 our four Walmart stores were absorbed by the German retail giant Metro and are currently being rebranded as Real stores. As a result our portfolio covenant exposure to the Metro Group increased by 13% to 29.4%.

## Lease length distribution




## Market conditions

There are signs that consumer spending is increasing, initially boosted by the 2006 World Cup. The 3% increase in VAT was a potential setback but it seems to have been absorbed by retailers and consumers alike.

Since we started investing, values have risen substantially, driven by an influx of overseas capital. We are continuing to see interesting opportunities from which we can achieve attractive returns.

## Asset management opportunities

With our team and our partners, we are now well equipped to drive our German expansion forward.

Examples of two of the larger opportunities are as follows:

- At Lubeck we co-operated with a tenant on an expansion and refurbishment project. We invested a total of €13.76 million, increasing the passing rent, and adding significantly to the value of our investment.
- At Tönisvorst near Dusseldorf we have acquired a 17 hectare site including a brand new state of the art retail park anchored by Real (Metro) with additional land which gives substantial scope for further development over time. We are talking to potential tenants and occupiers on parts of the land, whilst working with the local authority to further enhance this superior location.

## Performance

The performance of our German portfolio is shown below:

| Portfolio performance 2006 | Geared return (IRR) | Ungeared return (IRR) | Benchmark return (IRR) |
|---|---|---|---|
| German portfolio | 34.2% | 15.2% | n/a |


## Germany properties

| Location | Principal tenant | Area (sq m) | C&R share |
|---|---|---|---|
| 13 non-core properties with individual values less than €3m | | 22,596 | 100% |
| **Valued at €3m to €10m** | | | |
| Aachen brand | Praktiker | 2,786 | 85.41% |
| Kirchheimbolanden | Hit | 2,473 | 85.41% |
| Leipheim | Edeka | 3,222 | 83.70% |
| Selm | Edeka | 3,602 | 85.41% |
| Heide | Marktkauf | 4,620 | 85.41% |
| Leverkusen | Edeka | 4,999 | 90% |
| Bonn Beul | Metro | 5,820 | 100% |
| Bremen | Extra | 2,381 | 100% |
| Magdeburg | Edeka | 2,954 | 100% |
| Velten | Rewe | 2,845 | 100% |
| **Valued at €10m to €20m** | | | |
| Balingen | Toom | 7,457 | 85.41% |
| Herne | Toom | 7,412 | 90% |
| Köln Gremberg | Real | 8,986 | 90% |
| Ingelheim | Real | 10,245 | 90% |
| Brühl | Real | 20,187 | 85.41% |
| Oschersleben | Marktkauf | 10,484 | 80.82% |
| Bochum Langendrer | Kaufland | 6,388 | 76.05% |
| Sobernheim | Real | 7,387 | 83.61% |
| Hösbach | Globus | 12,838 | 90% |
| Stadthagen | Hagebau | 10,913 | 90% |
| Elchingen | Real | 7,433 | 100% |
| **Valued at €20m to €50m** | | | |
| Sinzheim | Real | 16,536 | 90% |
| Moerfelden | REWE | 12,763 | 90% |
| Lübeck | Plaza | 29,077 | 90% |
| Trier – Kenn | Real | 11,634 | 90% |
| Bremen Haferwende | MGL | 54,391 | 100% |
| Cottbus | Praktiker | 29,884 | 100% |
| Rangsdorf | Roller | 18,506 | 100% |
| Krefeld | Praktiker | 11,697 | 100% |
| **Valued at €50m to €100m** | | | |
| Dortmund | Real | 37,166 | 85.32% |
| Tönisvorst | Real | 18,917 | 100% |

"We are building our FIX UK trade centre portfolio and are very encouraged by the reception we are getting from existing and new tenants alike. We see great opportunities to expand our operations."

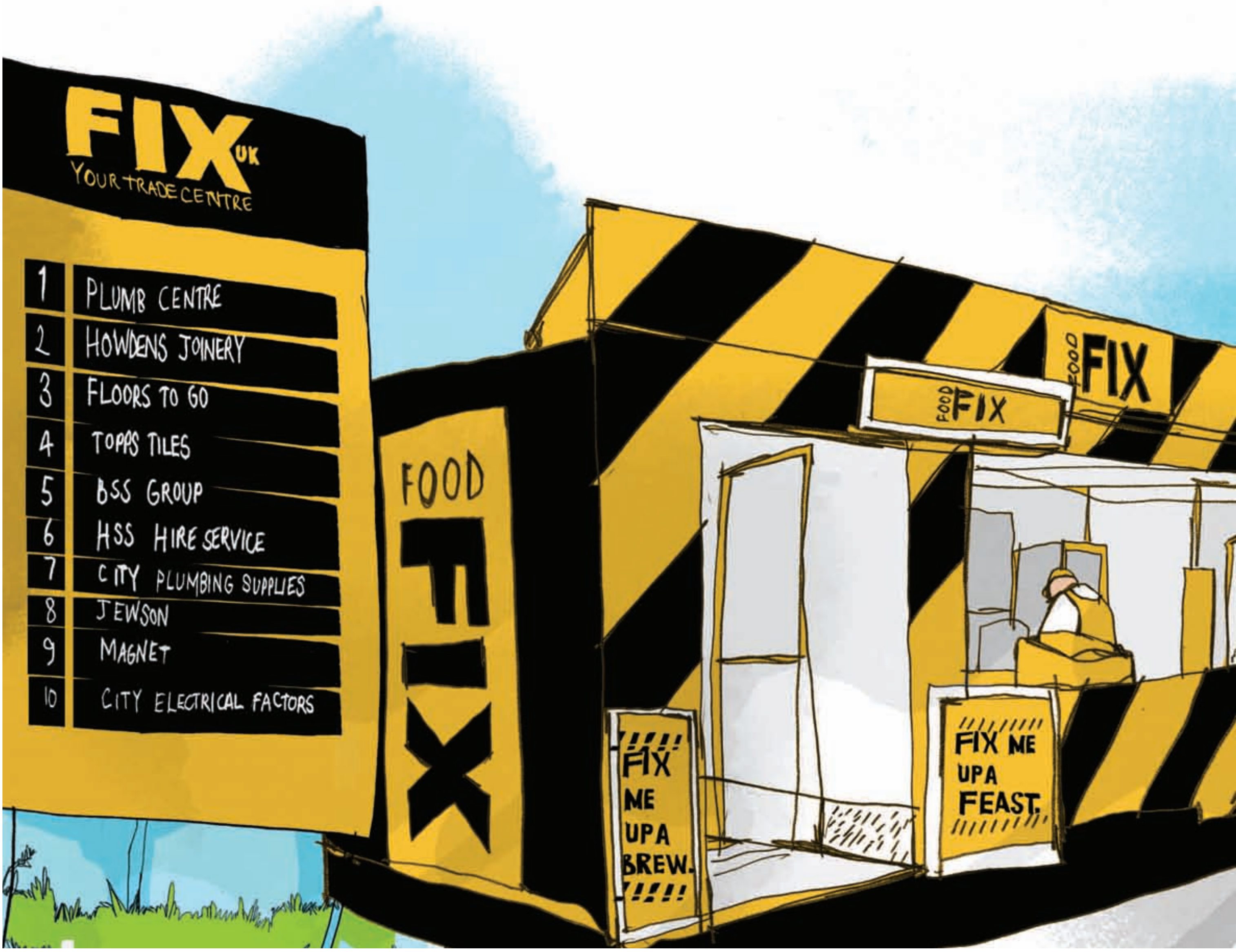
Xavier Pullen

### What is FIX UK?

FIX UK is the brand name for C&R's portfolio of trade centres. We are currently expanding the portfolio and creating a proactive management team. At present it is wholly owned by C&R, but we will consider including other investors when this is justified by its track record and size.

### Trade centres

A trade centre is generally made up of a number of units, occupied by tenants mainly servicing trade buyers such as builders, plumbers, joiners and electricians. The majority of the occupiers require a standard industrial consent. However, a number of others require a slight widening to allow counter sales.



The investment criteria agreed for the acquisition programme are:

- A multi-let industrial / trade centre.
- Minimum area of 20,000 sq ft.
- Catchments of no less than 50,000 people within a 20 minute drive time.
- Strategically strong location – e.g. adjacent to main road.
- Planning for an industrial or trade centre use.

## Key statistics

| FIX UK | At 28 February 2007 (est.) | **At 30 December 2006** | At 30 December 2005 |
|---|---|---|---|
| Gross property asset value | £143m | **£110m** | £68m |
| Number of properties | 33 | **24** | 18 |
| Number of units | 195 | **166** | 145 |
| Initial property yield | 4.70% | **4.51%** | 5.50% |
| Equivalent yield | 5.69% | **5.72%** | 6.37% |
| C&R share | 100% | **100%** | 100% |
| Bank debt | £79m | **£70m** | £50m |

## Active management

We employ seven people focused on growing and managing the portfolio. They are also working hard to develop key relationships by working with nationwide tenants such as Wolseley, Kingfisher, Howden Joinery, the Grafton Group, Magnet, HSS Hire and the BSS Group.

## Top five tenants by rental income

| Tenant | Number of units | Percentage of rental income |
|---|---|---|
| Howden Joinery | 9 | 6.99% |
| Multi Tile Ltd (Topps Tiles) | 7 | 6.86% |
| Selco | 1 | 5.86% |
| Booker Cash & Carry | 2 | 5.73% |
| Magnet | 4 | 4.13% |

**The FIX UK team**
From left: Bruce Ruddle, Jo Lord

## Acquisitions and disposals

During the year, the business acquired eight properties and sold two which did not meet our investment criteria. Since the year end we have acquired a further nine bringing the total portfolio to 33 properties.

The growth of the portfolio over 2006 has been a very positive story, despite a very competitive investment market, with many acquisitions being secured off market. The lot sizes range from £2 million to £10 million, with the majority of stock being purchased from regional developers and private individuals.

FIX UK is aiming to continue to grow the portfolio significantly throughout 2007 maintaining its position as the largest and most progressive manager of trade centres in the UK.

## Performance

For internal purposes we benchmark the portfolio against the IPD Standard Industrial index. During 2006 the portfolio slightly underperformed the index due to the impact of acquisition costs. Excluding these costs the like-for-like performance was significantly ahead of the benchmark, outperforming by 3.2%. The geared return was 37.6% as shown below:

| Portfolio performance | Geared return (IRR) | Ungeared return (IRR) | Benchmark return (IRR) |
|---|---|---|---|
| FIX UK 2006 | 37.6% | 20.8%* | 17.6% |

* Excluding acquisitions.

The significant portfolio expansion reduced returns by 3.4%. This was primarily due to the timing of the acquisitions and the associated costs of purchase. The performance was driven by three key factors:

- Rental Growth – 4.5% on a like-for-like basis significantly above the benchmark. This was achieved through the settlement of rent reviews (for example: Milton Keynes) and new lettings (for example: Sheffield).
- Yield movement – similar to other sectors the compression of yields during 2006 added to the capital uplift of the portfolio. The portfolio benefited from a 50 bps yield shift, which is comparable to the standard industrial market.
- Planning – seven planning consents were obtained for the refurbishment and consolidation of the use. This contributed 5% of the capital uplift for the year.

## Food Fix

C&R launched its unique new concept Food Fix in January 2007 with its flagship scheme at Milton Keynes. Food Fix will provide a range of hot and cold snacks and refreshments from a branded and welcoming on-site facility.


## FIX UK properties

| Trade centres | Description | Size (sq ft) | Principal occupiers | Number of lettable units |
|---|---|---|---|---|
| **Valued at less than £4m** | | | | |
| Merchants Trade Centre, Bristol | Purpose built trade centre. | 26,000 | Wolseley Centres, Speedy Hire, Ashtead Plant Hire | 5 |
| A5 Trade Centre, Cannock | Purpose built trade centre. | 15,000 | Multi Tile, Bathstore.com, Floors 2 Go, HSS Hire | 4 |
| Broad Oak Trading Estate, Canterbury | Well located scheme, which will be refurbished and units reconfigured. | 41,000 | Nationwide Auto Centres, Plumbase, Nationwide Crash repairs | 4 |
| Grantham Trade Centre, Grantham | Purpose built trade centre. | 19,000 | Floors 2 Go, Grahams, RAC Auto Windscreens | 6 |
| Cappielow Industrial Estate, Greenock | Well located on the A8, a number of speculative units were developed prior to ownership. Scheme will be refurbished in part. | 57,000 | Jewson, Howden Joinery, Plumb Centre | 13 |
| Longhill Industrial Estate, Hartlepool | Well located scheme, which will be refurbished and units reconfigured. | 27,000 | Howden Joinery, Wolseley Centres | 8 |
| Newcastle Trade Centre, Newcastle | Purpose built trade centre. | 21,000 | Howden Joinery, Kalon, RAC Auto Windscreens | 4 |
| City Trading Estate, Norwich | Well located and offers medium term redevelopment options. | 39,000 | Booker Cash & Carry | 1 |
| Pysons Road, Ramsgate | Well located and offers medium term redevelopment options. | 50,000 | Booker Cash & Carry | 1 |
| Western Approach, South Shields | Well located scheme, which will be refurbished and units reconfigured. | 50,000 | City Electrical Factors, Wolseley Centres, Floors 2 Go, DJ Tool Hire | 9 |
| **Valued between £4m and £8m** | | | | |
| Miller Street, Aberdeen | Well located scheme, which will be refurbished and units reconfigured. | 68,000 | Keyline Builders Merchant, Dulux, Chubb, William Wilson | 9 |
| Braintree Trade Centre, Braintree | Purpose built trade centre. | 26,000 | Howden Joinery, City Plumbing, Multi Tile, Plumb City | 5 |
| Bulwark Business Park, Chepstow | Well located scheme, which will be refurbished and units reconfigured. | 59,000 | Howden Joinery, Wolseley Centres, Bulwark Bus and Coach | 10 |
| Tufley Industrial Estate, Gloucester | Well located scheme, which will be refurbished and units reconfigured. | 57,000 | Dulux, BSS Group, Teledyne | 6 |
| The Bridge Centre, Huntingdon | Purpose built trade centre. | 27,000 | The Tyre Store, Bathstore.com, Allied Carpets, Carpets 4 Less, Multi Tile | 8 |
| Riverside Retail Park, Ipswich | Currently retail warehouse consent and lends itself for conversion to trade centre. | 44,000 | Orwell Motor Cycles and Vacant | 2 |
| Orbital Trade Centre, Northampton | Purpose built trade centre. | 28,000 | Jewson, Mr Clutch, Sally Hair and Beauty, Plumbase, Multi Tile | 7 |
| Sheffield Industrial Estate, Sheffield | Located on a prime arterial road the scheme requires refurbishment. | 56,000 | Newey & Eyre, Al Murad, BSS Group, Howden Joinery | 6 |
| Low Southwick Industrial Estate, Sunderland | Well located scheme, which will be refurbished and units reconfigured. | 76,000 | Magnet, Goodyear, Screwfix (to open), BSS Group, Hagemeyer, Ashtead Plant Hire | 16 |
| Oak Way, Truro | Well located scheme adjacent to the prime retail warehouse scheme in Truro. | 48,000 | Autoglass, City Electrical factors, Kalon, Plumbase, Hewden Hire x2, Magnet, Jewson | 11 |
| Eleanor Trading Estate, Waltham Cross | Well located scheme, which will be refurbished and units reconfigured. | 28,000 | Multi Tile, Wolseley Centres, Magnet x2 | 4 |
| **Valued at more than £8m** | | | | |
| Enterprise Trade Centre, Bristol | Purpose built trade centre. | 68,000 | Motor World, Multi Tile, Mays Carpets, Tile Giant, Derwent Flooring | 11 |
| Bletchley Trade Centre, Milton Keynes | Purpose built trade centre. | 48,000 | Kalon, BSS Group, Howden Joinery, Multi Tile, Floors 2 Go, City Electrical Factors, HSS Hire | 13 |
| Portman Road, Reading | New scheme located opposite the proposed Battle Hospital redevelopment site. | 65,000 | Selco and Rodmatic | 3 |

1. Please note the areas have been rounded to the nearest 1,000 sq ft.
2. Please note this assumes that multiple units occupied by one tenant can be let individually.

## C&R continues to invest in properties on its own account and in joint ventures. These ventures are strictly screened to ensure that we have the management capability and also to ensure that they do not fall within the fund investment criteria. Where there is a potential conflict of interest, the properties are offered first to the relevant fund.

| Joint venture and other interests | Partners | C&R share |
|---|---|---|
| Xscapes | | |
| Milton Keynes | Client of Rockspring | 50% |
| Castleford | Client of Rockspring | 66.67% |
| Braehead | Capital Shopping Centres | 50% |
| Glasgow Fort | British Land | 50% |
| Manchester Arena | GE Real Estate | 30% |
| Capital Retail Park, Cardiff | PMG Estates Limited | 50% |
| Gt. Northern Warehouse, Manchester | – | 100% |
| Leisure World, Hemel Hempstead | – | 100% |
| SNO!zone, ski slope operator | – | 100% |

### The Xscapes

We now have Xscapes operating in Milton Keynes, Castleford and Braehead. These landmark leisure destinations offer the public real snow skiing, bowling, dining, cinema and a host of other leisure activities. In February 2007 the first two Xscapes, at Milton Keynes and Castleford, were acquired by the X-Leisure Fund for a combined price of £192 million paid in units, assumption of debt and cash.

The Xscape in Milton Keynes was completed in 2000 at a cost of £60 million. The price paid by the X-Leisure Fund reflected a value of £116 million in February 2007, proving that with the right management the format is highly profitable. The successful settlement of the majority of the rent reviews at rents ahead of rental values adds further evidence to support this.

The Xscape in Castleford was completed in 2003 at a cost of £54 million. It was sold to the X-Leisure Fund for £76 million in February 2007. Xscape Castleford has gained significant publicity and awareness through numerous awards most notably in 2006 it was joint winner with The London Eye of "Visit Britain's Best Paid for Attraction Award".

The Xscape in Braehead opened in April 2006. It is 90% let and the retail and catering units are trading well, despite a delay in opening the cinema.

### Glasgow Fort

This highly successful fashion park was developed in partnership with Pillar Property, now part of the British Land Group. It was sold to the Hercules Fund in 2004 but C&R has a financial interest in further phases. In 2006 C&R received £6 million in cash and a further £2.7 million in profit was taken into account.

### Manchester Arena

In July 2006, we acquired 30% of the Manchester Arena in a co-venture with GE Real Estate. The property is located on an eight acre site in the heart of Manchester city centre and comprises the 20,000 seat MEN Arena, 120,000 sq ft of offices, a 1,075 space car park and ancillary retail space.

For C&R it is an opportunity to exploit some asset management opportunities and to use its leisure and co-venturing expertise alongside a major investor.

### Capital Retail Park, Cardiff

The Capital Retail Park Partnership is a 50:50 joint venture with PMG Estates Ltd, a Welsh developer based in Cardiff.

The project involves the construction of a 283,000 sq ft retail park in Cardiff, with a land sale of part of the site to Asda for a 90,000 sq ft foodstore.

Cardiff Council is constructing a new football stadium for Cardiff City Football Club on an adjacent site. Construction is expected to start in June 2007 following acquisition of the site.

### Great Northern Warehouse, Manchester

This property is now wholly owned by C&R and has delivered a strong performance in 2006 with a gross asset value increase of £4.25 million which is not reflected in our balance sheet because the property is held as a trading property. The increase in value is mainly attributable to the practical completion and opening of the London Clubs International Casino, Manchester235, in 45,000 sq ft of the vacant warehouse space. The residual space is under offer to Luminar Leisure PLC subject to planning and licensing. Applications for both are now pending.

### Leisure World, Hemel Hempstead

This first generation leisure park let to Luminar Leisure PLC was acquired to provide a refurbishment/redevelopment opportunity. The redevelopment of the park for a mixed use scheme continues to be appraised and positive discussions have been held with planners, key city stakeholders and potential occupiers. In 2007 we anticipate finalising a scheme to take forward.

### SNO!zone

SNO!zone is the ski operator which rents the real snow slopes in the three Xscapes. It is wholly owned by C&R, which built it up out of the bankruptcy of Leisurenet in 2001. It is the largest and most profitable indoor ski operator in the UK, but expects more competition from new operators and venues in the future.

2006 was a highly successful year, with operating profit (before adjustment for tenant incentives) growing to £2.7 million.

The increase in profit was largely from organic growth at existing locations. Following intensive marketing and business development initiatives, turnover grew by 16% at Milton Keynes and 13% at Castleford.

### SNO!zone operating profit

| | 2006 £m | 2005 £m |
|---|---|---|
| Income | **13.1** | 9.3 |
| Cost of sales | **(9.3)** | (7.0) |
| Management expense | **(1.1)** | (0.6) |
| Operating profit | **2.7** | 1.7 |
| Tenant incentives | **(0.9)** | – |
| Profit after adjustment | **1.8** | 1.7 |

**Management:** This business requires highly specialist management focused on increasing spend per head in each of its key market segments. It now has its own independent management team within our leisure division, which is achieving organic growth at Milton Keynes and Castleford as well as building up a new business in a very different market in Scotland.

Our team is now well established in an increasingly strong leisure market. It has been asked to look at a number of opportunities to operate leisure attractions which do not compete with the Xscape real snow offer, and which could prove interesting for the future.

**New marketing initiatives** have been plentiful. The management has developed the SNO!academy, Kids Camp and tours conscious of the growth and development of our youth and the athletes of the future. SNO!zone has hosted numerous very successful events throughout the year. Focusing on providing an exciting ever changing environment, it launched its programme of concerts, events on the snow, airbags on the slope, obstacle courses, and night training which increases the customer experience and maintains interest for return visits.

The strength of SNO!zone within the market has attracted very professional and successful businesses to align themselves with the Company, through sponsorships and other agreements.

**Future strategy:** The business is clearly prospering under C&R ownership, and it makes sense for us to keep the expertise within the Group to help in the development of further Xscape venues.

## Joint Ventures and other property interests

| Property | Description | C&R share | Size (sq ft) | Principal occupiers | Number of lettable units |
|---|---|---|---|---|---|
| **Valued at £10 million to £25 million** | | | | | |
| Leisure World; James Field, Hemel Hempstead | First generation leisure park acquired in 2005 for redevelopment or refurbishment. | 100% | 122,056 | Luminar Leisure, Odeon Cinema, | 1 |
| **Valued at £25 million to £70 million** | | | | | |
| Manchester Evening News Arena | Largest indoor arena in the country with additional mixed use and retail space. | 30% | 154,769 | SMG (UK) Limited, Network Rail, JD Williams & Co Limited | 5 |
| **Valued at £70 million to £100 million** | | | | | |
| Great Northern, Manchester | Located in Manchester city centre, this converted Victorian warehouse includes bars, restaurants, a health and fitness centre, shops and a multiplex cinema. | 100% | 360,130 | AMC Cinema, Virgin Active, London Clubs International | 47 |
| Xscape Milton Keynes* | This destination is anchored by the UK's largest indoor real snow slopes. | 50% | 423,698 | SNO!zone, Cineworld, Virgin Active, Spirit Group, Ellis Brigham | 45 |
| Xscape Castleford, Leeds* | As well as a real indoor snow slope, this destination also features a skate park and indoor air park. | 67% | 370,809 | Cineworld, SNO!zone, Bowlplex, Ellis Brigham, Evans, Frankie & Benny's | 46 |
| Xscape Braehead, Glasgow | This newest Xscape has all the extreme sports of Xscape Leeds and MK but also includes golf and football attractions. | 50% | 374,112 | Odeon, SNO!zone, Bowlplex, Ellis Brigham | 37 |

* Transferred to the X-Leisure Fund on 23 February 2007.

Standing, from left: Philip Newton, PY Gerbeau, Martin Barber, Manjit Wolstenholme, Tom Chandos, Kenneth Ford
Sitting, from left: Paul Stobart, Hans Mautner, William Sunnucks, Andrew Lewis-Pratt, Xavier Pullen, Alan Coppin

## Executive Directors

**Martin Barber,** Chief Executive, 62
Member of Nomination Committee
Martin was a founder director of the Company in 1979 and has been involved in commercial property as a developer and investor for over 30 years. Martin was, until March 2006, co-Chairman of CenterPoint Properties Trust, a real estate investment trust, listed on the New York Stock Exchange and formerly a subsidiary of Capital & Regional.

**William Sunnucks MA ACA,** Finance Director, 50
Member of Responsible Business Committee
William was appointed Group Finance Director in October 2002. He has been Finance Director of a number of large companies, including Securum International and English, Welsh and Scottish Railways. He is a chartered accountant and has an MBA from the London Business School. William has responsibility for the Group's finances, including funding, reporting and financial control.

**Xavier Pullen,** Deputy Chief Executive, 55
Member of Responsible Business Committee
Xavier was a founder director of the Company in 1979 and has been active in the property industry for over 30 years. Xavier focuses primarily on the supervision of the Group's fund management business together with the co-ordination of all property matters and the development of new business initiatives including Germany.

**Kenneth Ford BSc FRICS,** Managing Director of Shopping Centres, 53
Ken has been a director of Capital & Regional since 1997 and, as Chief Executive of The Mall, is responsible for the fund's shopping centre portfolio. Ken has been involved in commercial property for over 30 years.

**Andrew Lewis-Pratt BSc ARICS,** Managing Director of Retail Parks and Trade Parks, 49
Member of Responsible Business Committee
Andrew has been a director of Capital & Regional since 1997 and, as Chief Executive of The Junction, is responsible for the fund's retail park portfolio and the newly acquired trade parks portfolio. Andrew has over 20 years' experience within the retail and leisure sector.

**PY Gerbeau,** Managing Director of Leisure, 41
PY was appointed to the Board in 2003, and as Chief Executive of X-Leisure in 2003. He has over 15 years' experience in the leisure industry. PY's career to date has included Vice President of Park Operations at Disneyland Paris and Chief Executive of the Dome. PY has an MBA from one of France's leading business schools, teaches on the MBA programme at the London Business School and has a Chair of Entrepreneurship at the Imperial College, running a module on the Experienced Economy and Corporate Rescue.

## Non-executive Directors

**Tom Chandos,** Chairman, 54
Chairman of Nomination Committee
Tom is Chairman of Invista European Real Estate Trust and Queen's Walk Investment. He is also on the board of Global Natural Energy plc and a number of private companies. In addition to his board positions, he has worked in investment banking and alternative investment areas such as venture capital and hedge funds. He is a Labour member of the House of Lords. He was appointed as a director of the Company in 1993 and as Chairman in 2000.

**Hans Mautner,** Non-executive, 69
Member of Nomination Committee
Hans is President of the International Division of Simon Property Group (SPG), the world's largest publicly traded retail real estate company. In addition, Hans is Chairman of Simon Global Limited, SPG's London-based entity. He is also a Director of a number of Dreyfus Corporation managed funds and a member of Lehman Brothers' European Real Estate Private Equity Advisory Council. Hans was appointed as a director of the Company in 2003.

**Paul Stobart,** Non-executive, 49
Chairman of Audit Committee and member of Remuneration and Nomination Committees
After qualifying as a chartered accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined The Sage Group plc in 1996 as Business Development Director, becoming Chief Executive Officer, UK and Ireland, in 2003. Paul was appointed as a director of the Company in 2003.

**Alan Coppin,** Non-executive, 56
Chairman of Responsible Business Committee and Member of Audit Committee
Alan is currently Chairman of Redstone plc, the telecoms and IT solutions provider and a non-executive director of Berkeley Group Holdings plc, the urban regenerator and residential developer. His previous positions have included being Chief Executive of Wembley plc and, in the charity sector, Chairman of The Prince's Foundation for the Built Environment. Alan was appointed a director of the Company in 2004.

**Philip Newton,** Non-executive, 58
Member of Remuneration Committee
Philip is the former CEO of Merchant Retail Group plc, owners of The Perfume Shop, a 150-store chain that he developed from its beginnings. His early career was in the District Valuer's Office and then the property development industry. Philip was appointed as a director of the Company in 2006.

**Manjit Wolstenholme,** Non-executive, 42
Chairman of Remuneration Committee and member of Audit Committee.
After qualifying as a Chartered Accountant with Coopers & Lybrand (now part of PricewaterhouseCoopers) Manjit spent 13 years at Dresdner Kleinwort Wasserstein, latterly as co-Head of Investment Banking, where she was responsible for managing the division as well as advising clients on a wide range of transactions. She is now a consultant to Gleacher Shacklock, a privately-owned investment banking firm specialising in high level mergers, acquisitions and strategic advice. Manjit was appointed as a director of the Company in 2006.

## Introduction
The directors present their report together with the audited financial statements for the year ended 30 December 2006.

## Results and proposed dividends
The consolidated income statement is set out on page 52 and shows a profit on ordinary activities after taxation of £222.3 million (2005: £202.7 million).

The directors recommend the payment of a final dividend of 17p per ordinary share on 15 June 2007 to members on the register at the close of business on 20 April 2007, which together with an interim dividend of 9p per ordinary share, paid in 2006, makes a total dividend of 26p per share for the year.

## Principal activities, trading review and future developments
The principal activity of the Group is that of a co-investing asset manager.

A review of the activities and prospects of the Group is given in the Chairman's statement, on page 5 and the Operating and Financial Review on page 6.

## Business Review
The information that fulfils the requirements of the Business Review including key performance indicators and post Balance sheet events can be found in the Operating and Financial Review on pages 6 to 35 which is incorporated in this report by reference.

More detail on the financial risks facing the Company is set out in note 20 on page 75.

The purpose of this annual report is to provide information to the members of the Company. The annual report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the Company undertakes no obligation to update them. Nothing in this annual report should be construed as a profit forecast.

## Directors
The directors of the Company during the period were: M Barber, T Chandos, D Cherry (retired 5 June 2006), A Coppin, K Ford, PY Gerbeau, A Lewis-Pratt, H Mautner, X Pullen, P Stobart, W Sunnucks, P Newton (appointed 28 July 2006) and M Wolstenholme (appointed 17 August 2006).

In accordance with the Articles of Association, T Chandos, M Barber, M Wolstenholme and P Newton will retire from the Board by rotation and offer themselves for re-election.

The Company maintains insurance for the directors in respect of liabilities arising from the performance of their duties.

## Directors' interests
The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) are interested in 4,281,626 issued shares representing 5.91% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report on page 44.

There were no contracts of significance subsisting during or at the end of the year in which a director of the Company was materially interested. No director had a material interest in the share capital of other Group companies during the year.

## Share options
Details of outstanding share options granted to the directors under the 1988 and 1998 Share Option Schemes, are disclosed in the directors' remuneration report on page 45.

## Substantial shareholdings
In addition to the interests of the directors, the Company has been notified pursuant to Section DTR5 of the FSA Disclosure & Transparency Rules of the following notifiable interests in its issued share capital as at 10 April 2007 (the latest practicable date prior to the issue of this report):

| | Number of shares | % |
|---|---|---|
| Fidelity Investments | 6,687,518 | 9.24 |
| Neuberger & Berman | 5,488,916 | 7.58 |
| Morley Fund Management | 4,523,226 | 6.25 |
| ABP Investments | 3,789,356 | 5.23 |
| Morgan Stanley Investment Management | 3,386,765 | 4.68 |
| United Nations Pensions | 3,270,000 | 4.52 |
| Legal & General Investment Management | 2,774,859 | 3.83 |
| ING Investment Management | 2,521,800 | 3.48 |
| F&C Asset Management | 2,413,562 | 3.33 |
| Martin Barber | 2,365,897 | 3.27 |

## Charitable donations
The main thrust of our support to charities is at local level through our fund investments as described on page 50. At Group level we have made small donations during the year totalling £12,500 (2005: £43,970).

## Payment of suppliers
The policy of the Company is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed, payment is usually made within one month of the receipt of the goods or service. At the year end, the Company had an average of 28 days (2005: 37 days) purchases outstanding.

## Compliance with combined code
A statement on corporate governance is set out on pages 46 to 48.

## Responsible business
The responsible business statement is set on page 49.

## Employees
The Company is committed to a policy that treats all its employees and job applicants equally. No employee or potential employee receives less favourable treatment or consideration on the grounds of race, colour, religion, nationality, ethnic origin, sex, sexual orientation, marital status, or disability. Nor is any employee or potential employee disadvantaged by any conditions of employment or requirements of the Company that cannot be justified as necessary on operational grounds.

During the year, the Company maintained arrangements to provide employees with information on matters of concern to them, to regularly consult employees for views on matters affecting them and to make all employees aware of financial and economic factors affecting the performance of the Company.

## Stakeholder pensions
As a result of the Government's introduction of stakeholder pensions in April 2001, employers must provide their employees with access to a stakeholder pension scheme. The Company appointed consultants, who put such a scheme in place, and also nominated a stakeholder pension provider at that time. Employees have had access to join this scheme since May 2001.

## Dividend Reinvestment Plan
In 1999, the Company introduced a service whereby shareholders

can use their cash dividends to buy more shares in the capital of the Company. The plan was introduced for those shareholders preferring capital appreciation rather than income from their shareholding, and has been available to all shareholders from the 1999 interim dividend onwards.

The timetable for the 2006 final dividend is set out on page 96. Details of the terms and conditions of the Dividend Reinvestment Plan can be obtained by contacting the Company Secretary at the registered office.

### Registered office
The Company's registered office address is 10 Lower Grosvenor Place, London SW1W 0EN.

### Auditors' information
Each of the persons who is a director at the date of approval of this annual report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditors is unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

### Auditors
Deloitte & Touche LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the AGM.

### Special business of the Annual General Meeting
#### Directors' authority to allot securities
Authority to allot securities, Section 80 of the Companies Act 1985, requires shareholders' authority for the directors to allot new shares or convertible securities, other than shares which may be allotted under employee share schemes. Under resolution 9, which is proposed as an ordinary resolution, the directors seek authority to allot shares having a nominal value of £2,412,957 representing one-third of the nominal value of the Company's currently issued share capital. The authority will expire at the conclusion of the Company's AGM in 2008.

### Pre-emption rights
Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. Under resolution 10, which is proposed as a special resolution, the directors seek to renew their annual authority to allot shares for cash as if the pre-emption rights contained in Section 89(1) of the Companies Act 1985 did not apply up to a maximum of 5% of the Company's issued share capital.

### Authority to purchase own shares
At the AGM in 2006, the Company was granted authority to make purchases in the market of its own shares, subject to specified limits. This authority, which has not as yet been exercised, expires at the conclusion of the Company's 2007 AGM. Therefore by resolution 11, it is proposed as a special resolution that this authority in respect of the Company is renewed and also that the Company may cancel any bought-in shares immediately or hold them in treasury.

The authority is sought until the conclusion of the 2008 AGM, or for 15 months after the date on which the resolution is passed, whichever is the earlier. Details of the current issued share capital are set out in note 21 to the accounts. The directors will only exercise this authority if they consider that it will result in an increase in asset value per share for the remaining shareholders and that it will be in the best interests of the Company to do so.

The total number of options to subscribe for new ordinary shares in the Company as at 13 April 2007 was 514,970 representing 0.71% of the Company's issued share capital as at 13 April 2007. Such number of options to subscribe for new ordinary shares would represent approximately 14.19% of the reduced issued share capital of the Company assuming full use of the authority to make market purchases sought under resolution 11.

### Amendments to the Company's Articles of Association
Resolution 12 to be proposed at the AGM, is proposed in order to approve an amendment to the Company's articles of association in relation to the indemnification of directors.

The Companies (Audit, Investigations and Community Enterprise) Act 2004, which came into force on 6 April 2005, made certain changes in relation to the indemnification of directors.

The law now permits companies to grant wider-ranging indemnities so that, broadly, directors may be indemnified against liability to third parties arising through negligence, default, breach of duty or breach of trust by the directors and a company may purchase and maintain insurance against such liability. However, this is subject to certain exceptions which prevent a company from indemnifying a director against liability to the company or any associated company, or against the costs of any unsuccessful defence in criminal proceedings, or for penalties imposed in criminal proceedings or by any regulatory authority.

In addition, a director could previously only receive reimbursement of his or her defence costs from the company once final judgement in the director's favour had been made. However, the law now permits a company to provide funds to directors to cover defence costs as they are incurred (through the granting of a loan) in both civil and criminal cases. If the director is not exonerated, the loan must be subsequently repaid (although the costs incurred in civil cases involving third parties could be paid by the company under the indemnity discussed above).

The Board believes that providing appropriate indemnities to directors and agreeing to fund (where permitted) a director's defence costs as they are incurred affords a reasonable level of protection for the directors and is also essential in order to recruit and retain directors.

The Company's current Articles of Association already provide for the directors to benefit from an indemnity and reimbursement for costs in proceedings where judgement is given in favour of the director and the ability to purchase and maintain insurance against director's and officer's liability. However, the Board proposes that the Company's Articles of Association be amended to reflect the new statutory provisions.

The proposed resolution is a special resolution to replace articles 186 and 187 by the insertion of new articles 186, 187, 188 and 189 to reflect these new provisions. The directors consider the proposal to amend the articles of association to be considered at the AGM to be in the best interests of the Company and its shareholders as a whole.

By order of the Board

**F Desai**
**Company Secretary**
20 April 2007

## Unaudited information

### Remuneration Committee

The Company has a Remuneration Committee appointed by the Board, consisting entirely of non-executive directors. Until 18 September 2006 the members were H Mautner (Chairman), D Cherry (retired 5 June 2006) and P Stobart. Thereafter, the members were M Wolstenholme (Chairman), P Newton and P Stobart.

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the awards to be made to all participants in the Long Term Incentive Plan and Capital Appreciation Plan. Advice from independent external advisers is obtained when required but none was considered necessary during 2006.

### Remuneration policy

The Company aims to deliver outstanding fund performance, and a high return on equity to its shareholders. Its remuneration schemes are designed to align management interests with these objectives.

The Committee seeks to ensure that the total remuneration received by the executive directors under their contracts is competitive within the property industry and will motivate them to perform at the highest level.

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of directors' remuneration is performance related through the use of annual bonus and incentive schemes. Performance-related payments are deferred to aid retention, but are uncapped in line with practice in the private equity and property fund management industry.

In addition, the Committee aims to achieve an appropriate balance between directors' remuneration packages and those of other key management.

### Basic salaries

The Committee's policy is to set the basic salaries of executive directors at levels which reflect their roles, experience and the practices in the employment market.

### Annual bonus scheme

The Committee may award cash bonuses to executive directors up to 100% of salary based on the Committee's independent assessment of the Company's success in building its business during the year, and its performance both in absolute terms and relative to other quoted property companies. During 2006, 100% bonuses were awarded to all executive directors.

### Incentive schemes

The Company has four incentive schemes under which awards currently subsist:

- The 1988 Share Option Schemes (the "Closed Schemes")
- The 1998 Share Option Schemes (the "1998 Schemes")
- The Long Term Incentive Plan ( the "LTIP")
- The Capital Appreciation Plan (the "CAP").

No options have been granted under the Closed Schemes following the expiry of the shareholder approval for that plan in May 1998. In addition, no further awards will be made under the 1998 Schemes which have been supplanted by the LTIP and CAP plans.

The terms of the LTIP permit the Committee to make conditional awards of shares to participants annually with a market value not exceeding 100% of the participants' basic salary. All the executive directors together with other key executives of the Company are participants in the LTIP. 267,785 shares were conditionally awarded to the participants in 2006.

All LTIP awards are subject to meeting performance conditions in order to incentivise and retain key executives to increase the return on capital by aligning their interests with those of the shareholders of the Company. Details of the awards made in 2006 and a summary of the performance conditions are set out under the heading "Long Term Incentive Plan" below.

All key executives including the executive directors are participants in the CAP. The terms of the CAP permit the Committee to make awards to the participants annually that will entitle them to receive payments in aggregate of up to 30% of the performance fees receivable by the Company from The Mall, Junction and X-Leisure Funds. Awards made under the CAP are also subject to the achievement of performance conditions. In 2006, a total of £15,019,606 has been awarded to the participants, which represents 24.05% of the performance fees earned by the Company during that year. The level of CAP awards determined by the Committee took into account, inter alia, the level of cash bonuses paid to executives for the year. To the extent that the awards ultimately vest, the individual entitlements for 2006 will be reduced by 80% of the value of the shares awarded under the LTIP. Details of the awards made in respect of 2006, and a summary of the performance conditions for payment, are set out under the heading "Capital Appreciation Plan" below.

### Pension arrangements

The Company makes contributions, at proportional rates to basic salary, to defined contribution pension schemes of each executive director's choice, except in the cases of M Barber, X Pullen and A Lewis-Pratt, where £56,738; £48,404 and £34,906 salary, in lieu of pension contributions, were paid to them respectively.

### Other benefits

Benefits consist of private medical insurance cover, permanent health insurance cover, critical illness cover and additional salary in lieu of a company car.

### Service contracts

Each of the present executive directors has a rolling service agreement which can be terminated on one year's notice by either party, except in the case of W Sunnucks who can terminate his service agreement by giving six months' notice. In the event of early termination of an executive director's agreement, the Committee will determine the amount of compensation (if any) to be paid by reference to the circumstances of the case at the time. It is the Committee's policy not to reward poor performance and to take account of the executive director's duty to mitigate loss.

The dates of the executive directors' service agreements are as follows:

| | |
|---|---|
| M Barber | 28 October 1993 |
| X Pullen | 28 October 1993 |
| K Ford | 17 May 1996 |
| A Lewis-Pratt | 20 January 1998 |
| W Sunnucks | 15 October 2002 |
| PY Gerbeau | 14 April 2003 |

The Company allows executive directors to take up external positions outside the Company, providing they do not involve a significant commitment and do not cause conflict with their duties to the Company. Directors are allowed to retain all remuneration arising from any external position.

M Barber was co-Chairman of CenterPoint Properties Trust, an American company listed on the New York Stock Exchange until 8 March 2006 and retired thereafter. W Sunnucks is the Chairman of Land Management Limited, a family-run company. X Pullen is a non-executive director for Brandeaux, a privately owned fund management group. The Company does not consider that these appointments involve significant commitment nor that the roles conflict with their duties to the Company. Any earnings received from these appointments are kept by the individuals concerned and have not been disclosed to the Company.

**Non-executive directors – remuneration**

Each non-executive director currently receives fees of £36,000 per annum.

The Chairman receives additional fees of £89,000 per annum and the Chairman of each of the Audit, Remuneration and Responsible Business Committees receives an additional fee of £6,000 per annum.

The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

None of the non-executive directors has a service agreement, and they are all appointed for three-year fixed terms.

**Performance graph**

This graph below is prepared in accordance with the Directors' Remuneration Report Regulations 2002 and illustrates the Company's performance compared to a broad equity market index. As the Company is a constituent of the FTSE Real Estate Index, this index is considered by the Board to be the appropriate comparator for this purpose. Performance is measured by total shareholder return (share price growth plus dividends paid).

**Total shareholder return (TSR) for the period 30 December 2000 to 30 December 2006**

### Audited information
### Long Term Incentive Plan
Shares have been conditionally awarded to the directors under the Long Term Incentive Plan as set forth below:

| | LTIP awards outstanding as at 30 December 2005 | Date of award | Market price on date of award (p) | Market price on date of vesting (p) | End of qualifying period | **LTIP awards outstanding as at 30 December 2006** |
|---|---|---|---|---|---|---|
| M Barber | – | 27/12/02 | 310.5 | 700.0 | 31/12/04 | **–** |
| | 68,750[1] | 23/12/03 | 394.5 | 1533.0[4] | 31/12/05 | **–** |
| | 55,000 | 20/4/04 | 500.0 | 1530.0 | 31/12/06 | **55,000[5]** |
| | 39,702 | 8/7/05 | 806.0 | | 31/12/07 | **39,702** |
| | | 28/4/06 | 1,115.0 | | 31/12/08 | **28,700[3]** |
| X Pullen | 79,459[2] | 27/12/02 | 310.5 | 700.0 | 31/12/04 | **–** |
| | 65,000[1] | 23/12/03 | 394.5 | 1533.0[4] | 31/12/05 | **–** |
| | 52,000 | 20/4/04 | 500.0 | 1530.0 | 31/12/06 | **52,000[5]** |
| | 33,871 | 8/7/05 | 806.0 | | 31/12/07 | **33,871** |
| | | 28/4/06 | 1,115.0 | | 31/12/08 | **24,484[3]** |
| W Sunnucks | – | 27/12/02 | 310.5 | 700.0 | 31/12/04 | **–** |
| | 50,000[1] | 23/12/03 | 394.5 | 1533.0[4] | 31/12/05 | **–** |
| | 40,000 | 20/4/04 | 500.0 | 1530.0 | 31/12/06 | **40,000[5]** |
| | 26,055 | 8/7/05 | 806.0 | | 31/12/07 | **26,055** |
| | | 28/4/06 | 1,115.0 | | 31/12/08 | **18,834[3]** |
| K Ford | – | 27/12/02 | 310.5 | 700.0 | 31/12/04 | **–** |
| | 62,500[1] | 23/12/03 | 394.5 | 1533.0[4] | 31/12/05 | **–** |
| | 50,000 | 20/4/04 | 500.0 | 1530.0 | 31/12/06 | **50,000[5]** |
| | 32,568 | 8/7/05 | 806.0 | | 31/12/07 | **32,568** |
| | | 28/4/06 | 1,115.0 | | 31/12/08 | **23,542[3]** |
| A Lewis-Pratt | – | 27/12/02 | 310.5 | 700.0 | 31/12/04 | **–** |
| | 62,500[1] | 23/12/03 | 394.5 | 1533.0[4] | 31/12/05 | **–** |
| | 50,000 | 20/4/04 | 500.0 | 1530.0 | 31/12/06 | **50,000[5]** |
| | 32,568 | 8/7/05 | 806.0 | | 31/12/07 | **32,568** |
| | | 28/4/06 | 1,115.0 | | 31/12/08 | **23,542[3]** |
| PY Gerbeau | – | 27/12/02 | 310.5 | 700.0 | 31/12/04 | **–** |
| | 56,250[1] | 23/12/03 | 394.5 | 1533.0[4] | 31/12/05 | **–** |
| | 45,000 | 20/4/04 | 500.0 | 1530.0 | 31/12/06 | **45,000[5]** |
| | 32,568 | 8/7/05 | 806.0 | | 31/12/07 | **32,568** |
| | | 28/4/06 | 1,115.0 | | 31/12/08 | **23,542[3]** |

1 Awards vested and exercised during 2006.
2 Award exercised during 2006
3 Shares conditionally awarded in 2006.
4 The shares vested on 23/12/06
5 The shares vested on 20/04/07

A total of 462,500 shares awarded in 2003 vested during the year. All directors exercised this award. In addition, during the year 125,141 shares were awarded to key executives at 1115.0p; total conditional awards held by key executives at 30 December 2006 amounted to 435,998 shares. The outstanding LTIP awards are summarised in note 21.

The Company's policy is to make conditional awards to executive directors of shares with market value equivalent to up to 100% of salary at the discretion of the Remuneration Committee. The Remuneration Committee makes the maximum award in the knowledge that none of the shares will vest unless the Company performs strongly.

The qualifying ("vesting") conditions for all awards under the plan can be summarised as follows:

**ROE:** The extent to which 50% of the shares conditionally awarded in 2006, will vest is determined by reference to the level of the Group's average post-tax return on equity (ROE) for the financial years ended 30 December 2006, 2007 and 2008 (performance period). None will vest if the ROE is less than 10%; 20% of the shares will vest if the ROE is 10%; 100% of the shares will vest if the ROE is 18% or above. If the ROE falls between 10% and 18% the percentage of shares will vest at an incremental rate.

ROE is calculated by dividing the total of profit attributable to shareholders and all other gains and losses included in the consolidated statement of recognised income and expense for the relevant year by the amount of the equity shareholders' funds on the first day of the relevant year, adding the results for the three years, dividing by three and multiplying the result by 100. Adjustments to the amount of equity shareholders' funds will be made to reflect changes in the amount of the issued share capital, share premium account or capital reserves occurring during the relevant financial year.

**TSR:** The other 50% of the shares conditionally awarded in 2006 will vest and will be linked to total shareholder return (TSR) over the three-year performance period relative to the FTSE Real Estate Index whereby:

i) If TSR is below the median, no shares in an award will vest;
ii) If TSR is above the median, 25% of the shares in an award will vest;
iii) If TSR is in the upper quartile, 100% of the shares in an award will vest; and
iv) If TSR is between median and upper quartile the shares will vest pro rata.

The Remuneration Committee has been independently advised on the above TSR vesting conditions.

Under all circumstances, vesting under the TSR portion of the scheme will be conditional on post-tax return on equity for the Company averaging 5% per annum or higher over the relevant three-year performance period.

Any awards made prior to 2005 will only have to satisfy the ROE performance condition. The Remuneration Committee has elected to adjust the total return calculation to eliminate the effect of the CULS premium write-off because the CULS buybacks enhanced shareholder value.

The potential value of the awards made is the number of shares multiplied by the current share price. The purpose of the scheme is to enable employees to build up long-term shareholdings in the Company.

## Capital Appreciation Plan

In accordance with the terms of the plan, the directors have been awarded the following interests in the performance fees receivable by the Group in respect of the financial year 2006.

The interests awarded will only be paid in full if none of the shares conditionally awarded under the LTIP in 2006 vest in 2009. The value of the initial award will be reduced pro rata to the extent that any part of the performance fees received by the Group in respect of 2006 are clawed back as a result of under-performance of the funds in 2007 or 2008. Consequently, no payments will be made in respect of the 2006 awards until 2009, when this clawback right lapses.

| 2006 | Interest awarded % | Value of initial award* £000 | Maximum amount of offset Note 1 | Maximum offset carried forward from previous year Note 2 |
|---|---|---|---|---|
| **M Barber** | **2.79** | **1,742** | **256** | **–** |
| **X Pullen** | **2.79** | **1,742** | **218** | **–** |
| **K Ford** | **2.79** | **1,742** | **210** | **–** |
| **A Lewis-Pratt** | **2.41** | **1,505** | **210** | **–** |
| **W Sunnucks** | **2.26** | **1,411** | **168** | **–** |
| **PY Gerbeau** | **2.34** | **1,461** | **210** | **–** |
| 2005 | | | | |
| M Barber | 2.94 | 1,497 | 256 | – |
| X Pullen | 2.76 | 1,409 | 218 | – |
| K Ford | 3.11 | 1,585 | 210 | – |
| A Lewis-Pratt | 2.76 | 1,409 | 210 | – |
| W Sunnucks | 2.59 | 1,321 | 168 | – |
| PY Gerbeau | 2.42 | 1,232 | 210 | – |

Note 1 The amount of the potential offset represents 80% of the LTIP award made in 2006; it will be reduced pro rata to the extent that the shares conditionally awarded under the LTIP do not vest in full.
Note 2 If the finally determined amount of the offset exceeds the value of the CAP award in any one year, the excess will be carried forward to be offset against future awards under the CAP. Where participants have offset carried forward from previous years this is aggregated with the maximum offset.
* The actual amount paid is subject to performance fee clawback and other minor adjustments.

The Remuneration Committee decides the total amount of the CAP awards based on a proportion of the performance fees earned from the fund management contracts. Under these contracts CRPM is paid a performance fee based on a share of the out performance over and above certain benchmarks as described on page 8.

The allocation of the CAP award between executive directors and other senior management is also decided by the Remuneration Committee based on the contribution of each individual to the total performance of the Group assessed following consultation with the Chairman and Chief Executive.

In addition to the above, 49 key executives who were not directors were awarded 8.67% (2005: 7.25%) interests with a value of £5,416,464 (2005: £3,691,138). The key executives who received the interests also received LTIP awards whose maximum gross aggregate offset amounted to £1,116,258 (2005: £753,580).

| | Salary and fees £000 | Discretionary bonus £000 | 2006 Pension contributions £000 | Other benefits £000 (a) | CAP payment £000 (b,c) | 2006 Total £000 | 2005 Total £000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| M Barber | 320 | 320 | 57* | 28 | 376 | 1,101 | 724 |
| X Pullen | 273 | 273 | 48** | 22 | 361 | 977 | 615 |
| K Ford | 263 | 263 | 39 | 21 | 590 | 1,176 | 605 |
| A Lewis-Pratt | 263 | 263 | 35*** | 21 | 297 | 879 | 581 |
| W Sunnucks | 210 | 210 | 30 | 21 | 103 | 574 | 467 |
| PY Gerbeau | 263 | 263 | – | 20 | 41 | 587 | 526 |
| **Non-Executive Directors** | | | | | | | |
| D Cherry | 15 | – | – | – | – | 15 | 36 |
| T Chandos | 125 | – | – | – | – | 125 | 125 |
| P Stobart | 42 | – | – | – | – | 42 | 42 |
| H Mautner | 40 | – | – | – | – | 40 | 42 |
| A Coppin | 38 | – | – | – | – | 38 | 36 |
| P Newton | 18 | – | – | – | – | 18 | 0 |
| W Wolstenholme | 14 | – | – | – | – | 14 | 0 |
| Total | 1,884 | 1,592 | 209 | 133 | 1,768 | 5,586 | 3,799 |

a) Other benefits include the taxable value of private medical insurance and company car, or if a director has opted out of the company car scheme, a salary supplement in lieu of a company car.
b) In respect of 2003 awards.
c) The following amounts will be paid in 2007 in connection with the 2004 CAP award; M Barber £970,000, X Pullen £903,000, K Ford £1,068,000, A Lewis-Pratt £990,000, W Sunnucks £700,000 and PY Gerbeau £479,000.
* £56,738 was paid to M Barber as salary in lieu of pension contributions (2005: £56,738).
** £48,404 was paid to X Pullen as salary in lieu of pension contributions (2005: £48,404).
*** £34,906 was paid to A Lewis-Pratt as salary in lieu of pension contributions (2005: £32,690). In addition in 2005, £2,500 was paid towards A Lewis-Pratt's life assurance policy which was linked to his pension.

## Interests in shares

The directors and, where relevant, their connected persons (within the meaning of Section 346 of the Companies Act 1985) were beneficially interested in the ordinary share capital of the Company at the dates shown in the table below.

| Interests in ordinary shares and CULS | Ordinary shares of 10p each 30 December 2006 shares | Ordinary shares of 10p each 30 December 2005 shares | 6.75% Convertible unsecured loan stock 30 December 2006 £ | 6.75% Convertible unsecured loan stock 30 December 2005 £ |
|---|---|---|---|---|
| M Barber | 2,365,897 | 2,348,900 | 553 | 34,290 |
| X Pullen | 1,101,910 | 1,089,991 | – | 23,693 |
| W Sunnucks | 56,204 | 26,954 | – | – |
| K Ford | 500,649 | 426,512 | – | – |
| A Lewis–Pratt | 95,138 | 62,071 | – | – |
| PY Gerbeau | 66,667 | 33,761 | – | – |
| T Chandos | 40,071 | 45,000 | – | 5,000 |
| D Cherry | 5,580 | 5,580 | – | – |
| P Stobart | – | – | – | – |
| H Mautner | 38,083 | 38,083 | – | – |
| A Coppin | 3,350 | 3,350 | – | – |
| M Wolstenholme | 3,477 | – | – | – |
| P Newton | 4,600 | – | – | – |

There have been no changes to the directors' interests in shares since 30 December 2006 other than the vesting of the 2004 LTIP awards on 20 April 2007 as detailed on page 42 and the exercise and simultaneous sale by Martin Barber of 50,000 share options also on 20 April 2007.

| Interests in share options | As at 30 December 2005 | Exercised | As at 30 December 2006 | Exercise price (p) | Earliest exercise date | Latest exercise date | Exercise condition met |
|---|---|---|---|---|---|---|---|
| M Barber | 50,000 | – | **50,000** | 211.5 | 13/09/03 | 13/09/10 | Yes |
| X Pullen | 100,000 | – | **100,000** | 279.5 | 18/05/01 | 18/05/08 | Yes |
| | 50,000 | – | **50,000** | 211.5 | 13/09/03 | 13/09/10 | Yes |
| | 150,000 | – | **150,000** | | | | |
| K Ford | 175,000 | – | **175,000** | 279.5 | 18/05/01 | 18/05/08 | Yes |
| | 75,000 | 75,000 | **–** | 191.5 | 18/02/02 | 18/02/07 | Yes |
| | 50,000 | – | **50,000** | 211.5 | 13/09/03 | 18/09/10 | Yes |
| | 300,000 | 75,000 | **225,000** | | | | |

During the year K Ford exercised 75,000 share options. The gain on exercise of the options was £748,000.

During the year, the share price ranged from a high of 1543p to a low of 850p. The share price as at 30 December 2006 was 1542p.

No share options were granted during 2006 and no further awards will be made under these schemes to participants of the LTIP.

## Approval

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and was approved by the Board of Directors and signed on its behalf by:

**F Desai**
**Company Secretary**
20 April 2007

## Introduction

The Board of Directors is accountable to the Company's shareholders for the management and control of the Company's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report set out on pages 40 to 45 describe how the Company complies with the provisions of the July 2003 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

## Statement of compliance

The Company has complied throughout the year ended 30 December 2006, except where otherwise explained, with the provisions set out in Section 1 of the Combined Code issued by the Financial Reporting Council in July 2003.

## Application of the principles

### The Board of Directors

Details of the directors are set out on page 37. The Company is controlled through the Board of Directors which comprises the Chairman, six executive and five non-executive directors. The Board recognises that its current balance does not comply with the requirements of the Code in respect of Section A.3.2 which requires at least half the Board, excluding the Chairman, to comprise independent non-executive directors.

The Board and Nomination Committee are satisfied that the current Board composition provides an appropriate balance of power and authority within the Company. The Nomination Committee will however continue to review this position. All the Company's non-executive directors act independently of management and the Board considers that all the non-executive directors are independent. The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office.

P Stobart continued to serve as the Senior Independent Director as required by the Combined Code for the year ended 30 December 2006.

The Company has well established differentiation between the roles of Chairman and Chief Executive. However, it recognises that it is not in compliance with Section A.2.1 of the Code, which requires it to have written terms of reference approved by the Board for each role, and the Company is taking steps to put these in place.

In the Company's view, the breadth of experience and knowledge of the Chairman and the non-executive directors' detachment from the day-to-day issues within the Company provide a sufficiently strong and experienced balance with the executive members of the Board. The breadth of experience attributed to the non-executive directors, allied to the management information provided by the Company, enables them to assess and advise the full Board on the major risks faced by the Company. In accordance with the Combined Code the Company considers all its non-executive directors are independent.

The Board has adopted a schedule of matters reserved for its decision and a schedule of matters delegated to committees, both of which are reviewed at least annually. The Board reserves approval for all significant or strategic decisions including major acquisitions, disposals and financing transactions. The directors are entitled to take independent professional advice as and when necessary.

The responsibilities, which the Board has delegated, are given to committees that operate within specified terms of reference and authority limits, which are reviewed annually or in response to a change in circumstances. An Executive Directors' Committee, comprising the six executives, meets on a weekly basis and deals with all major decisions of the Group not requiring full Board approval or authorisation by other Board committees. The Executive Directors' Committee is quorate with four executive directors in attendance; if decisions are not unanimous the matter is referred to the Board for approval. Minutes from the Executive Directors' Committee meetings are circulated to the Board.

The Audit Committee and Remuneration Committee, consist solely of non-executive directors and meet at least twice a year. During June 2006 to September 2006, the Remuneration and Audit Committees comprised only two members following the retirement of David Cherry, and the Company was not compliant with the requirements of Section B.2.1 of the Code during this period. The Company also recognises that the Nomination Committee does not comprise a majority of independent non-executive directors as required by Section A.4.1 of the Code, and the Company is taking steps to appoint another independent non-executive director.

The Board schedules quarterly meetings each year, as a minimum, and arranges further meetings as the business requires. For each quarterly Board meeting, each member receives up-to-date financial and commercial information in respect of the divisions prior to each meeting, in particular, management accounts budgets and forecasts, details of acquisitions and disposals and relevant appraisals (prior Board approval being required for large transactions) and cash flow forecasts and details of funding availability.

All members of the Board are subject to the re-election provisions in the Articles which require them to offer themselves for re-election at least once every three years and at the first AGM after appointment, if appointed after the last AGM. Details of those directors offering themselves for re-appointment are set out in the directors' report on page 38.

A performance evaluation of the Board and the committees is conducted each year with each director giving detailed input. The Chairman meets as necessary, but at least once each year, with the non-executive directors without the executive directors present. The non-executive directors meet annually without the Chairman in order to appraise his performance. This meeting is chaired by the Senior Independent Director. The Chairman evaluates the performance of the remaining directors and the results of the appraisals are analysed and summarised by the Senior Independent Director and discussed with the Chairman. Subsequently, the results are discussed by the Board and relevant consequential changes are made.

Induction training is given to all new directors appointed in the Company and consists of an introduction to the Board, onsite visits to properties managed by the Group, introduction to the divisional teams, an induction pack and access to independent advisers. The ongoing training requirements of the directors are reviewed on a regular basis and undertaken individually, as necessary, although it is recognised that all members of the Board experience continuous professional development from working together. This is achieved by virtue of the dynamic and diverse mix of the Board members, their sharing of knowledge and experiences gained from a range of commercial backgrounds, and the complement of their personal attributes to the Board.

## Nomination Committee

The committee comprises T Chandos (Chairman), P Stobart, M Barber and H Mautner.

The Nomination Committee meets as required to select and recommend to the Board suitable candidates for both executive and non-executive appointments to the Board. On an annual basis the Nomination Committee also considers succession planning for the Board following the yearly performance evaluation process. The Board is given an opportunity to meet the individual concerned prior to any formal decision. The terms of reference of the Nomination Committee are available for inspection on the Company's website.

During the year, with the help of outside consultants, the committee recommended two new non-executive directors, M Wolstenholme and P Newton. Both individuals met with the Board prior to being appointed.

## Board and committee meetings

The number of meetings of the Board and of the Audit, Remuneration and Nomination Committees, and individual attendance by directors, is set out below:

There were seven full Board meetings during the year of which four were scheduled meetings and three were ad hoc meetings.

| Board meetings attendance | Scheduled meetings | Ad hoc meetings | Total attendance |
|---|---|---|---|
| T Chandos | 4 | 3 | 7 |
| M Barber | 4 | 3 | 7 |
| D Cherry (Retired 5 June 2006) | 1 | 1 | 2 |
| X Pullen | 4 | 3 | 7 |
| W Sunnucks | 4 | 3 | 7 |
| H Mautner | 4 | 1 | 5 |
| K Ford | 4 | 3 | 7 |
| PY Gerbeau | 4 | 3 | 7 |
| P Stobart | 4 | 3 | 7 |
| A Lewis-Pratt | 4 | 3 | 7 |
| A Coppin | 4 | 3 | 7 |
| P Newton (Appointed 28 July 2006) | 1 | 1 | 2 |
| M Wolstenholme (Appointed 17 August 2006) | 2 | 1 | 3 |

There were five Audit Committee meetings during the year.

| Audit Committee meetings | Attendance |
|---|---|
| D Cherry (Retired 5 June 2006) | 2 |
| P Stobart | 5 |
| A Coppin | 5 |
| M Wolstenholme (Appointed 18 September 2006) | 2 |

There were three Remuneration Committee meetings during the year.

| Remuneration Committee meetings | Attendance |
|---|---|
| P Stobart | 3 |
| D Cherry (Retired 5 June 2006) | 2 |
| H Mautner (Retired 18 September 2006) | 2 |
| M Wolstenholme (Appointed 18 September 2006) | 1 |
| P Newton ( Appointed 18 September 2006) | 0 |

There were three Nomination Committee meetings during the year.

| Nomination Committee meetings | Attendance |
|---|---|
| T Chandos | 3 |
| P Stobart | 3 |
| M Barber | 3 |
| H Mautner (appointed 18 September 2006) | 0 |

There were three Responsible Business Committee meetings during the year.

| Responsible Business Committee meetings | Attendance |
|---|---|
| A Coppin | 3 |
| X Pullen | 3 |
| W Sunnucks | 3 |
| A Lewis-Pratt | 2 |

## Directors' remuneration

The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each executive director. The terms of reference of the Remuneration Committee are available for inspection on the Company's website.

A proportion of all executive directors' remuneration consists of cash bonuses (linked to corporate and individual performance achievements), the levels of which are determined by the Remuneration Committee. All the executive directors are eligible to participate in the Long Term Incentive Plan ("LTIP") and Capital Appreciation Plan ("CAP") which were both established on 18 December 2002. The LTIP and CAP schemes were renewed in 2005 for a further three years following shareholder consultation and approval. The fees of the non-executive directors are reviewed by the Board at regular intervals. The statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report on pages 40 to 45.

## Shareholder relations

The Company has always encouraged regular dialogue with its institutional shareholders and private investors at the AGM, and through corporate functions and property visits. In addition, following the announcement of preliminary and interim results, and throughout the year, as requested, the Company holds update meetings with institutional shareholders. All the directors are accessible to all shareholders, and queries received verbally or in writing are immediately addressed. The directors are introduced to shareholders at the AGM each year and the non-executive directors and committee chairmen are clearly identified.

Announcements are made to the London Stock Exchange and the business media concerning business developments to provide wider dissemination of information. In particular, monthly announcements of fund unit valuations provide a regular update on the progress of the business. Registered shareholders are sent copies of both the annual report and accounts and the interim report.

## Accountability and audit

### Financial reporting

The Company's annual report and accounts includes detailed reviews of the activities of each division, together with a detailed review of their financial results and financing position. In this way, and as required by the Combined Code, the Board seeks to present a balanced and understandable assessment of the Company's position and prospects.

### Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating and managing risks faced by the Company. This process has been in place from the start of the 2006 financial year, to the date of approval of these financial statements. Each year the Board conducts a review of the effectiveness of the current system of internal control. There is an internal control matrix in place for each division which is reviewed and updated following meetings with each divisional management team.

The risks for each of the divisions in the Group are classified into financial, administrative and compliance risks, property risks and operational risks. The key features of the Company's system of internal control are as follows:

- Control documents for each area of risk which identify the key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.
- Clearly defined organisational responsibilities and authority limits throughout the Group. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to.
- Financial reporting to the Board including regular reports from the Fund Manager of The Mall, The Junction and X-Leisure Funds and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.

Steps are continuously being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

## Audit Committee

The Audit Committee consists of three non-executive directors, P Stobart (Chairman), A Coppin, M Wolstenholme (Appointed 18 September 2006) and D Cherry (Retired 5 June 2006).

The terms of reference of the Audit Committee are available for inspection on the Company's website. The role of the Audit Committee is to maintain a relationship with the Group's external auditors and to review, in depth, the Company's financial statements, internal financial control and risk management systems and circulars to shareholders in order to monitor financial integrity within the Group.

The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group. The Company does not impose an automatic ban on the Group's external auditors undertaking non-audit work, and details of fees paid to the Group's external auditors are detailed on page 63 in note 5 to the accounts. The Group's aim is always to have any non-audit work involving audit firms carried out in a manner that affords value for money. The Company's policy is that the audit firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group. The Audit Committee reviews and makes recommendations to the Board for the re-appointment of the Group's external auditors. In order to maintain independence the audit partner of the Group's external auditors is subject to rotation at regular intervals. The Audit Committee normally meets five times a year; there is one meeting to approve the audit plan and two for each of the interim and final announcements. The first of the pre-announcement meetings is held early enough to allow the Committee members to have real input into the presentation of the accounts. The Chairman of the Audit Committee reports back to the Board on the key conclusions.

The Committee discharged its obligations in respect of the financial year as follows:

- Financial reporting: during the year the Committee reviewed the interim and annual financial statements. The Committee received a report from the external auditors setting out accounting or judgemental issues which required its attention. The auditors' reports were based on a full audit (annual report) and a high level review (interim report) respectively. The Committee also advised the Board on disclosure, in particular, the disclosure requirements of IFRS.
- Internal Controls and Risk Management: the Audit Committee meets with the external auditors and deals with any significant internal control matter. In the year under review the Committee met with the external auditors on five occasions. The Audit Committee received a paper, prepared by management, on the internal controls of the Company.
- Internal Audit: during the year the Group has taken the first steps towards establishing an internal audit function. It has employed IRS, an experienced firm of risk surveyors, to review cash and security controls at selected locations. This falls short of a full internal audit function as the Company believes that a need for such a function does not currently exist. The Audit Committee is reviewing the next step towards establishing a full internal audit function, but recognises that this should be commensurate with the size and complexity of the group.

## Going concern

In compliance with the Listing Rules of the Financial Services Authority the directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

**F Desai**
**Company Secretary**
20 April 2007

## Introduction

Capital & Regional takes its wider responsibilities seriously because it makes business sense. Proper engagement with our occupiers, local authorities, employees, suppliers and local communities is at the foundation of our business. As we continue to grow, we need to formalise our approach and measure what we do.

In last year's annual report we said we had made a start and had developed a framework covering Governance, Marketplace, Environment, Community and Workplace. This year we lay out the strategic goals we have developed for each area (these are highlighted) together with some practical examples of each policy in action.

## Governance

**We aim to meet stakeholder needs and report on our progress in an open and transparent way. We need to engage properly with all our stakeholders, and have started to apply appropriate governance processes to ensure that we do.**

Each of our three operating divisions has developed its own Responsible Business approach, much of which has been driven and developed through the involvement of our staff at all levels. The Junction, for example, devoted its annual conference to formulate its Responsible Business approach. Everyone within The Junction team played their part. We like this decentralised approach which ensures that our common values and beliefs are developed and deeply embedded in our business.

This decentralised approach is supported and encouraged by a committee of the Board. The Responsible Business Committee includes four main Board directors: Alan Coppin (Chairman), Andrew Lewis-Pratt, Xavier Pullen and William Sunnucks. Meetings are also attended by divisional representatives.

The Responsible Business Committee reports at each Board meeting on relevant developments. The induction for new Board directors explains the procedures for identification, assessment and management of risk, including those arising from social, environmental and ethical issues.

It is the role and responsibility of the Board to take into account all aspects of social, environmental and ethical issues. The Board considers that material risks from social, environmental and ethical issues are limited. However, it takes a proactive approach to risk management of these issues.

Many companies place more emphasis on communication than action. We are determined that our approach will be the other way around. We have appointed Bureau Veritas to assess progress, and we have asked them to make enquiries and provide comfort to the Board that we have reported fully and accurately.

## Marketplace

**Our policy is to treat those who occupy our properties with respect, as our business partners not just payers of rent. We want to work closely with them to improve marketing and safety at our centres and make them attractive to the public.**

We aim to build and improve on existing customer relations. We already measure these relationships. The Junction and The Mall commission independent annual tenant satisfaction surveys. The results of these surveys are improving year on year.

Our approach has the endorsement of our retailers. During 2006 the PMA (Property Managers Association) awarded The Mall "Best Service Charge Provider 2006" in recognition of "outstanding improvements in communication and accounting standards".

## Environment

**We recognise our responsibilities towards the environment. We aim to do what we can to help reduce waste wherever possible and look after our natural resources, ensuring our investments are developed and operated ethically.**

In 2006 our Mall team set up the Enviromall partnership with six environmental specialist organisations including the Carbon Trust and Upstream, a specialist benchmarking firm. Enviromall has been conceived to improve the shopping centre industry's environmental performance through a tailored accreditation scheme.

Upstream has been appointed initially in the Mall and Leisure businesses, our largest consumers of energy, to benchmark our $CO^2$ emissions, and they are now setting targets for reduction. In 2006, the $CO^2$ emissions for The Mall was 21,314 tonnes, a reduction of 993 tonnes from the previous year. The $CO^2$ emissions for X-Leisure was 200,000 tonnes last year.

Our businesses are already implementing significant environmental initiatives. In 2006 The Mall reduced its energy consumption by 4.45%, representing 853 tonnes of $CO^2$. In 2005 consumption was reduced by 4.2% and between 1999 and 2004 a total reduction of 20.8% has been achieved.

## Workplace

**Capital & Regional aims to be a good employer and to develop its staff and treat them fairly.**

We strive to ensure our people are proud to work for our Group. We encourage and foster a culture of innovation, entrepreneurship and team spirit within a supportive environment. Our businesses now employ 936 people and we continue to recruit and retain the best talent available.

We have an equal opportunities policy that applies across the Group prohibiting discrimination on grounds of race, gender, religion, sexual orientation or disability. Our policy includes, where practical, the continued employment of those who become disabled during employment. The Group also respects its employees' basic human rights. Our policies ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit.

Across the Group as a whole we have enhanced our people policies and activities introducing some of the following initiatives on our "C&R People" intranet:

- Group-wide policy on Training and Development
- Procedures on dealing with Harassment and Bullying; Disciplinary and Grievance; Flexible Working; Parental Leave and Dependants; Adoption Leave
- Group-wide policy of Share Dealing
- Group-wide policy on IT and Communication

As the business grows we are committing more to strong people management, constantly looking at how we can improve and develop. The Mall team has developed a comprehensive approach to people and resource management resulting in being recognised as an Investor in People since 2002. The Mall was also named 29th place in the Financial Times "Great Place To Work" survey in 2006.

### Community

**We aim to provide local communities with safe, clean and attractive centres in which to shop and spend leisure time and to recognise that our businesses are integral parts of those communities.**

We do this through the active management of our shopping and leisure centres, where we aim to support community activities and attract a diverse customer base. We actively help co-ordinate community activities where we can, as for example where we have recently raised a total of £345,000 for good causes under the "Mall Cares" banner. Charitable events held by X-Leisure raised £99,715.

Regeneration is a key principle guiding our developments. Development is not our main business, but we do come across a number of opportunities to improve facilities through new building, and this has normally been on brown field sites – examples at Oldbury, Swansea and Cardiff immediately come to mind.

We recognise that we cannot do these projects successfully on our own. We aim to listen to local communities demonstrating our long term commitment to them, to the quality of our schemes and the integrity of our people.

The regeneration of the old Imperial Tobacco factory in South Bristol demonstrates The Junction's inclusive approach. Regular Community Forum meetings have ensured that both during and after the regeneration process the local community is given a voice.

To really encourage local community involvement in a practical way, X-Leisure stages a number of community based events at its various properties: from large events such as the Beach Party at West India Quay each August and the Pride March at Brighton Marina to much smaller ones such as local carol singing groups at Christmas.

## Statement of directors' responsibilities

The directors are responsible for preparing the annual report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standards require that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the Group financial statements of Capital & Regional plc for the year ended 30 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, reconciliation of movement in equity shareholders' funds, the consolidated cash flow statement, and the related notes 1 to 32. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of Capital & Regional plc for the year ended 30 December 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the operating and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 30 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Group financial statements.

## Separate opinion in relation to IFRS

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 30 December 2006 and of its profit for the year then ended.

**Deloitte & Touche LLP**
**Chartered Accountants and Registered Auditors**
London
20 April 2007

# Consolidated income statement

For the year ended 30 December 2006

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| **Revenue** | 2c | **132.1** | 94.2 |
| Cost of sales | | **(15.5)** | (10.7) |
| **Gross profit** | | **116.6** | 83.5 |
| Administrative costs | | **(39.0)** | (34.5) |
| Elimination of negative goodwill | | **–** | 10.6 |
| Share of profit in joint ventures and associates | 15a | **164.6** | 129.3 |
| Gain on revaluation of investment properties | 11a | **26.0** | 21.3 |
| Profit on sale of properties and investments | | **6.3** | 6.7 |
| **Profit on ordinary activities before financing** | | **274.5** | 216.9 |
| Finance income | 3 | **2.0** | 0.8 |
| Finance costs | 4 | **(25.6)** | (19.0) |
| **Profit before taxation** | 5 | **250.9** | 198.7 |
| Current tax | 8 | **(16.5)** | (2.5) |
| Deferred tax | 8 | **(12.1)** | 6.5 |
| Tax (charge)/credit | | **(28.6)** | 4.0 |
| **Profit for the year** | | **222.3** | 202.7 |
| Basic earnings per share | 10 | **311p** | 294p |
| Diluted earnings per share | 10 | **305p** | 284p |

All results derive from continuing activities

# Consolidated balance sheet

As at 30 December 2006

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 11a | **511.4** | 318.3 |
| Interest in long leasehold property | 11a | **16.0** | 13.8 |
| Goodwill | 12 | **12.2** | 12.2 |
| Plant and equipment | 13 | **1.2** | 0.7 |
| Receivables | 14a | **–** | 3.8 |
| Investment in associates | 15b | **685.4** | 583.7 |
| Investment in joint ventures | 15d | **67.6** | 49.8 |
| **Total non-current assets** | | **1,293.8** | 982.3 |
| **Current assets** | | | |
| Trading property assets | 11a | **94.4** | 93.7 |
| Receivables | 14b | **89.0** | 74.5 |
| Cash and cash equivalents | 16 | **35.5** | 40.1 |
| **Total current assets** | | **218.9** | 208.3 |
| **Total assets** | 2a | **1,512.7** | 1,190.6 |
| **Current liabilities** | | | |
| Trade and other payables | 17a | **(69.4)** | (42.9) |
| Current tax liabilities | | **(25.5)** | (13.7) |
| | | **(94.9)** | (56.6) |
| **Non-current liabilities** | | | |
| Bank loans | 18a | **(456.8)** | (395.7) |
| Convertible subordinated unsecured loan stock | 19 | **(1.3)** | (3.0) |
| Other payables | 17b | **(32.8)** | (25.9) |
| Deferred tax liabilities | 8c | **(13.8)** | (1.7) |
| **Total non-current liabilities** | | **(504.7)** | (426.3) |
| **Total liabilities** | 2a | **(599.6)** | (482.9) |
| **Net assets** | 2a | **913.1** | 707.7 |
| **Equity** | | | |
| Called-up share capital | 21 | **7.2** | 7.1 |
| Share premium account | 22 | **219.5** | 216.9 |
| Revaluation reserve | 22 | **2.7** | 0.4 |
| Other reserves | 22 | **9.6** | 11.2 |
| Capital redemption reserve | 22 | **4.3** | 4.3 |
| Own shares held | 22 | **(6.9)** | (1.4) |
| Retained earnings | 22 | **676.7** | 469.2 |
| **Equity shareholders' funds** | 2a | **913.1** | 707.7 |
| Triple net, fully diluted net assets per share | 24 | **£12.72** | £9.85 |
| EPRA diluted net assets per share | 24 | **£12.75** | £10.06 |

These financial statements were approved by the Board of Directors, authorised for issue and signed on their behalf on 20 April 2007 by

**M Barber**
**W Sunnucks**

# Consolidated statement of recognised income and expense

For the year ended 30 December 2006

| | 2006 £m | 2005 £m |
|---|---|---|
| Foreign exchange translation differences | (0.7) | – |
| Revaluation gains on owner occupied property | 2.3 | 0.4 |
| Net investment hedge | – | – |
| Profit for the year | 222.3 | 202.7 |
| Total recognised income and expense | 223.9 | 203.1 |
| Attributable to: | | |
| Equity shareholders | 223.9 | 203.1 |

# Reconciliation of movement in equity shareholders' funds

For the year ended 30 December 2006

| | 2006 £m | 2005 £m |
|---|---|---|
| Opening equity shareholders' funds as restated | 707.7 | 501.2 |
| Issue of shares | 2.7 | 50.1 |
| Acquisition of own shares | (8.3) | – |
| LTIP credit in respect of LTIP charge | 2.1 | 1.9 |
| Arising on conversion/repurchase of CULS | (0.8) | (47.4) |
| Reserve arising on acquisition | – | 9.5 |
| Other movements | (0.1) | – |
| | 703.3 | 515.3 |
| Total recognised income and expense | 223.9 | 203.1 |
| | 927.2 | 718.4 |
| Dividends paid | (14.1) | (10.7) |
| **Closing equity shareholders' funds** | 913.1 | 707.7 |

# Consolidated cash flow statement
For the year ended 30 December 2006

| | Notes | 2006 £m | 2005 £m |
|---|---|---|---|
| **Net cash generated from operations** | 23 | **89.5** | 46.7 |
| Distributions received from joint ventures and associates | | **21.9** | 17.3 |
| Interest paid | 4 | **(22.1)** | (16.6) |
| Interest received | 3 | **1.9** | 0.7 |
| Income taxes paid | | **(3.8)** | (0.4) |
| **Cash flows from operating activities** | | **87.4** | 47.7 |
| **Investing activities** | | | |
| Acquisitions of investment properties | | **(251.4)** | (152.0) |
| Capital expenditure on investment properties | | **(2.0)** | (0.5) |
| Proceeds from sale of investment and trading properties* | | **111.0** | 58.8 |
| Investment in joint ventures | 15d | **(8.1)** | – |
| Loans to joint ventures | | **(0.7)** | (0.2) |
| Disposal of units in associated entity | | **30.0** | – |
| Acquisitions and disposals | | **(14.4)** | (18.0) |
| **Cash flows from investing activities** | | **(135.6)** | (111.9) |
| **Financing activities** | | | |
| Proceeds from the issue of ordinary share capital | | **0.4** | 49.6 |
| Purchase of own shares | | **(8.3)** | – |
| Repurchase of CULS | | **–** | (62.8) |
| Bank loans drawn down | | **639.4** | 325.6 |
| Bank loans repaid | | **(575.0)** | (201.7) |
| Dividends paid to minority interests | 17b | **(0.6)** | – |
| Equity dividends paid | | **(14.1)** | (10.8) |
| **Cash flows from financing activities** | | **41.8** | 99.9 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(6.4)** | 35.7 |
| **Cash and cash equivalents at beginning of year** | | **40.1** | 4.4 |
| Effect of foreign exchange rate changes | | **1.8** | – |
| **Cash and cash equivalents at end of year** | | **35.5** | 40.1 |

* Includes disposals of direct and indirect holdings.

## 1 Significant accounting policies

### General information
Capital & Regional plc is a company incorporated in the United Kingdom under the Companies Act 1985. The nature of the Group's operations and its principal activities are set out in note 2 and in the operating and financial review on pages 6 to 35.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the accounting policies set out below.

At the date of authorisation of these financial statements, the following Standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

*IFRS 7 Financial instruments: Disclosures; and the related amendment to IFRS1 on capital disclosures*
*IFRIC 4 Determining whether an Arrangement contains a Lease*
*IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
*IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
*IFRIC 8 Scope of IFRS 2*
*IFRIC 9 Reassessment of embedded derivatives*
*IFRIC 10 Interin reporting and impairments*
*IFRIC 11 IFRS 2 Group and Treasury Share Transactions*
*IFRIC 12 Service concession agreements*

The directors anticipate that the adoption of these Standards and interpretaions in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into force for periods commencing on or after 1 January 2007.

### Statement of compliance
The consolidated financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS). The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are explained in note 32. The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS regulations.

### Basis of preparation
The financial statements are presented in sterling. They are prepared on the historical cost basis except that investment and development properties, owner-occupied properties and derivative financial instruments are stated at fair value. The accounting policies have been applied consistently, to the results, other gains and losses, assets, liabilities, income and expenses.

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Key judgements include the estimation of fair values of investment properties and derivative financial statements, the assessment of estimated useful lives and residual values of property, plant and equipment and estimates of trade receivables impairment provisions. Management believes that the estimates and associated assumptions used in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. If the revision affects both current and future periods, the charge is recognised over those periods.

The principal accounting policies adopted are set out below.

### Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), joint ventures and associates made up to 31 December each year.

#### Subsidiaries
Subsidiaries are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity, or business, to benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The reporting period for subsidiaries ends on 31 December and the financial statements of subsidiaries are consolidated from this date.

#### Joint ventures and associates
In accordance with IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures", associates and joint ventures are accounted for under the equity method, whereby the consolidated balance sheet and income statement incorporate the Group's share of the net assets and profit after tax. The profits include revaluation movements on investment properties. The reporting period for joint ventures and associates ends on 31 December and the financial statements of joint ventures and associates are consolidated from this date.

## 1 Significant accounting policies continued

### Goodwill
Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquired entity over the Group's interest in the fair value of the assets, liabilities and contingent liabilities acquired. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Where the fair value of the assets, liabilities and contingent liabilities acquired is greater than the cost, the excess, known as negative goodwill, is recognised immediately in the income statement.

### Foreign currency
#### Foreign currency transactions
Transactions in foreign currencies are translated into sterling at exchange rates approximating to the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date and, unless they relate to the hedging of the net investment in foreign operations, differences arising on translation are recognised in the income statement.

#### Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rates ruling at the balance sheet date. The operating income and expenses of foreign operations are translated into sterling at the average exchange rates for the period. Significant transactions, such as property sales, are translated at the foreign exchange rate ruling at the date of each transaction.

The principal exchange rate used to translate foreign currency denominated amounts in the balance sheet is the rate at the end of the year, £1 = €1.484 (2005: £1 = €1.457). The principal exchange rate used for the income statement is the average rate, £1 = €1.467 (2005: £1 = €1.457).

### Plant and equipment
Tangible fixed assets are stated at the lower of cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets, other than investment properties and land, over their expected useful lives:

| | |
|---|---|
| Fixtures and fittings | – over three to five years, on a straight-line basis. |
| Motor vehicles | – over four years, on a straight-line basis. |

### Property portfolio
#### Investment properties
Investment properties are stated at fair value, being the market value determined by professionally qualified external values, with changes in fair value being included in the income statement. In accordance with IAS 40 "Investment Property", no depreciation is provided in respect of properties.

#### Leasehold properties
Leasehold properties that are leased out to tenants under operating leases are classified as investment properties or development properties, as appropriate, and included in the balance sheet at fair value.

#### Owner-occupied long-leasehold properties
Owner-occupied long-leasehold properties are included in the financial statements stated at fair value with changes in fair value recognised directly in equity. The cost of owner-occupied property is depreciated through the income statement over the period to the end of the lease on a straight-line basis having due regard to its estimated residual value.

#### Properties under development
Attributable internal and external costs incurred during the period of development are capitalised, Interest is capitalised gross before deduction of related deferred tax relief. Interest is calculated on the development expenditure by reference to specific borrowings where relevant. A property ceases to be treated as being under development when substantially all activities that are necessary to get the property ready for use are complete.

#### Refurbishment expenditure
Refurbishment expenditure in respect of major works is capitalised. Renovation and refurbishment expenditure of a revenue nature is expensed as incurred.

#### Property transactions
Acquisitions and disposals are accounted for at the date of legal completion. Properties are transferred between categories at the estimated market value on the transfer date.

## 1 Significant accounting policies continued

**Property portfolio** continued
**Current property assets**
Properties held with the intention of disposal are valued at the lower of cost and net realisable value.

**Head leases**
Where an investment property is held under a head lease, the head lease is initially recognised as an asset at the sum of the present value of the minimum lease ground rent payable. The corresponding rent liability to the leaseholder is included in the balance sheet as a finance lease obligation.

**Tenant leases and incentives**
Management has exercised judgement in considering the potential transfer of risks and rewards of ownership in accordance with IAS 17 "Leases" for all properties leased to tenants and concluded that all such leases are operating leases.

Lease incentives and costs associated with entering into tenant leases are amortised over a straight-line basis over the lease term.

**Borrowings and derivatives**
**Borrowings**
Borrowings are held at amortised cost. They are recognised initially at fair value, after taking into account of any discount on issue and attributable transaction costs. Subsequently, such discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability.

**Convertible unsecured loan stock ("CULS")**
CULS are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the option to convert the liability into equity of the Group, is included in equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying value of the CULS.

**Derivative financial instruments and hedge accounting**
As defined by IAS 39 derivatives are carried at fair value in the balance sheet. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement in finance cost line as they arise.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Tax**
Tax is included in the Group income statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

Current tax is based on the taxable profit for the year and is calculated using tax rates that have been enacted or substantially enacted. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are never taxable or tax deductible (permanent differences) or will be taxable at a later date (temporary differences). Temporary differences principally arise from using different balance sheet values for assets and liabilities from their respective tax base values.

Deferred tax is provided using the balance sheet liability method on these temporary differences with the exception of: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred

## 1 Significant accounting policies continued

### Tax continued
tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates applicable at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

### Operating leases
Annual rentals under operating leases are charged to profit or loss as incurred.

### Employee benefits
#### Pension costs
Pension liabilities, all of which relate to defined contribution schemes, are charged to the income statement as incurred.

#### Long-term incentive plan (LTIP)
The Group has applied the arrangements of IFRS 2 “Share-based Payments”. Equity settled share-based payments are measured at fair value at the date of grant. The fair value of share-based employee remuneration is calculated using a normal distribution model, which the directors consider not to be materially different from the binominal model. The fair value is dependent on factors including the exercise price, expected volatility, option life and risk free interest rate. The fair value is expensed on a straight-line over the vesting period.

#### Own shares
Own shares held by the Group are shown as a deduction from shareholders’ funds, and included in other reserves. The cost of own shares is transferred from the own shares held reserve to the retained earnings reserve systematically over the LTIP performance period. The shares are held in an Employee Share Ownership Trust.

### Trade receivables and payables
Trade receivables and payables are initially measured at fair value and subsequently measured at amortised cost and discounted to reflect the time value of money.

### Revenue
#### Performance and management fees
Performance and management fees are recognised, in line with the property management contracts, in the period to which they relate. CRPM earns performance fees on the out performance relative to appropriate IPD index, of the associated Mall and Junction Funds and the fixed benchmark for the X-Leisure Fund. Management fees include income in relation to services provided by CRPM to both the joint ventures and the associated funds for asset management, rent reviews, lettings, project co-ordination, procurement, service charges and directly recoverable expenditure.

#### Net rental income
Net rental income is equal to gross rental income, recognised in the period to which it relates, less property expenses directly related to letting and holding the properties.

#### Interest and dividend income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Dividend income from investments is recognised when the shareholders’ right to receive payment have been established.

## 2 Segmental analysis

### 2a Business and geographic segments

**Business segments on a see through basis**

The Group operates in two main business segments, an assets business and an earnings business. The assets business consists of property investment activities and the earnings business consists of property management activities and the ski slope business of SNO!zone. The businesses are the basis on which the Group reports its primary business segments.

| | | Assets | | Earnings | | Year to 30 December 2006 |
|---|---|---|---|---|---|---|
| **2006** | Note | Property investment UK £m | Property investment Germany £m | Property management UK £m | SNO!zone £m | Total £m |
| Net rents | 2b | 65.5 | 11.5 | – | – | **77.0** |
| Net interest | 2b | (49.6) | (5.7) | – | – | **(55.3)** |
| Contribution | 2b | 15.9 | 5.8 | – | – | **21.7** |
| Management fees | 2c | – | – | 27.4 | – | **27.4** |
| SNO!zone income | 2c | – | – | – | 13.1 | **13.1** |
| SNO!zone expenses | | – | – | – | (11.3) | **(11.3)** |
| Management expenses | | (4.6) | – | (14.0) | – | **(18.6)** |
| Recurring pre-tax profit | | 11.3 | 5.8 | 13.4 | 1.8 | **32.3** |
| Performance fees | 2c, 15f | – | – | 62.6 | – | **62.6** |
| Cost of performance fees | 15c | (20.1) | (0.3) | – | – | **(20.4)** |
| Variable overhead | | – | – | (18.3) | – | **(18.3)** |
| Gain on investment properties | | 149.5 | 17.2 | – | – | **166.7** |
| Profit on disposals | | 11.1 | – | – | – | **11.1** |
| Gain on interest rate swaps | | 23.5 | – | – | – | **23.5** |
| Other non-recurring items | | (2.0) | (2.5) | (2.1) | – | **(6.6)** |
| Profit before tax | | 173.3 | 20.2 | 55.6 | 1.8 | **250.9** |
| Tax | | | | | | **(28.6)** |
| Profit after tax | | | | | | **222.3** |
| Statutory basis | | | | | | |
| Assets | | 1,007.3 | 405.9 | 95.5 | 4.0 | **1,512.7** |
| Liabilities | | (232.4) | (302.4) | (60.5) | (4.3) | **(599.6)** |
| Net assets/(liabilities) at 30 December 2006 | | 774.9 | 103.5 | 35.0 | (0.3) | **913.1** |
| Capital expenditure (see through basis) | | 187.1 | 234.1 | 0.2 | 0.6 | **422.0** |

### 2b Contribution and Net Assets on a see through basis

| **2006** | Note | Gross rent £m | Property costs £m | Net rent £m | Net interest £m | Contribution Year to 30 December 2006 Total £m | Net Assets Year to 30 December 2006 Total £m |
|---|---|---|---|---|---|---|---|
| Mall (C&R share: 24.2%)[1] | 15c | 45.1 | (13.0) | 32.1 | (18.0) | **14.1** | **397.7** |
| Junction (C&R share: 27.3%)[1] | 15c | 14.5 | (3.5) | 11.0 | (9.2) | **1.8** | **245.8** |
| X-Leisure (C&R share: 10.6%)[1] | 15c | 4.9 | (1.0) | 3.9 | (2.5) | **1.4** | **41.9** |
| **Total associates** | 15c | **64.5** | **(17.5)** | **47.0** | **(29.7)** | **17.3** | **685.4** |
| Xscape (C&R share)[2] | | 6.6 | (1.6) | 5.0 | (4.8) | **0.2** | **54.3** |
| Others (C&R share: 50%) | | 0.3 | (0.1) | 0.2 | (0.1) | **0.1** | **13.3** |
| **Total joint ventures** | 15e | **6.9** | **(1.7)** | **5.2** | **(4.9)** | **0.3** | **67.6** |
| Other UK | | 4.6 | 1.3 | 5.9 | (8.2) | **(2.3)** | **3.5** |
| Fix UK | | 4.7 | (1.5) | 3.2 | (3.0) | **0.2** | **53.3** |
| Great Northern[3] | | 5.3 | (1.1) | 4.2 | (3.8) | **0.4** | **(0.2)** |
| Germany | 2d | 14.3 | (2.8) | 11.5 | (5.7) | **5.8** | **103.5** |
| **Total wholly owned** | 2c | **28.9** | **(4.1)** | **24.8** | **(20.7)** | **4.1** | **160.1** |
| **Total on a see through basis** | 2a | **100.3** | **(23.3)** | **77.0** | **(55.3)** | **21.7** | **913.1** |

Associates and Joint Ventures are all held within the United Kingdom.

1 C&R's share at end of year.

2 C&R's share consists of: Xscape Milton Keynes 50% (2005: 50%), Xscape Castleford 66.67% (2005: 66.67%) and Xscape Braehead 50% (2005: 50%).

3 During 2005 Great Northern was a joint venture and became a subsidiary of the Group on 4 October 2005. Since this date Great Northern has been fully consolidated as a 100% subsidiary. The contribution relating to the period to 4 October 2005 is included under other joint ventures. The contribution since that date is included under wholly owned.

## 2 Segmental analysis continued

### 2a Business and geographic segments continued

### Business segments on a see through basis continued

| 2005 | Note | Assets: Property investment UK £m | Assets: Property investment Germany £m | Earnings: Property management UK £m | SNO!zone £m | Year to 30 December 2005 Total £m |
|---|---|---|---|---|---|---|
| Net rents | 2b | 54.0 | 3.3 | – | – | 57.3 |
| Net interest | 2b | (40.5) | (2.4) | – | – | (42.9) |
| Contribution | 2b | 13.5 | 0.9 | – | – | 14.4 |
| Management fees | 2c | – | – | 22.8 | – | 22.8 |
| SNO!zone income | 2c | – | – | – | 9.3 | 9.3 |
| SNO!zone expenses | | – | – | – | (7.6) | (7.6) |
| Management expenses | | (3.2) | – | (12.6) | – | (15.8) |
| Recurring pre-tax profit | | 10.3 | 0.9 | 10.2 | 1.7 | 23.1 |
| Performance fees | 2c, 15f | – | – | 50.9 | – | 50.9 |
| Cost of performance fees | 15c | (17.1) | – | – | – | (17.1) |
| Variable overhead | | – | – | (18.6) | – | (18.6) |
| Gain on investment properties | | 148.1 | 5.8 | – | – | 153.9 |
| Write back of negative goodwill | | 10.6 | – | – | – | 10.6 |
| Profit on disposals | | 9.4 | – | – | – | 9.4 |
| Loss on interest rate swaps | | (11.3) | – | – | – | (11.3) |
| Other non-recurring items | | (1.1) | (1.1) | – | – | (2.2) |
| Profit before tax | | 148.9 | 5.6 | 42.5 | 1.7 | 198.7 |
| Tax | | | | | | 4.0 |
| Profit after tax | | | | | | 202.7 |
| Statutory basis | | | | | | |
| Assets | | 967.9 | 149.4 | 70.9 | 2.4 | 1,190.6 |
| Liabilities | | (332.2) | (106.1) | (42.1) | (2.5) | (482.9) |
| Net assets/(liabilities) at 30 December 2005 | | 635.7 | 43.3 | 28.8 | (0.1) | 707.7 |
| Capital expenditure (see through basis) | | 302.5 | 130.1 | 0.2 | 0.2 | 433.0 |

### 2b Contribution and Net Assets on a see through basis continued

| 2005 | Note | Gross rent £m | Property costs £m | Net rent £m | Net interest £m | Contribution Year to 30 December 2005 Total £m | Net Assets Year to 30 December 2005 Total £m |
|---|---|---|---|---|---|---|---|
| Mall (C&R share: 26.1%)[1] | | 41.4 | (12.0) | 29.4 | (14.5) | 14.9 | 344.6 |
| Junction (C&R share: 27.3%)[1] | | 13.0 | (2.7) | 10.3 | (8.0) | 2.3 | 207.7 |
| X-Leisure (C&R share: 10.7%)[1] | | 4.7 | (0.9) | 3.8 | (2.5) | 1.3 | 31.4 |
| Total associates | 15c | 59.1 | (15.6) | 43.5 | (25.0) | 18.5 | 583.7 |
| Xscape (C&R share)[2] | | 4.5 | (0.9) | 3.6 | (3.6) | – | 45.8 |
| Others (C&R share: 50%) | | 2.4 | (0.9) | 1.5 | (1.5) | – | 4.0 |
| Total joint ventures | 15e | 6.9 | (1.8) | 5.1 | (5.1) | – | 49.8 |
| Other UK | | 3.3 | 0.2 | 3.5 | (9.0) | (5.5) | 14.5 |
| Fix UK | | 0.4 | (0.1) | 0.3 | (0.2) | 0.1 | 18.4 |
| Great Northern[3] | | 2.0 | (0.4) | 1.6 | (1.2) | 0.4 | (2.0) |
| Germany | 2d | 5.3 | (2.0) | 3.3 | (2.4) | 0.9 | 43.3 |
| Total wholly owned | 2c | 11.0 | (2.3) | 8.7 | (12.8) | (4.1) | 74.2 |
| Total on a see through basis | 2a | 77.0 | (19.7) | 57.3 | (42.9) | 14.4 | 707.7 |

Associates and Joint Ventures are all held within the United Kingdom.

1 C&R's share at end of year.

2 C&R's share consists of: Xscape Milton Keynes 50%, Xscape Castleford 66.67% and Xscape Braehead 50%.

3 During 2005 Great Northern was a joint venture and became a subsidiary of the Group on 4 October 2005. Since this date Great Northern has been fully consolidated as a 100% subsidiary. The contribution relating to the period to 4 October 2005 is included under other joint ventures. The contribution since that date is included under wholly owned

## 2 Segmental analysis continued

### 2c Revenue

| | Note | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|---|
| **Assets business** | | | |
| Property investment – wholly owned gross rents | 2b | **28.9** | 11.0 |
| **Earnings business** | | | |
| Property management – management fees | 2a | **27.4** | 22.8 |
| Property management – performance fees | 2a, 15f | **62.6** | 50.9 |
| SNO!zone | 2a | **13.1** | 9.3 |
| Other revenue | | **0.1** | 0.2 |
| **Revenue per consolidated income statement** | | **132.1** | 94.2 |
| Finance income | 3 | **2.0** | 0.8 |
| Total revenue | 2d | **134.1** | 95.0 |

CRPM earns performance fees on the out-performance of the funds. The performance fees accrued in the period to 30 December 2006 are £62.6 million (30 December 2005: £50.9 million).

### 2d Geographical segments

| | Note | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|---|
| **Revenue by geographical market** | | | |
| United Kingdom | | **119.8** | 89.7 |
| Germany | 2b | **14.3** | 5.3 |
| Total revenue | 2c | **134.1** | 95.0 |
| **Segment net assets** | | | |
| United Kingdom | | **809.6** | 664.4 |
| Germany | 2b | **103.5** | 43.3 |
| Total assets | 2a, 2b | **913.1** | 707.7 |
| **Capital expenditure (C&R share)** | | | |
| United Kingdom | | **187.9** | 302.9 |
| Germany | 2a | **234.1** | 130.1 |
| Total capital expenditure | 2a | **422.0** | 433.0 |

## 3 Finance income

| | Note | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|---|
| Interest receivable | | **1.9** | 0.7 |
| Other income | | **0.1** | 0.1 |
| Total finance income | 2c | **2.0** | 0.8 |

## 4 Finance costs

| | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|
| Interest on bank loans and overdrafts | **22.1** | 11.6 |
| Interest receivable on swaps | **(0.6)** | (0.4) |
| Interest on other loans | **0.3** | 1.0 |
| Interest payable | **21.8** | 12.2 |
| Amortisation of loan issue costs | **0.9** | 0.7 |
| Unwinding of discounting of CAP awards | **2.2** | – |
| Exceptional charge on buy back of CULS | **–** | 4.2 |
| Share of income attributable to minority interest classified as a liability | **2.6** | 1.3 |
| Other interest payable | **1.3** | – |
| (Gain)/loss in fair value of interest rate swaps | **(3.1)** | 0.6 |
| Fair value gains on interest rate swaps transferred from equity | **(0.1)** | – |
| **Total finance costs** | **25.6** | 19.0 |

## 5 Profit before taxation

| | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|
| This is arrived at after charging/(crediting): | | |
| Depreciation – owned assets | **0.3** | 0.4 |
| Amortisation of short-leasehold properties | **0.1** | 0.1 |
| Net exchange gains/(losses) | **0.2** | (0.1) |
| Increase in fair value of investment property | **26.0** | 21.3 |
| Staff costs (see note 6) | **33.5** | 31.1 |
| Auditors' remuneration (see below) | **0.7** | 0.6 |
| **Auditors' remuneration** | | |
| Fees payable to the company's auditors for the audit of the company's annual accounts | **0.2** | 0.2 |
| Fees payable to the company's auditors and their associates for other services to the group | | |
| – The audit of the companies' subsidiaries and joint ventures pursuant to legislation | **0.3** | 0.3 |
| – Audit fees for IFRS conversion | **0.1** | – |
| **Total audit fees** | **0.6** | 0.5 |
| Non-audit fees (see below) | **0.1** | 0.1 |
| **Total fees paid to auditors** | **0.7** | 0.6 |

Included in non-audit fees are amounts for services supplied pursuant to such legislation £82,000 (2005: £64,000), services relating to tax £10,000 (2005: £10,000) and other services £21,000 (2005: £25,000).

Fees payable to Deloitte and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

## 6 Staff costs, including directors

All remuneration is paid by Capital & Regional Property Management Ltd (a subsidiary company of Capital & Regional plc) and the SNO!zone companies.

| | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|
| Salaries | **13.7** | 10.9 |
| Discretionary bonuses | **4.9** | 4.3 |
| Capital appreciation plan | **7.9** | 10.1 |
| Share-based employee remuneration[1] | **2.1** | 2.0 |
| Wages and salaries | **28.6** | 27.3 |
| Social security | **4.8** | 3.7 |
| Other pension costs | **0.1** | 0.1 |
| | **33.5** | 31.1 |

Key personnel are considered to be the directors as they are the persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Details of their remuneration is disclosed in the Directors' Remuneration Report on pages 40 to 45.

Except for the directors, Capital & Regional plc has no employees. The cost of directors is borne by CRPM and shown in the directors' remuneration report.

1 Details of fair value assumptions are disclosed in note 21.

### Staff numbers

The monthly average number of persons including directors employed by the Group during the year was as follows:

| | 2006 Number | 2005 Number |
|---|---|---|
| Central management | **168** | 140 |
| SNO!zone | **311** | 217 |
| Total | **479** | 357 |

This does not include employees in the Mall and X-Leisure employed at fund level.

## 7 Directors emoluments

Full details of the directors' emoluments, as required by the Companies Act 1985, are disclosed in the audited sections of the remuneration report on pages 40 to 45.

## 8 Tax

### 8a Tax charge/(credit)

| | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|
| Current tax charge | | |
| UK corporation tax | **6.6** | 2.0 |
| Adjustments in respect of prior years | **9.7** | 0.5 |
| Foreign tax | **0.2** | – |
| Total current tax charge | **16.5** | 2.5 |
| Deferred tax charge/(credit) | | |
| On net income before revaluations and disposals | **9.7** | (6.1) |
| On revaluations and disposals | **0.3** | (0.4) |
| Adjustments in respect of prior years | **2.1** | – |
| Total deferred tax | **12.1** | (6.5) |
| Total taxation charge/(credit) | **28.6** | (4.0) |

## 8 Tax continued

### 8b Tax charge reconciliation

| | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|
| Profit before tax | **250.9** | 198.7 |
| Profit multiplied by the UK corporation tax rate of 30% | **75.3** | 59.6 |
| Non-allowable expenses and non-taxable items | **(6.1)** | (17.5) |
| Utilisation of tax losses | **(3.9)** | – |
| Tax on realised gains | **(3.5)** | 0.3 |
| Unrealised gains on investment property not taxable | **(45.0)** | (46.9) |
| Prior year adjustments | **11.8** | 0.5 |
| Tax charge/(credit) | **28.6** | (4.0) |

### 8c Deferred tax movements

| | Capital gains net of capital losses £m | Capital allowances £m | Other timing differences £m | Total £m |
|---|---|---|---|---|
| As at 30 December 2005 | 3.8 | 6.8 | (8.9) | 1.7 |
| Recognised in income | 1.9 | 3.6 | 6.6 | 12.1 |
| **As at 30 December 2006** | **5.7** | **10.4** | **(2.3)** | **13.8** |

At balance sheet date, the Group has unused tax losses of £0.7 million (2005: £3.5 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2005: £ nil). The remaining tax losses have not been recognised due to the unpredictability of future profit streams.

The calculation of the Group's tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. In such cases, the Group has reserved on the basis that these provisions are required. If all such issues are resolved in the Group's favour, provisions of up to £18.4 million could be released in future periods.

A significant part of the Group's property interests is held offshore. The Group has also undertaken a restructuring of its activities to separate legally its income and earnings businesses, in line with its business model. The Group has been advised that no capital gains tax liability arises on these transactions although the relevant computations have yet to be agreed.

## 9 Dividends

| | Note | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | | |
| Final of 11p per share paid on 16 June 2006 (2005: 9p per share) | | **7.7** | 5.9 |
| Interim of 9p per share paid on 13 October 2006 (2005: 7p per share) | | **6.4** | 4.9 |
| | 22 | **14.1** | 10.8 |
| Proposed final of 17p payable on 15 June 2007 (2005: 11p per share) | | **11.9** | 7.7 |

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

## 10 Earnings per share

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain earnings per share information and these are shown in the following tables.

| 2006 | Earnings £m | Weighted average number of shares | Pence per share |
|---|---|---|---|
| **Basic** | **222.3** | **71.5** | **311p** |
| Dilutive share options | **–** | **0.5** | |
| Conversion of Convertible Unsecured Loan Stock | **0.2** | **0.9** | |
| **Diluted** | **222.5** | **72.9** | **305p** |
| Revaluation movements on investment properties, development properties and other investments | **(166.7)** | | **(228)p** |
| Profit on disposal of investment properties (net of tax) | **(10.8)** | | **(15)p** |
| Movement in fair value of interest rate swaps | **(23.5)** | | **(32)p** |
| Deferred tax charge | **11.7** | | **16p** |
| **EPRA diluted** | **33.2** | | **46p** |

| 2005 | Earnings £m | Weighted average number of shares | Pence per share |
|---|---|---|---|
| **Basic** | 202.7 | 69.0 | 294p |
| Dilutive share options | – | 0.7 | |
| Conversion of Convertible Unsecured Loan Stock | 1.1 | 2.1 | |
| **Diluted** | 203.8 | 71.8 | 284p |
| Revaluation movements on investment properties, development properties and other investments | (155.8) | | (217)p |
| Profit on disposal of investment properties (net of tax) | (6.5) | | (9)p |
| Negative goodwill | (10.6) | | (15)p |
| Movement in fair value of interest rate swaps | 7.9 | | 11p |
| Deferred tax credit | (2.4) | | (3)p |
| **EPRA diluted** | 36.4 | | 51p |
| Exclude tax effect of CULS buyback | (13.0) | | (18)p |
| **Adjusted EPRA diluted** | 23.4 | | 33p |

The calculation includes the full conversion of the Convertible Unsecured Loan Stock where the effect on earnings per share is dilutive.

The Convertible Unsecured Loan Stock charge added back to give the diluted earnings figures is net of tax at the effective tax rate for the year.

Own shares held are included within the basic number of shares as they are purchased at market value.

## 11 Property assets

### 11a Wholly-owned property assets

| | Freehold investment property assets £m | Leasehold investment property assets £m | Sub-total investment property assets £m | Owner-occupied building £m | Trading property assets £m | **Total property assets £m** |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| As at 31 December 2004 | 1.2 | 82.6 | 83.8 | 12.0 | – | **95.8** |
| Exchange adjustments | 1.8 | – | 1.8 | – | – | **1.8** |
| Acquisitions | 197.7 | 18.1 | 215.8 | – | 93.7 | **309.5** |
| Additions | – | 0.5 | 0.5 | – | – | **0.5** |
| Depreciation | – | (0.2) | (0.2) | (0.1) | – | **(0.3)** |
| Disposals | – | (4.4) | (4.4) | – | – | **(4.4)** |
| Head lease treated as a finance lease | – | (0.3) | (0.3) | – | – | **(0.3)** |
| Revaluation movement recognised in income | 4.2 | 17.1 | 21.3 | – | – | **21.3** |
| Revaluation movement recognised in equity | – | – | – | 1.9 | – | **1.9** |
| As at 31 December 2005 | 204.9 | 113.4 | 318.3 | 13.8 | 93.7 | **425.8** |
| Exchange adjustments | (5.8) | – | (5.8) | – | – | **(5.8)** |
| Acquisitions | 272.1 | – | 272.1 | – | – | **272.1** |
| Additions | 2.0 | – | 2.0 | – | 0.7 | **2.7** |
| Depreciation | – | – | – | (0.1) | – | **(0.1)** |
| Disposals* | (5.1) | (96.1) | (101.2) | – | – | **(101.2)** |
| Revaluation movement recognised in income | 25.9 | 0.1 | 26.0 | – | – | **26.0** |
| Revaluation movement recognised in equity | – | – | – | 2.3 | – | **2.3** |
| **As at 30 December 2006** | **494.0** | **17.4** | **511.4** | **16.0** | **94.4** | **621.8** |

* Includes disposals of direct and indirect holdings.

The owner-occupied building represents the Group's head office, which was independently valued at 30 December 2006.

The historical cost of the owner-occupied building, which is a long leasehold land and building, after depreciation is £13.0 million (2005: £13.1 million). The lease has more than 50 years remaining.

The carrying amount of property assets includes £ nil (2005: £2.5 million) in respect of capitalised interest calculated using the Group's average cost of borrowings.

The Group has pledged land and buildings having a carrying amount of £527.4 million (2005: £332.1 million) to secure banking facilities granted to the Group.

## 11 Property assets continued

### 11b Investment property assets

| | Valuer | Basis of valuation | Note | 2006 valuation £m | 2005 valuation £m |
|---|---|---|---|---|---|
| **Group properties** | DTZ Debenham Tie Leung | Market value | | **402.5** | 135.9 |
| | CB Richard Ellis Limited | Market value | | **–** | 68.8 |
| | Directors' valuations | Market value | | **0.2** | 0.2 |
| | King Sturge | Market value | | **109.8** | 116.3 |
| | | | | **512.5** | 321.2 |
| Plus: Head leases treated as finance leases | | | | **–** | 2.1 |
| Less: Unamortised tenant incentives | | | | **(1.1)** | (5.0) |
| **Total investment properties** | | | 11a | **511.4** | 318.3 |
| Other fixed assets | DTZ Debenham Tie Leung | Existing use | 11a | **16.0** | 13.8 |
| Trading property asset | n/a | Historic cost | 11a | **94.4** | 93.7 |
| Total property assets | | | 11a | **621.8** | 425.8 |
| **Properties held by joint ventures** | | | | | |
| Xscape Milton Keynes Partnership | DTZ Debenham Tie Leung | Market value | | **109.5** | 97.6 |
| Xscape Castleford Partnership | DTZ Debenham Tie Leung | Market value | | **73.8** | 73.5 |
| Xscape Braehead Partnership | DTZ Debenham Tie Leung | Market value | | **78.8** | 53.5 |
| Manchester Evening News Arena | CB Richard Ellis Limited | Market value | | **66.5** | – |
| | | | | **328.6** | 224.6 |
| Plus: Head leases treated as finance leases | | | | **3.5** | – |
| Less: Unamortised tenant incentives | | | | **(11.4)** | (9.7) |
| **Total investment properties** | | | 15e | **320.7** | 214.9 |
| **Properties held by associates** | | | | | |
| The Mall Limited Partnership | DTZ Debenham Tie Leung | Market value | | **3,125.0** | 2,338.0 |
| The Junction Limited Partnership | King Sturge | Market value | | **1,590.0** | 1,459.0 |
| X-Leisure Limited Partnership | Jones Lang LaSalle | Market value | | **807.0** | 702.0 |
| | | | | **5,522.0** | 4,499.0 |
| Plus: Head leases treated as finance leases | | | | **89.0** | 95.0 |
| Less: Unamortised tenant incentives | | | | **(43.9)** | (33.8) |
| **Total investment properties** | | | 15c | **5,567.1** | 4,560.2 |

The independent property valuations as at 30 December 2006, were performed by qualified professional valuers working for DTZ Debenham Tie Leung, Chartered Surveyors, CB Richard Ellis Limited, Chartered Surveyors, Jones Lang LaSalle, Chartered Surveyors and King Sturge, Chartered Surveyors.

The properties were valued on the basis of market value, with the exception of 10 Lower Grosvenor Place, London SW1, which was appraised on the basis of existing use value. All valuations were carried out in accordance with the Royal Institute of Chartered Surveyors Appraisals and Valuation Standards and with IVA 1 of the International Valuation Standards. Valuation fees are based on a fixed percentage of the portfolio value.

## 12 Goodwill

| | £m |
|---|---|
| **As at 30 December 2005 and 30 December 2006** | **12.2** |

The goodwill carried in the Group balance sheet relates to the acquisition of the MWB fund management business, by CRPM, in 2003, which included MWB's 13.29% interest in Leisure Fund 1, 5.72% interest in Leisure Fund IIa and 7.09% interest in Leisure Fund IIb. This goodwill is tested annually for impairment or more frequently if there are indications that the goodwill might be impaired. Impairment is tested by comparing the carrying amount of CRPMs' assets and liabilities with its estimated market value. Estimates of the market value of CRPM are taken from the publicly available research from various City firms who regularly report on Capital & Regional plc. These estimates are calculated by using price earnings ratios and percentage asset under management multiples of the quoted equity fund management sector.

## 13 Plant and equipment

| | Plant and equipment 2006 £m | Plant and equipment 2005 £m |
|---|---|---|
| Cost or valuation | | |
| As at 31 December | **2.5** | 2.1 |
| Additions | **0.8** | 0.4 |
| **As at 30 December** | **3.3** | 2.5 |
| Depreciation | | |
| As at 31 December | **1.8** | 1.6 |
| Provided for the year | **0.3** | 0.2 |
| **As at 30 December** | **2.1** | 1.8 |
| Carrying amounts: | | |
| **As at 30 December** | **1.2** | 0.7 |

Included in plant and equipment above are the following investments:

£150,000 4.5% Treasury Stock 2007.
£50,055 of units in the Paddington Central III Unit Trust, the fair value of which is not materially different from the carrying value.
£10,000 representing the fair value of a 49.99% interest in Best Park Investments Limited acquired in the year. The Group treats this as an investment, rather than as an associate, as it does not exercise any significant influence or control over the entity.

## 14 Receivables

### 14a Non-current receivables

| | 30 December 2006 Total £m | 30 December 2005 Total £m |
|---|---|---|
| Prepayments and accrued income | **–** | 3.8 |

### 14b Current receivables

| | 30 December 2006 Total £m | 30 December 2005 Total £m |
|---|---|---|
| Trade receivables | **4.2** | 2.4 |
| Amounts owed by joint ventures | **0.8** | 0.4 |
| Amounts owed by associates | **66.2** | 54.4 |
| Other receivables | **8.4** | 14.0 |
| Tax recoverable | **1.1** | 0.9 |
| Fair value of interest rate swaps | **3.4** | 0.7 |
| Prepayments and accrued income | **4.9** | 1.7 |
| | **89.0** | 74.5 |

## 15 Associates and joint ventures

### 15a Share of profit

| | Note | Year to 30 December 2006 £m | Year to 30 December 2005 £m |
|---|---|---|---|
| Associates | 15c | **153.4** | 116.3 |
| Joint ventures | 15e | **11.2** | 13.0 |
| | | **164.6** | 129.3 |

## 15 Associates and joint ventures continued

### 15b Investment in associates

| | Note | 30 December 2006 £m | 30 December 2005 £m |
|---|---|---|---|
| At the beginning of the year | | **583.7** | 477.1 |
| Subscription for partnership units and advances | | **–** | 3.5 |
| Disposal of Mall units | | **(30.7)** | – |
| Dividends and capital distributions received | | **(21.0)** | (13.2) |
| Share of results (see below) | 15c | **153.4** | 116.3 |
| At end of the year | 15c | **685.4** | 583.7 |

### 15c Analysis of investment in associates

| | Note | The Mall LP £m | The Junction LP £m | X-Leisure* LP £m | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|---|---|---|---|
| **Income statement (100%)** | | | | | | |
| Revenue | | 176.3 | 53.2 | 46.0 | **275.5** | 243.8 |
| Property expenses | | (33.9) | (2.6) | (6.0) | **(42.5)** | (34.1) |
| Management expenses | | (17.0) | (10.4) | (3.5) | **(30.9)** | (30.1) |
| Net rents | | 125.4 | 40.2 | 36.5 | **202.1** | 179.6 |
| Net interest payable | | (70.4) | (33.6) | (23.5) | **(127.5)** | (108.3) |
| Contribution | | 55.0 | 6.6 | 13.0 | **74.6** | 71.3 |
| Performance fees | 15f | (49.2) | (22.2) | (13.0) | **(84.4)** | (69.6) |
| Gain on investment properties | | 325.5 | 148.7 | 85.1 | **559.3** | 495.6 |
| Profit/(loss) on sale of investment properties | | 7.4 | (0.9) | 4.2 | **10.7** | 2.3 |
| Fair value of interest rate swaps | | 52.1 | 21.0 | 13.2 | **86.3** | (33.0) |
| Profit before and after tax (100%) | | 390.8 | 153.2 | 102.5 | **646.5** | 466.6 |
| **Balance sheet (100%)** | | | | | | |
| Investment property | 11b | 3,185.2 | 1,568.3 | 813.6 | **5,567.1** | 4,560.2 |
| Current assets | | 158.8 | 91.1 | 43.9 | **293.8** | 244.4 |
| Current liabilities | | (139.4) | (68.2) | (54.4) | **(262.0)** | (214.6) |
| Non-current liabilities | | (1,562.8) | (694.9) | (407.9) | **(2,665.6)** | (2,217.8) |
| **Net assets (100%)** | | 1,641.8 | 896.3 | 395.2 | **2,933.3** | 2,372.2 |
| C&R interest at year end | | 24.24% | 27.32% | 10.59% | | |
| C&R interest at start of year | | 26.12% | 27.32% | 10.72% | | |
| C&R average interest during the year | | 25.62% | 27.32% | 10.62% | | |
| **Group share of** | | | | | | |
| Revenue | 2b | 45.1 | 14.5 | 4.9 | **64.5** | 59.1 |
| Net rents | 2b | 32.1 | 11.0 | 3.9 | **47.0** | 43.5 |
| Net interest payable | 2b | (18.0) | (9.2) | (2.5) | **(29.7)** | (25.0) |
| Contribution | 2b | 14.1 | 1.8 | 1.4 | **17.3** | 18.5 |
| Performance fees | 2a | (12.6) | (6.1) | (1.4) | **(20.1)** | (17.1) |
| Gain on investment properties | | 84.1 | 40.7 | 9.1 | **133.9** | 121.4 |
| Profit/(loss) on sale of investment properties | | 1.9 | (0.2) | 0.4 | **2.1** | 0.6 |
| Fair value of interest rate swaps | | 13.1 | 5.7 | 1.4 | **20.2** | (7.1) |
| Profit for the year | 15b | 100.6 | 41.9 | 10.9 | **153.4** | 116.3 |
| Investment property | | 772.1 | 428.5 | 86.2 | **1,286.8** | 1,099.2 |
| Current assets | | 38.5 | 24.9 | 4.6 | **68.0** | 60.1 |
| Current liabilities | | (33.8) | (19.2) | (5.8) | **(58.8)** | (70.8) |
| Non-current liabilities | | (378.8) | (189.3) | (43.1) | **(611.2)** | (504.5) |
| Associate net assets | | 398.0 | 244.9 | 41.9 | **684.8** | 584.0 |
| Unrealised (loss)/profit on sale of property to associate | | (0.3) | 0.9 | – | **0.6** | (0.3) |
| Group share of associate net assets | | 397.7 | 245.8 | 41.9 | **685.4** | 583.7 |

* X-Leisure is accounted for as an associate as Capital & Regional has significant influence arising from its membership of the General Partner Board. The X-Leisure results have been adjusted, to conform to Group accounting policies, to remove the sale of Star City which did not complete until after the year end.

## 15 Associates and joint ventures continued

### 15d Investment in joint ventures

| | Note | 30 December 2006 £m | 30 December 2005 £m |
|---|---|---|---|
| At the beginning of the year | | **49.8** | 46.8 |
| Investment in new joint ventures | | **8.1** | – |
| Acquisition of Morrison Merlin Limited from a joint venture to a subsidiary entity | | **–** | (6.1) |
| Dividends and capital distributions receivable | | **(1.5)** | (3.9) |
| Share of results (see below) | 15e | **11.2** | 13.0 |
| At end of the year | 15e | **67.6** | 49.8 |

### 15e Analysis of investment in joint ventures

| | Note | Xscape Milton Keynes Partnership £m | Xscape[1] Castleford Partnership £m | Xscape Braehead Partnership £m | Others[2] £m | Year to 30 December 2006 Total £m | Year to 30 December 2005 Total £m |
|---|---|---|---|---|---|---|---|
| **Income statement (100%)** | | | | | | | |
| Revenue | | 5.6 | 3.2 | 3.3 | 1.1 | **13.2** | 12.7 |
| Property expenses | | (0.2) | (1.3) | (0.9) | (0.4) | **(2.8)** | (3.0) |
| Management expenses | | (0.1) | (0.1) | (0.1) | – | **(0.3)** | (0.3) |
| Net rents | | 5.3 | 1.8 | 2.3 | 0.7 | **10.1** | 9.4 |
| Net interest payable | | (2.8) | (3.1) | (2.5) | (0.4) | **(8.8)** | (9.2) |
| Contribution | | 2.5 | (1.3) | (0.2) | 0.3 | **1.3** | 0.2 |
| Gain on investment properties | | 11.9 | 0.9 | (0.7) | 1.7 | **13.8** | 21.0 |
| Profit on sale of investment properties | | – | – | – | 5.5 | **5.5** | 4.2 |
| Fair value of interest rate swaps | | 0.4 | 0.5 | 1.8 | 0.2 | **2.9** | (0.6) |
| Profit before and after tax (100%) | | 14.8 | 0.1 | 0.9 | 7.7 | **23.5** | 24.8 |
| **Balance sheet (100%)** | | | | | | | |
| Investment property | 11b | 105.9 | 71.1 | 73.6 | 70.1 | **320.7** | 214.9 |
| Current property assets | | – | – | – | 0.5 | **0.5** | 0.5 |
| Current assets | | 7.0 | 5.5 | 8.2 | 22.2 | **42.9** | 32.4 |
| Current liabilities | | (3.4) | (8.9) | (10.6) | (6.7) | **(29.6)** | (23.4) |
| Non-current liabilities | | (46.7) | (45.6) | (54.8) | (50.9) | **(198.0)** | (132.0) |
| **Net assets (100%)** | | 62.8 | 22.1 | 16.4 | 35.2 | **136.5** | 92.4 |
| C&R interest at year end | | 50.00% | 66.67% | 50.00% | 30-50% | | |
| **Group share of** | | | | | | | |
| Revenue | 2b | 2.8 | 2.1 | 1.7 | 0.3 | **6.9** | 6.9 |
| Net rents | 2b | 2.7 | 1.2 | 1.1 | 0.2 | **5.2** | 5.1 |
| Net interest payable | 2b | (1.4) | (2.1) | (1.3) | (0.1) | **(4.9)** | (5.1) |
| Contribution | 2b | 1.3 | (0.9) | (0.2) | 0.1 | **0.3** | – |
| Gain on investment properties | | 6.0 | 0.7 | (0.4) | 0.5 | **6.8** | 11.2 |
| Profit on sale of investment properties | | – | – | – | 2.7 | **2.7** | 2.1 |
| Fair value of interest rate swaps | | 0.2 | 0.3 | 0.9 | – | **1.4** | (0.3) |
| Profit for the year | 15d | 7.5 | 0.1 | 0.3 | 3.3 | **11.2** | 13.0 |
| Investment property | | 53.0 | 47.4 | 36.8 | 21.1 | **158.3** | 119.1 |
| Current property assets | | – | – | – | 0.3 | **0.3** | 0.3 |
| Current assets | | 3.5 | 3.7 | 4.1 | 10.2 | **21.5** | 17.1 |
| Current liabilities | | (1.7) | (6.0) | (5.3) | (3.1) | **(16.1)** | (13.1) |
| Non-current liabilities | | (23.4) | (30.4) | (27.4) | (15.2) | **(96.4)** | (73.6) |
| **Group share of joint venture net assets** | 15d | 31.4 | 14.7 | 8.2 | 13.3 | **67.6** | 49.8 |

1 Capital & Regional plc has a 66.67% share in Xscape Castleford Partnership. The investment is accounted for as a joint venture, rather than a subsidiary, as a result of joint control and deadlock agreements that are in place.

2 Principally the joint ventures are at Glasgow Fort with British Land plc (C&R share 50%) and at the Manchester Evening News Arena Complex with GE Capital (C&R share 30%). The investment at Manchester Evening News Arena is accounted for as a joint venture, rather than an associate, as a result of joint control agreements that are in place.

## 15 Associates and joint ventures continued

### 15f Performance fees

| | Note | The Mall* LP £m | The Junction LP £m | The X-Leisure LP £m | **Year to 30 December 2006 Total £m** | Year to 30 December 2005 Total £m |
|---|---|---|---|---|---|---|
| Property manager – payable to C&R | 2a,2c | 35.5 | 16.7 | 10.4 | **62.6** | 50.9 |
| Property manager – payable by C&R to others* | | 1.5 | – | – | **1.5** | – |
| Fund manager – payable to others | | 12.2 | 5.5 | 2.6 | **20.3** | 18.7 |
| Total performance fees | 15c | 49.2 | 22.2 | 13.0 | **84.4** | 69.6 |

* C&R's share of the Mall performance fee is reduced by an amount of £1.5 million payable to others.

The Group's interests in associates and joint ventures is set out in note 15b and note 15d.

## 16 Cash and cash equivalents

| | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|
| Cash at bank | **34.1** | 38.6 |
| Security deposits held in rent accounts | **1.4** | 1.5 |
| | **35.5** | 40.1 |

### Analysis by currency

| | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|
| Sterling | **15.4** | 27.3 |
| Euro | **20.1** | 12.8 |
| | **35.5** | 40.1 |

## 17 Payables

### 17a Current payables

| | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|
| Bank loans – secured | **0.2** | 0.2 |
| Trade payables | **10.2** | 2.6 |
| Accruals and deferred income | **30.0** | 26.4 |
| Payable to joint ventures and associates | **2.3** | – |
| Other payables | **12.0** | 4.9 |
| Other taxation and social security | **14.7** | 8.8 |
| | **69.4** | 42.9 |

### 17b Non-current payables

| | Note | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|---|
| Other payables | | **0.8** | – |
| Minority interest classified as a liability | 17c | **9.3** | 4.1 |
| Accruals and deferred income | | **22.7** | 21.8 |
| | | **32.8** | 25.9 |

## 17 Non-current payables continued

### 17c Minority interest classified as a liability

As a result of the Group's change to reporting under IFRS the minority interest, arising from the Group's German operations, has been reclassified as a liability. It had previously been treated as equity. Under the terms of the contract the minority has a put option to sell their share back to the Group at any time after 31 December 2009.

| | Note | **30 December 2006 Total £m** | 30 December 2005 Total £m |
|---|---|---|---|
| As at 31 December | | **4.1** | – |
| Share of income and expense | | **2.6** | 1.3 |
| Dividend received | | **(0.7)** | (0.3) |
| Arising on acquisition | 26 | **3.3** | 3.1 |
| As at 30 December | | **9.3** | 4.1 |

## 18 Borrowings

### 18a Borrowings analysis

| | Note | Bank loans £m | CULS £m | **30 December 2006 Total £m** | Bank loans £m | CULS £m | 30 December 2005 Total £m |
|---|---|---|---|---|---|---|---|
| **Unsecured** | 19,20 | 17.0 | 1.3 | **18.3** | – | 3.0 | 3.0 |
| **Secured** | | | | | | | |
| Fixed and swapped bank loans | | 382.5 | – | **382.5** | 219.2 | – | 219.2 |
| Variable rate bank loans | | 59.6 | – | **59.6** | 177.5 | – | 177.5 |
| Total borrowing before costs | 18b,d,e | 459.1 | 1.3 | **460.4** | 396.7 | 3.0 | 399.7 |
| Less unamortised issue costs | | (2.1) | – | **(2.1)** | (0.8) | – | (0.8) |
| **Total borrowings after costs** | | 457.0 | 1.3 | **458.3** | 395.9 | 3.0 | 398.9 |
| **Analysis of total borrowings after costs** | | | | | | | |
| Current | 18b | 0.2 | – | **0.2** | 0.2 | – | 0.2 |
| Non-current | | 456.8 | 1.3 | **458.1** | 395.7 | 3.0 | 398.7 |
| **Total borrowings after costs** | | 457.0 | 1.3 | **458.3** | 395.9 | 3.0 | 398.9 |

Security for secured borrowings as at 30 December 2006 is provided by charges on property.

### 18b Maturity

| | Note | Bank loans £m | CULS £m | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|---|---|---|
| After five years | 19,20 | 37.0 | 1.3 | **38.3** | 3.0 |
| From two to five years | | 270.9 | – | **270.9** | 371.0 |
| From one to two years | | 151.0 | – | **151.0** | 25.5 |
| Due after more than one year | | 458.9 | 1.3 | **460.2** | 399.5 |
| Current | 18a | 0.2 | – | **0.2** | 0.2 |
| | 18a,d,e | 459.1 | 1.3 | **460.4** | 399.7 |

### 18c Undrawn committed facilities

| | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|
| Expiring within one year | **–** | – |
| Expiring between one and two years | **2.3** | – |
| Expiring after more than two years | **118.5** | 107.0 |
| | **120.8** | 107.0 |

## 18 Borrowings continued

### 18d Interest rate and currency profile

| 2006 | Note | Fixed rate borrowings % | Years | Fixed rate borrowings £m | Floating rate borrowings £m | **30 December 2006 Total £m** |
|---|---|---|---|---|---|---|
| Sterling | | 66 | 2 | 118.3 | 59.6 | **177.9** |
| Euro | | 100 | 5 | 282.5 | – | **282.5** |
| | 18a,b,e | 90 | 4 | 400.8 | 59.6 | **460.4** |

| 2005 | Note | Fixed rate borrowings % | Years | Fixed rate borrowings £m | Floating rate borrowings £m | 30 December 2005 Total £m |
|---|---|---|---|---|---|---|
| Sterling | | 45 | 2 | 119.7 | 144.0 | 263.7 |
| Euro | | 73 | 5 | 102.4 | 33.6 | 136.0 |
| | 18a,b,e | 58 | 3 | 222.1 | 177.6 | 399.7 |

### 18e Rates at which interest is charged on borrowings due after one year

| | Note | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|---|
| Up to 5% | | **188.0** | 25.0 |
| 5% to 6% | | **211.5** | 194.1 |
| Over 6% | 19,20 | **1.3** | 3.0 |
| | | **400.8** | 222.1 |
| Variable rates | | **59.6** | 177.6 |
| | 18a,b,d | **460.4** | 399.7 |

Floating rate borrowings bear interest based on three-month LIBOR.

## 19 Convertible subordinated unsecured loan stock

In 1996 the Company issued £26 million of Convertible Unsecured Loan Stock ("CULS"). Under IFRS these are accounted for as part debt and part equity. Interest is charged on the debt at an effective rate of 11.25% of which 6.75% is paid as a coupon and the balance rolled up in to the value of the debt. The debt element is marked to market on the assumption that the debt remains outstanding until 2016 when it is repayable.

Since 1996 the majority of the CULS have either been converted or bought back in the market by the Group. At 30 December 2006 and at the date of this report, CULS with a nominal value of £1.7 million remained.

The balance sheet contains the following balances relating to CULS:

| | Note | **30 December 2006 £m** | 30 December 2005 £m |
|---|---|---|---|
| Nominal value of CULS | | **1.7** | 4.1 |
| Equity component (net of deferred tax) | | **(0.5)** | (1.0) |
| Deferred tax liability | | **(0.1)** | (0.4) |
| | | **1.1** | 2.7 |
| Net interest | | **0.2** | 0.3 |
| Liability component at balance sheet date | 18a,b,e | **1.3** | 3.0 |

The CULS may be converted by the holders of the stock into 51.42 (2005: 51.42) ordinary shares per £100 nominal value CULS in any of the years 1997 to 2015 inclusive, representing a conversion price of 194p (2005: 194p) per ordinary share. The Company has the right to redeem at par the CULS in any year from 2006 to 2016. The CULS are unsecured and are subordinated to all other forms of unsecured debt but rank in priority to the holders of the ordinary shares in the Company.

## 20 Financial instruments and risk management

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business. Derivative financial instruments are used to manage exposure to fluctuations in foreign currency exchange rates and interest rates but are not employed for speculative purposes.

The Group's risk management policies and practices are as follows:

### Debt management
The Group normally raises bank debt on a floating rate basis and fixes a substantial portion of the interest payments by entering into interest rate swaps. Borrowings are arranged to ensure an appropriate maturity profile and to maintain short-term liquidity. Short-term funding is raised principally through syndicated revolving credit facilities from a range of banks and financial institutions. The Group is exposed to fair value risk from its fixed rate debt and interest rate risk from its floating rate debt and cash.

### Interest rate management
Interest rate swaps are used to alter the interest rate basis of the Group's debt, allowing changes from fixed to floating rates or vice versa. Clear guidelines exist for the Group's ratio of fixed to floating rate debt and management regularly reviews the interest rate profile against these guidelines.

The Group has interest rate swaps of £281 million maturing within the next five years. Under these swaps the Group pays interest at an average fixed rate of 4.84%. At 30 December 2006, the fair value of these swaps was an asset of £3.4 million (2005: £0.7 million asset).

The Group does not hedge account its interest rate swaps and states them at fair value with changes in fair value included in the income statement.

### Cash management
Cash levels are monitored to ensure sufficient resources are available to meet the Group's requirements. Short-term money market deposits are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk.

### Credit risk
The Group's principal financial assets are bank and cash balances, short-term deposits, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and other receivables. These amounts are presented net of all allowances for doubtful receivables and allowances for impairment are made where appropriate. The credit risk on short-term deposits and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and tenants.

### Foreign exchange risk
The Group uses net investment hedging to hedge its exposure to the euro and its German operations.

### Effective interest rates and financial maturity analysis
In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and shows a maturity analysis of individual elements.

| | Note | Effective interest rate % | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m | **2006 Total £m** |
|---|---|---|---|---|---|---|---|
| Fixed and swapped bank loans | | 4.84 | – | 92.0 | 270.5 | 37.0 | **399.5** |
| Variable rate bank loans | | 6.16 | 0.2 | 59.0 | 0.4 | – | **59.6** |
| Interest rate swaps (floating) | | – | – | – | – | – | **–** |
| CULS | 19 | 11.25 | – | – | – | 1.3 | **1.3** |
| | 18a,b,d,e | | 0.2 | 151.0 | 270.9 | 38.3 | **460.4** |
| Cash | | 4.15 | (35.5) | – | – | – | **(35.5)** |
| | | | (35.3) | 151.0 | 270.9 | 38.3 | **424.9** |

| | Note | Effective interest rate % | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m | 2005 Total £m |
|---|---|---|---|---|---|---|---|
| Fixed and swapped bank loans | | 4.61 | – | 25.0 | 194.1 | – | 219.1 |
| Variable rate bank loans | | 5.13 | 0.2 | 0.5 | 176.9 | – | 177.6 |
| Interest rate swaps (floating) | | – | – | – | – | – | – |
| CULS | 19 | 11.25 | – | – | – | 3.0 | 3.0 |
| | 18a,b,d,e | | 0.2 | 25.5 | 371.0 | 3.0 | 399.7 |
| Cash | | 3.78 | (40.1) | – | – | – | (40.1) |
| | | | (39.9) | 25.5 | 371.0 | 3.0 | 359.6 |

## 20 Financial instruments and risk management continued

The following table indicates the dates of contractual repricing of the Groups' fixed and swapped bank loans

| | Total £m | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m |
|---|---|---|---|---|---|
| Fixed and swapped bank loans | | | | | |
| **2006** | **399.5** | **–** | **75.0** | **270.5** | **54.0** |
| 2005 | 219.0 | – | 25.0 | 194.0 | – |

The bank loans except for the £17 million working capital facility are secured on specific properties owned by the Group.

### Sensitivity analysis
In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest and foreign exchange rates may have an impact on consolidated earnings.

For the year ended 30 December 2006, it is estimated that a general increase of one percentage point in interest rates would have increased the Group's profit before tax by approximately £1.2 million (2005: (£0.8 million)) due to the increase in interest expense which is offset by the effect of interest rate swaps.

It is estimated that a general increase of one percentage point in value of the euro against sterling would have increased the Group's profit before tax by approximately £0.4 million for the year ended 30 December 2006 (2005: £0.2 million).

### Fair values of financial instruments
The fair values of borrowings together with their carrying amounts in the balance sheet are as follows:

| | **Notional principal £m** | **Book value £m** | **2006 Fair value £m** | 2005 Book value £m | 2005 Fair value £m |
|---|---|---|---|---|---|
| **Financial liabilities not at a fair value through profit or loss** | | | | | |
| CULS | | **1.3** | **1.6** | 3.0 | 3.0 |
| On balance sheet Euro denominated fixed rate loans | | **118.6** | **115.5** | 44.6 | 44.1 |
| Variable loans – on balance sheet | | **59.6** | **59.6** | 127.8 | 127.8 |
| – Group share of associates | | **119.0** | **119.0** | 28.1 | 28.1 |
| – Group share of joint ventures | | **13.6** | **13.6** | 28.4 | 28.4 |
| Swapped loans – on balance sheet | | **280.9** | **280.9** | 219.1 | 219.1 |
| – Group share of associates | | **478.8** | **478.8** | 478.9 | 478.9 |
| – Group share of joint ventures | | **82.1** | **82.1** | 45.2 | 45.2 |
| **Total borrowings** | | **1,153.9** | **1,151.1** | 975.1 | 974.6 |
| **Financial liabilities at fair value through profit and loss** | | | | | |
| Interest rate swaps (our share) | **841.8** | **17.0** | **17.0** | (5.5) | (5.5) |
| Foreign exchange contract | **78.3** | **–** | **–** | – | – |

The fair value of the Group's long-term borrowings have been estimated on the basis of quoted market prices. The fair value of the Group's outstanding interest rate swaps have been estimated by calculating the present value of future cash flows, using market discount rates.

Details of the Group's cash and deposits are set out in note 16. Their fair values and those of other financial assets and liabilities equate to their book values.

All other financial assets and liabilities are non interest bearing and their fair value equals their book value.

## 21 Called up share capital

| | Number of shares issued and fully paid | | Nominal value of shares issued and fully paid | |
|---|---|---|---|---|
| | **2006 Number** | 2005 Number | **2006 £000** | 2005 £000 |
| Ordinary shares of 10p each | | | | |
| At beginning of year | **71,000,465** | 64,039,578 | **7,100** | 6,404 |
| New share issues | **–** | 6,560,000 | **–** | 656 |
| Issued on exercise of share options | **163,151** | 128,950 | **16** | 13 |
| Issued on conversion of CULS | **1,225,107** | 271,937 | **123** | 27 |
| At end of year | **72,388,723** | 71,000,465 | **7,239** | 7,100 |

| | Authorised | |
|---|---|---|
| | **2006 Number** | 2005 Number |
| Ordinary shares of 10p each | **150,000,000** | 150,000,000 |

### Share options

The options to subscribe for new ordinary shares of 10p each under the share option schemes that were outstanding at 30 December 2006 are as follows:

| | **30 December 2006** | | 30 December 2005 | |
|---|---|---|---|---|
| | **Number of shares** | **Subscription price** | Number of shares | Subscription price |
| Period within which options are exercisable: | | | | |
| 18 June 2000 to 18 June 2007 | **–** | **226.4p** | 13,151 | 226.4p |
| 15 May 2001 to 15 May 2008 | **289,500** | **279.5p** | 339,500 | 279.5p |
| 22 May 2001 to 22 May 2008 | **10,470** | **286.5p** | 10,470 | 286.5p |
| 23 February 2002 to 23 February 2009 | **40,000** | **191.5p** | 130,000 | 191.5p |
| 22 February 2003 to 22 February 2010 | **–** | **201.5p** | 10,000 | 201.5p |
| 13 September 2003 to 13 September 2010 | **150,000** | **211.5p** | 150,000 | 211.5p |
| | **489,970** | | 653,121 | |

### Long-Term Incentive Plan

| Outstanding LTIP awards | Opening | Number of shares Awarded | Exercised | Lapsed | Closing |
|---|---|---|---|---|---|
| 2002 awards | 79,459 | – | (79,459) | – | – |
| 2003 awards | 498,750 | – | (462,500) | (36,250) | – |
| 2004 awards | 466,335 | – | – | – | 466,335 |
| 2005 awards | 333,854 | – | – | – | 333,854 |
| 2006 awards | – | 267,785 | – | – | 267,785 |
| | 1,378,398 | 267,785 | (541,959) | (36,250) | 1,067,974 |

At 30 December 2006, 1,322,240 (2005: 1,244,771) shares were held by an Employee Share Ownership Trust (“ESOT”), to enable the Group to meet the above outstanding LTIP shares awarded. The market value of these shares was £20,388,940 (2005: £10,804,612). The rights to receive dividends on these shares has been waived.

## 21 Called up share capital continued

| ESOT shareholding | Number of shares 2006 | Number of shares 2005 |
|---|---|---|
| At 31 December | **1,244,771** | 1,688,411 |
| Purchased in year | **619,428** | – |
| Exercised/vested in year | **(541,959)** | (443,640) |
| At 30 December | **1,322,240** | 1,244,771 |

In calculating the charge in the Income Statement for the LTIP award the following key assumptions were used:

1. 50% total return which vests in line with historic out performance.
2. 50% total shareholder return which was derived by using the normal distribution of performance relative to the FTSE real estate index. Calculation inputs are shown in the following table:

| | Probability | Vesting % | Value % |
|---|---|---|---|
| 1st quartile | 15 | – | – |
| 2nd quartile | 35 | – | – |
| 3rd quartile | 35 | 0 – 50 | 9.0 |
| 4th quartile | 15 | 50 | 7.5 |
| Total | | | 16.5 |

## 22 Reserves

| | Share premium account £m | Revaluation reserve £m | Other reserves £m | Capital redemption reserve £m | Own shares £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|---|
| As at 31 December 2004 | 167.3 | (1.5) | 7.6 | 4.3 | (3.1) | 320.2 | 494.8 |
| Shares issued at premium | 49.1 | – | – | – | – | – | 49.1 |
| Revaluation of owner-occupied property | – | 1.9 | – | – | – | – | 1.9 |
| Arising on acquisition | – | – | 9.5 | – | – | – | 9.5 |
| Arising on CULS conversion/repurchase | 0.5 | – | (5.9) | – | – | (43.1) | (48.5) |
| Credit in respect of LTIP charge | – | – | – | – | – | 1.9 | 1.9 |
| Amortisation of cost of own shares | – | – | – | – | 1.7 | (1.7) | – |
| Dividends paid | – | – | – | – | – | (10.8) | (10.8) |
| Profit for the year | – | – | – | – | – | 202.7 | 202.7 |
| As at 31 December 2005 | 216.9 | 0.4 | 11.2 | 4.3 | (1.4) | 469.2 | 700.6 |
| Exchange differences | – | – | (0.7) | – | – | – | (0.7) |
| Shares issued at premium | 0.3 | – | – | – | – | – | 0.3 |
| Revaluation of owner-occupied property | – | 2.3 | – | – | – | – | 2.3 |
| Purchase of own shares | – | – | – | – | (8.3) | – | (8.3) |
| Arising on CULS conversion | 2.3 | – | (0.8) | – | – | – | 1.5 |
| Amortisation and other movement | – | – | (0.1) | – | – | – | (0.1) |
| Credit in respect of LTIP charge | – | – | – | – | – | 2.1 | 2.1 |
| Amortisation of cost of own shares | – | – | – | – | 2.8 | (2.8) | – |
| Dividends paid | – | – | – | – | – | (14.1) | (14.1) |
| Profit for the year | – | – | – | – | – | 222.3 | 222.3 |
| **As at 30 December 2006** | **219.5** | **2.7** | **9.6** | **4.3** | **(6.9)** | **676.7** | **905.9** |

## 22a Other reserves

| | CULS equity reserve £m | Acquisition reserve £m | IFRS reserve £m | Foreign currency reserve £m | Net investment hedging reserve £m | Total £m |
|---|---|---|---|---|---|---|
| As at 31 December 2004 | 7.3 | – | 0.3 | – | – | 7.6 |
| Arising on CULS conversion | (5.9) | – | – | – | – | (5.9) |
| Arising on acquisition | – | 9.5 | – | – | – | 9.5 |
| As at 31 December 2005 | 1.4 | 9.5 | 0.3 | – | – | 11.2 |
| Amortisation | – | – | (0.1) | – | – | (0.1) |
| Arising on CULS conversion | (0.8) | – | – | – | – | (0.8) |
| Exchange differences | – | – | – | (0.7) | – | (0.7) |
| **As at 30 December 2006** | **0.6** | **9.5** | **0.2** | **(0.7)** | **–** | **9.6** |

## 23 Reconciliation of net cash generated from operations

| | **Year to 30 December 2006 Total £m** | Year to 30 December 2005 Total £m |
|---|---|---|
| Profit on ordinary activities before financing | **274.5** | 216.9 |
| Adjusted for: | | |
| Share of profit in joint ventures and associates | **(164.6)** | (129.3) |
| Gain on revaluation of investment properties | **(26.0)** | (21.3) |
| Negative goodwill released to income | **–** | (10.6) |
| Loss on sale of trading and development properties | **1.5** | (2.4) |
| Depreciation of other fixed assets | **0.3** | 0.3 |
| Amortisation of short leasehold properties | **0.1** | 0.1 |
| Amortisation of tenant incentives | **(0.9)** | – |
| Profit on sale of investment properties | **(6.0)** | (4.3) |
| Profit on disposal of fixed assets | **–** | 1.2 |
| Increase in receivables | **(3.3)** | (23.8) |
| Increase in payables | **6.9** | 17.7 |
| Unrealised loss on exchange | **4.9** | – |
| Non-cash movement relating to the LTIP | **2.1** | 2.2 |
| Net cash generated from operations | **89.5** | 46.7 |

## 24 Net assets per share

The European Public Real Estate Association ("EPRA") has issued recommended bases for the calculation of certain net asset per share information and this is shown in the following notes.

| | | **30 December 2006** | | | 30 December 2005 |
|---|---|---|---|---|---|
| | Note | **Net assets £m** | **Number of shares m** | **Net assets per share £** | Net assets per share £ |
| **Basic** | 2a,2b | **913.1** | **72.4** | **12.61** | 9.97 |
| Own shares held | | **–** | **(1.3)** | | |
| Fair value of fixed rate loans (net of tax) | | **2.2** | **–** | | |
| Fair value of trading properties | | **3.7** | **–** | | |
| Conversion of CULS | | **1.2** | **0.8** | | |
| Dilutive share options | | **1.2** | **0.5** | | |
| **Triple net diluted net assets per share** | | **921.4** | **72.4** | **12.72** | 9.85 |
| Exclude fair value of borrowings (net of tax) | | **(11.9)** | | | |
| Exclude fair value of fixed rate loans (net of tax) | | **(2.2)** | | | |
| Exclude deferred tax on unrealised gains and capital allowances | | **16.1** | | | |
| **EPRA diluted net assets per share** | | **923.4** | **72.4** | **12.75** | 10.06 |

## 25 Return on equity

| | 30 December 2006 Total £m | 30 December 2005 Total £m |
|---|---|---|
| Total recognised income and expense attributable to equity shareholders | **223.9** | 203.1 |
| Opening equity shareholders' funds | **707.7** | 501.2 |
| Return on equity | **31.6%** | 40.5% |

## 26 Acquisitions

During the year the Group acquired, at different dates, the issued share capital of three German KGs for a combined cash consideration of £13.5 million.

| Entity name | Date of acquisition | % of share capital acquired |
|---|---|---|
| Sobernheim KG | 1 July 2006 | 83.61% |
| Bochum KG | 1 November 2006 | 76.05% |
| Oschersleben KG | 1 November 2006 | 80.82% |

| | Note | Aggregate book values at acquisition £m | Fair value adjustments £m | Fair value acquired £m |
|---|---|---|---|---|
| **Fair value of assets acquired** | | | | |
| Investment properties | | 6.7 | 16.5 | 23.2 |
| Debtors | | 0.3 | – | 0.3 |
| Cash and cash equivalents | | 1.5 | – | 1.5 |
| Current liabilities | | (0.7) | – | (0.7) |
| Non-current liabilities | | (7.5) | – | (7.5) |
| **Net assets acquired** | | 0.3 | 16.5 | 16.8 |
| **Fair value of consideration** | | | | |
| Cash | | | | 13.5 |
| Minority interest | 17b | | | 3.3 |
| | | | | 16.8 |

Set out below are the aggregated results of Soberheim KG, Bochum KG and Oschersleben KG from the dates of acquisition to 30 December 2006.

| | Note | Aggregate results from date of acquisition to 30 December 2006 £m | Other Group results for the year ended 30 December 2006 £m | Total results for the Group for the year ended 30 December 2006 £m |
|---|---|---|---|---|
| Revenue per consolidated income statement | | **0.5** | **131.6** | **132.1** |
| Profit before tax | | **0.1** | **250.8** | **250.9** |
| Taxation expense | 8a | **–** | **(28.6)** | **(28.6)** |
| Profit after tax | | **0.1** | **222.2** | **222.3** |

If the acquisition of the three KGs above had been completed on the first day of the financial year, Group revenues for the year would have been £133.9 million and Group profit attributable to equity holders of the parent company would have been £222.1 million.

## 27 Operating lease arrangements

### The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | Land and buildings 2006 £m | Land and buildings 2005 £m | Other operating leases 2006 £m | Other operating leases 2005 £m |
|---|---|---|---|---|
| Within one year | **–** | 0.1 | **0.4** | 0.4 |
| In the second to fifth years inclusive | **0.2** | 0.2 | **0.9** | 0.5 |
| After five years | **6.1** | 4.6 | **–** | – |
| | **6.3** | 4.9 | **1.3** | 0.9 |

Operating lease payments represent rentals payable by the Group for certain of its office properties and equipment. Leases are negotiated for an average of 122 years and rentals are fixed for an average of 4 years.

### The Group as lessor

The Group leases out all of its investment properties under operating lease for average lease terms of 13 years to expiry. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

| 100% figures | Unexpired average lease term Years | Less than one year £m | Between two to five years £m | Between six to ten years £m | Between 11 to 15 years £m | Between 16 to 20 years £m | After 20 years £m | 30 December 2006 Total £m | 30 December 2005 Total £m |
|---|---|---|---|---|---|---|---|---|---|
| Mall | 10.2 | 165.1 | 557.7 | 459.3 | 155.5 | 84.1 | 460.2 | **1,881.9** | 1,583.1 |
| Junction | 14.4 | 57.0 | 225.3 | 248.6 | 192.4 | 89.1 | 23.3 | **835.7** | 842.0 |
| X-Leisure | 18.8 | 37.4 | 146.7 | 176.2 | 169.0 | 97.2 | 49.5 | **676.0** | 777.9 |
| Xscapes | 18.2 | 12.2 | 47.6 | 55.2 | 50.1 | 40.1 | 13.7 | **218.9** | 156.5 |
| Germany | 9.7 | 25.7 | 94.1 | 77.7 | 36.5 | 14.3 | 0.1 | **248.4** | 119.7 |
| Fix UK | 8.2 | 5.2 | 16.0 | 10.9 | 2.2 | 0.6 | 0.2 | **35.1** | 3.9 |
| Other | 14.7 | 7.1 | 27.0 | 32.1 | 26.8 | 6.7 | 2.4 | **102.1** | 91.0 |
| Total | | 309.7 | 1,114.4 | 1,060.0 | 632.5 | 332.1 | 549.4 | **3,998.1** | 3,574.1 |

## 28 Capital commitments

As at 30 December 2006 the Group had capital commitments of £13.6 million (2005: £nil), relating to the acquisition of three trade parks by Fix UK, which completed in early 2007.

As at 30 December 2006 the Group's share of capital commitments of joint ventures and associates was £24.2 million (2005: £151.6 million). This comprised £20.4 million related to the X-Leisure Fund's commitment to acquire Xscape Milton Keynes and Xscape Castleford, as disclosed in note 30, and £3.8 million related to land purchased by the Mall, which completed in early 2007.

## 29 Contingent liabilities

The Group had no contigent liabilities at 30 December 2006 (2005: £nil).

## 30 Events after balance sheet date

On 15 January 2007 the X-Leisure Fund sold its property at Star City, Birmingham for £85.5 million.

On 23 February 2007 the Group sold its 50% interest in Xscape Milton Keynes and its 66.67% interest in Xscape Castleford to the X-Leisure Fund. At the date of sale the gross value of the two properties was £192 million, substantially in excess of the 30 December 2006 value of £183.3 million (see note 11b). The Group exchanged its interests in the two properties for a further 29.1 million units in the X-Leisure Fund, increasing the Group's share of the X-Leisure Fund from 10.6% to 20%.

On 15 March 2007 the Group completed a €19.3 million purchase of a property in Germany.

On 11 April 2007 The Junction Thurrock LP completed on a land purchase, the Group's share of which is £8 million.

Since the year end Fix UK has completed a £35 million purchase of a further nine properties, and extended its banking facilities from £70 million to £140 million, on the same terms.

## 31 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group.

| | Management and performance fees receivable from related parties | | Amounts owed by related parties | |
|---|---|---|---|---|
| | **2006** **£m** | 2005 £m | **2006** **£m** | 2005 £m |
| **Associates** | | | | |
| The Mall Limited Partnership | **50.8** | 40.8 | **37.9** | 29.7 |
| The Junction Limited Partnership | **23.1** | 22.7 | **16.1** | 17.7 |
| X-Leisure Limited | **17.1** | 8.8 | **10.4** | 4.3 |
| **Joint ventures** | | | | |
| Xscape Milton Keynes Partnership | **0.1** | 0.2 | **–** | – |
| Xscape Castleford Partnership | **0.1** | 0.2 | **–** | – |
| Xscape Braehead Partnership | **0.2** | 0.4 | **–** | – |
| Morrison Merlin | **–** | 0.3 | **–** | – |

### SNO!zone Limited and SNO!zone (Braehead) Limited

| | Rents payable to related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| **Joint ventures** | **2006** **£m** | 2005 £m | **2006** **£m** | 2005 £m |
| Xscape Milton Keynes Partnership | **0.7** | 0.6 | **–** | 0.2 |
| Xscape Castleford Partnership | **0.6** | 0.6 | **–** | – |
| Xscape Braehead Partnership | **0.5** | – | **–** | – |

SNO!zone Limited includes both ski slopes at Milton Keynes and Castleford. All rents payable by SNO!zone are payable to the relevant Xscape Partnership.

On 6 October the Group sold its 100% ownership of Morfa Retail Park to the Junction Fund for £105.7 million. At the date of sale and 30 December 2006 the Group retained a 27.32% interest in the Junction Fund.

Under current Accounting Standards the sale of Morfa Retail Park to the Junction Fund is required to be disclosed as a related party transaction. However, the Group wishes to confirm that all of its associates (including the Junction Fund) and joint ventures are not related parties as defined by the United Kingdom Listing Authority Rules.

During 2006 the Group purchased IT and communication equipment from Redstone plc, on normal commercial terms. Alan Coppin was appointed as a director of Redstone plc in June 2006.

During the year X Pullen sold 144,459 shares to the ESOT at market value of £2,214,566. At the year end the Company owed X Pullen £1,289,045 in respect of these shares. This was paid to X Pullen by the Company on 11 January 2007.

All the above transactions occurred at normal commercial rates and terms.

## 32 Transition to International Financial Reporting Standards ("IFRS")

2006 is the first year that the Group will present its financial statements under IFRS. The last financial statements presented under UK GAAP were for the year ended 30 December 2005. As IFRS comparatives must be presented for the year ended 30 December 2005, the date of transition was 31 December 2004. Reconciliations are presented on the following pages to enable comparison of the 2006 figures with those published in the corresponding period in the previous financial year and those published for the year ended 30 December 2005.

When preparing the Group's IFRS balance sheet at 31 December 2004, the following material optional exemptions from full retrospective application of IFRS accounting policies have been adopted.

Business combinations – the provision of IFRS 3 "Business Combinations" have been applied from 30 December 2004. The Group has chosen not to restate business combinations that fall before the date of transition.

Financial instruments – the Group has applied IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" for all periods presented and has therefore not taken advantage of the option that would enable the Group to only apply the standards from 30 December 2005.

### Reconciliation of equity under UK GAAP to equity under IFRS

| | Note | **30 December 2005 £m** | 30 December 2004 £m |
|---|---|---|---|
| **Equity shareholders' funds under UK GAAP** | | **694.5** | 494.5 |
| IFRS adjustments: | | | |
| Goodwill amortisation | a | **1.2** | – |
| Exclusion of negative goodwill | b | **10.6** | – |
| Exclusion of dividend | c | **7.7** | 5.9 |
| Deferred tax | d | **(3.5)** | (6.4) |
| Convertible unsecured loan stock ("CULS") | e | **1.1** | 5.9 |
| Fair value of interest rate swaps | f | **(5.1)** | 0.3 |
| Amortisation of lease incentives and letting costs | g | **1.2** | 1.0 |
| Finance lease asset | l | **2.1** | 2.4 |
| Finance lease liability | l | **(2.1)** | (2.4) |
| Net IFRS adjustments | | **13.2** | 6.7 |
| Equity shareholders' funds under IFRS | | **707.7** | 501.2 |

### Reconciliation of loss reported under UK GAAP to profits under IFRS

| | Note | **30 December 2005 £m** |
|---|---|---|
| **Loss for the year under UK GAAP** | | **(3.0)** |
| IFRS adjustments: | | |
| Goodwill amortisation | a | **1.2** |
| Exclusion of negative goodwill | b | **10.6** |
| Deferred tax | d | **2.9** |
| Convertible unsecured loan stock ("CULS") | e | **(4.2)** |
| Premium on repurchase of CULS | e | **46.9** |
| Fair value of interest rate swaps | f | **(5.4)** |
| Amortisation of rent free periods, lease incentives and letting costs | g,h,i | **0.2** |
| Revaluation gains on investment properties | j | **155.5** |
| Share-based payment | k | **0.2** |
| Unwinding of finance lease | l | **0.2** |
| Reclassification of minority interest as a liability | m | **(1.3)** |
| Current tax previously charged through the statement of recognised gains and losses under UK GAAP | n | **(1.1)** |
| Net IFRS adjustments | | **205.7** |
| **Profit for the year under IFRS** | | **202.7** |

## 32 Transition to International Financial Reporting Standards ("IFRS") continued

IFRS 1 "First-time Adoption of International Financial Reporting Standards" requires an explanation of major adjustments to cash flows under IFRS. Whilst the format of the cash flow statement is different under UK GAAP, there are no material changes to cash flows from operations, investment or financing.

**Notes**
UK GAAP referred to in the table in note 33 is that existing at 30 December 2005.

The principal reasons for the adjustments shown in the reconciliation between UK GAAP and IFRS are set out below:

a) Under UK GAAP goodwill is amortised over its expected useful economic life. Under IFRS goodwill is carried at cost and an annual impairment review undertaken.

b) Under UK GAAP negative goodwill is carried in the balance sheet. Under IFRS negative goodwill should be credited to the income statement.

c) Under UK GAAP proposed dividends are included in the profit and loss account and as a liability in the balance sheet. Under IFRS unapproved and unpaid dividends are not provided for.

d) Under IFRS deferred tax provisions are made for the tax that would potentially be payable on the sale of investment or development properties and other assets, whereas UK GAAP requires that this potential liability is disclosed as contingent tax but not provided for in the balance sheet. Deferred tax arising on valuation changes and other items are included in the income statement under IFRS.

e) Under IFRS the debt and equity components of convertible instruments are separate, whereas under UK GAAP the nominal value of the CULS are held as a liability on the balance sheet net of issue costs.

f) The fair value of interest rate swaps is included in the balance sheet with effect from 31 December 2004.

g) Under UK GAAP rent-free periods are allocated over the period of the first rent review. Under IFRS rent-free periods are allocated over the period to the first break option, or if the probability that the break option will not be exercised is considered low, over the full lease term.

h) Under UK GAAP lease incentive such as cash inducements and contributions to tenant fit out are either written off, capitalised or capitalised and amortised, depending upon their nature. Under IFRS all such costs are capitalised and amortised over the period to the first break option or, if the probability that the break option will be exercised is considered low, over the full lease term.

i) Under UK GAAP letting costs are either capitalised on the first letting of a unit or on subsequent lettings written off in the year they are incurred. Under IFRS all such costs are capitalised and amortised over the period to the first break, or if the probability that the break option will not be exercised is considered low, over the full lease term.

j) IFRS requires that valuation changes on investment properties are included in the income statement.

k) In 2005 the vesting conditions for 50% of the LTIP were changed and linked to the FTSE Real Estate Index. Under IFRS this constitutes a market condition and the fair value is assessed on the expected shares that will vest based on Capital & Regional's relative position compared to the index. The fair value of the shares at the date of the award is charged over the vesting period.

l) IFRS requires that where a lease is treated as a finance lease the net present value of all payments under the lease are capitalised into the value of the investment property and an associated liability included in the balance sheet.

m) Under IFRS the minority interest has been reclassified as a non-current payable and the minorities' share of the income statement has been treated as a financing charge.

n) As the items that this tax relates to are charged to the income statement under IFRS the related tax is also shown in the income statement.

# Independent auditors' report to the members of Capital & Regional plc



We have audited the parent company financial statements of Capital & Regional plc for the year ended 30 December 2006 which comprise the balance sheet and the related notes A to J. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Capital & Regional plc for the year ended 30 December 2006 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the annual report.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

**Opinion**

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 December 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

**Deloitte & Touche LLP**
**Chartered Accountants and Registered Auditors**
London
20 April 2007

# Company balance sheet

Prepared in accordance with UK GAAP
As at 30 December 2006

| | Notes | 2006 £m | As restated (see notes A and G) 2005 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Other investments | C | **787.0** | 127.4 |
| **Current assets** | | | |
| Debtors | D | **275.0** | 329.8 |
| Cash and deposits | | **0.4** | 1.0 |
| | | **275.4** | 330.8 |
| **Creditors – amounts falling due within one year** | | | |
| Trade and other creditors | E | **(285.2)** | (154.5) |
| Short-term bank loans and overdrafts | | **(8.9)** | (0.1) |
| | | **(294.1)** | (154.6) |
| **Net current (liabilities)/assets** | | **(18.7)** | 176.2 |
| **Creditors – amounts falling due in more than one year** | | | |
| Bank loans | F | **(8.4)** | (8.6) |
| CULS | F | **(1.3)** | (3.0) |
| | | **(9.7)** | (11.6) |
| **Net assets** | | **758.6** | 292.0 |
| **Capital and reserves** | | | |
| Called-up share capital | 21 | **7.2** | 7.1 |
| Share premium account | G | **219.5** | 216.9 |
| CULS equity reserve | | **0.6** | 1.4 |
| Capital redemption reserve | G | **4.3** | 4.3 |
| Retained earnings | G | **527.0** | 62.3 |
| **Equity shareholders' funds** | | **758.6** | 292.0 |

These financial statements were approved by the Board of Directors on 20 April 2007.

**M Barber**
**W Sunnucks**

## A Accounting policies

Although the Group consolidated accounts are prepared under IFRS, the Capital & Regional plc Company accounts presented in this section are prepared under UK GAAP. Following the issue of several UK accounting standards intended to converge certain aspects of UK GAAP with IFRS, the accounting policies relevant to the Company are included within those set out in the Group accounting policies note 1, except for investment in subsidiaries, as described in note C below.

The new UK accounting standards are:

– FRS 20: Share based payments
– FRS 21: Events after the balance sheet date
– FRS 23: The effects of changes in foreign exchange rates
– FRS 25: Financial instruments: disclosure and presentation
– FRS 26: Financial instruments: measurement

The effect of FRS 21 on the comparative figures is to exclude the 2005 proposed final dividend from the balance sheet and income statement. Consequently, in respect of the year ended 30 December 2005, retained earnings and equity shareholders' funds are increased by £7.7 million.

Under FRS25 the debt and equity components of convertible instruments are separate. Previously the nominal value of the CULS was held as a liability in the balance sheet. At 30 December 2005, the effect on retained earnings was a reduction of £0.3 million and an increase in equity shareholders' funds of £1.1 million.

The restatement effect is shown in note G below.

## B Profit for the year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the year attributable to equity shareholders dealt with in the financial statements of the Company was £464.7 million (2005 as restated: loss £9.2 million).

The Company had no direct employees during the year (2005: nil).

## C Other investments

| | 2006 £m |
|---|---|
| As at 31 December 2005 | **127.4** |
| Additions | **928.4** |
| Disposals | **(268.6)** |
| Write down in value of investments | **(0.2)** |
| **As at 30 December 2006** | **787.0** |

Investments are stated at cost less provision for impairment. A list of principal subsidiaries and joint venture undertakings is given in note I.

## D Debtors

| | 2006 £m | 2005 £m |
|---|---|---|
| Amounts owed by subsidiary entities | **273.4** | 327.7 |
| Amounts owed by associates and joint ventures | **0.7** | 0.1 |
| Prepayments and accrued income | **0.9** | 2.0 |
| | **275.0** | 329.8 |

## E Creditors – amounts falling due within one year

| | 2006 £m | 2005 £m |
|---|---|---|
| Amounts owed to subsidiaries | **283.6** | 153.5 |
| Taxation | **0.1** | 0.4 |
| Other payables | **1.1** | 0.5 |
| Accruals and deferred income | **0.4** | 0.1 |
| | **285.2** | 154.5 |

## F Creditors

| | Bank loans £m | CULS £m | 2006 Total £m | 2005 £m |
|---|---|---|---|---|
| After five years | **–** | **1.3** | **1.3** | 3.0 |
| From two to five years | **8.4** | **–** | **8.4** | 8.6 |
| Due after more than one year | **8.4** | **1.3** | **9.7** | 11.6 |
| Due within one year | **0.2** | **–** | **0.2** | 0.1 |
| | **8.6** | **1.3** | **9.9** | 11.7 |

Details of the Group's borrowings are given in note 18. The Company's borrowings are all secured and comprise sterling denominated bank loans and CULS.

## G Reserves

| | Share premium account £m | CULS reserve £m | Capital redemption reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| As at 31 December 2005 | 216.9 | – | 4.3 | 54.6 | 275.8 |
| Change in accounting policies (see note A) | – | 1.4 | – | 7.7 | 9.1 |
| Balance at 31 December 2005 restated | 216.9 | 1.4 | 4.3 | 62.3 | 284.9 |
| Premium on issue of shares | 2.6 | – | – | – | 2.6 |
| Arising on conversion of CULS | – | (0.8) | – | – | (0.8) |
| Retained profit for the year | – | – | – | 464.7 | 464.7 |
| **As at 30 December 2006** | **219.5** | **0.6** | **4.3** | **527.0** | **751.4** |

## H Fair value of financial liabilities

| | 2006 Book value £m | 2006 Fair value £m | 2005 Book value £m | 2005 Fair value £m |
|---|---|---|---|---|
| Non-current borrowings | **9.7** | **10.0** | 11.6 | 11.6 |
| Current borrowings | **9.1** | **9.1** | 0.1 | 0.1 |
| Total borrowings | **18.8** | **19.1** | 11.7 | 11.7 |

## I Principal subsidiary, joint venture and associated companies

| | Nature of property business | Group effective share of business | *Share of voting rights |
|---|---|---|---|
| Capital & Regional Property Management Limited[3] | Management | 100% | 100% |
| The Mall Jersey Property Unit Trust[4] | Investment | 24.24% | 24.24%[1] |
| The Junction Jersey Property Unit Trust[4] | Investment | 27.32% | 27.32%[1] |
| X-Leisure Jersey Property Unit Trust | Investment | 10.59% | 10.59%[1] |
| The Auchinlea Partnership | Investment | 50% | 50% |
| Capital & Regional Abertawe Limited[3] | Investment and management | 100% | 100% |
| Trade Park Unit Trust[4] | Investment and management | 100% | 100% |
| Capital & Regional Hemel Hempstead Limited[4] | Investment and management | 100% | 100% |
| Capital & Regional (Europe LP) Limited[4] | Investment and management | 100% | 100% |
| Capital & Regional (Europe LP 2) Limited[4] | Investment and management | 100% | 100% |
| Capital & Regional (Europe LP 3) Limited[4] | Investment and management | 100% | 100% |
| Capital & Regional (Europe LP 4) Limited[4] | Investment and management | 100% | 100% |
| Capital & Regional (Europe LP 5) Limited[4] | Investment and management | 100% | 100% |
| Capital & Regional Earnings Ltd[3] | Investment and management | 100% | 100% |
| Capital & Regional Income Ltd[3] | Investment and management | 100% | 100% |
| Capital & Regional Holdings Ltd[4] | Investment and management | 100% | 100% |
| Capital & Regional Capital Partner Ltd[4] | Investment and management | 100% | 100% |
| Capital & Regional Overseas Holdings Ltd[4] | Investment and management | 100% | 100% |
| Capital & Regional Units LLP[4] | Investment and management | 100% | 100% |
| Xscape Milton Keynes Jersey Property Unit Trust[4] | Investment and management | 50% | 50% |
| Xscape Castleford Jersey Property Unit Trust[4] | Investment and management | 66.67% | 50%[2] |
| Xscape Braehead Partnership[3] | Investment and management | 50% | 50% |
| Manchester Eveneing News Arena Complex Limited | Investment and management | 30% | 50%[5] |
| SNO!zone Limited[3] | Trading | 100% | 100% |
| SNO!zone (Braehead) Ltd[3] | Trading | 100% | 100% |
| Morrison Merlin Limited[3] | Trading | 100% | 100% |

1 Capital & Regional is regarded as having significant influence through its membership of and role on the General Partner Board.
2 Capital & Regional treats this entity as a joint venture rather than a subsidiary entity, despite owning 66.67%. This is as a result of joint control and deadlock agreements that are in place.
3 Incorporated and operates in Great Britain.
4 Incorporated and operates in Jersey.
5 Capital & Regional treats this entity as a joint venture rather than as an associate, despite owning 30%. This is as a result of joint control by means of equal membership of the management committee, which is the main decision making body.
* This percentage is equivalent to the number of ordinary shares or units held by the Group.

Investments in associates and joint ventures are set out in note 15c and note 15e.

The Company has taken advantage of S231(5) and (6) Companies Act 1985 in not listing all of its subsidiary and joint venture undertakings. All of the above principal subsidiaries and joint ventures have been consolidated in the Group financial statements.

## J Contingent liabilities

The Company had no contingent liabilities as at 30 December 2006.

## Portfolio under management * #

| | 30 December 2006 £m | 30 December 2005 £m | 30 December 2004 £m |
|---|---|---|---|
| Investment properties | **512** | 320 | 83 |
| Trading property | **94** | 94 | 8 |
| The Mall Fund | **3,125** | 2,338 | 2,099 |
| The Junction Fund | **1,590** | 1,459 | 1,010 |
| X-Leisure Fund | **807** | 702 | 597 |
| Other joint ventures | **329** | 226 | 226 |
| Total | **6,457** | 5,139 | 4,023 |

Properties under management above are shown at valuation, except for trading property which is held at cost, and do not include the adjustments in respect of:

* Accounting for head leases that are deemed to be finance leases.

\# The treatment required by IFRS of rent free periods, capital contributions and leasing costs.

| | The Mall | The Junction | X-Leisure | German Portfolio | FIX UK |
|---|---|---|---|---|---|
| **Physical data** | | | | | |
| Number of core properties | 23 | 16 | 17 | 44 | 24 |
| Number of lettable units | 2,404 | 233 | 285 | 143 | 166 |
| Lettable space (sq ft-'000s) | 8,299 | 3,575 | 3,092 | 4,398 | 1,041 |
| **Valuation data** | | | | | |
| Properties at market value (£m) | £3,125m | £1,590m | £807m | £382m | £110m |
| Revaluation in the year (£m) | £325.5m | £148.7m | £85.1m | £17.2m | £9.6m |
| Initial yield (%) | 4.56% | 3.29% | 4.99% | 6.01% | 4.51% |
| Equivalent yield (%) | 5.21% | 4.45% | 5.94% | n/a | 5.72% |
| Geared returns (%) | 26.30% | 18.33% | 30.40% | 34.20% | 37.59% |
| Property level return (%) | 17.60% | 14.99% | 19.70% | 15.20% | 17.41% |
| Reversionary % | 12.97% | 17.40% | 5.84% | n/a | 13.69% |
| Loan to value ratio (%) | 47.79% | 43.79% | 49.90% | 74.00% | 63.78% |
| **Lease data** | Years | Years | Years | Years | Years |
| Average lease length to break | 10.33 | 14.02 | 17.80 | 9.70 | 6.74 |
| Average lease length to expiry | 10.92 | 14.36 | 18.80 | 9.70 | 8.23 |
| **Passing rent of leases expiring in:** | £m | £m | £m | £m | £m |
| 2007 | 13.73 | 0.46 | 1.79 | 0.20 | 0.04 |
| 2008 | 9.78 | 0.28 | 0.13 | 1.40 | 0.57 |
| 2009-2011 | 25.27 | 0.99 | 0.98 | 1.90 | 0.75 |
| **ERV of leases expiring in:** | | | | | |
| 2007 | 16.03 | 0.55 | 1.84 | n/a | 0.04 |
| 2008 | 10.64 | 0.30 | 0.20 | n/a | 0.61 |
| 2009-2011 | 25.94 | 1.39 | 1.07 | n/a | 0.79 |
| **Passing rent subject to review in:** | | | | | |
| 2007 | 27.30 | 6.21 | 13.01 | n/a | 0.53 |
| 2008 | 19.27 | 13.95 | 6.77 | n/a | 0.63 |
| 2009-2011 | 39.81 | 35.58 | 13.02 | n/a | 2.38 |
| **ERV of passing rent subject to review in:** | | | | | |
| 2007 | 29.17 | 8.56 | 14.47 | n/a | 0.66 |
| 2008 | 21.49 | 15.90 | 7.51 | n/a | 0.70 |
| 2009-2011 | 44.73 | 40.97 | 13.93 | n/a | 2.57 |
| **Rental data** | | | | | |
| Passing rent (£m) | £165.9m | £57.5m | £44.4m | £25.7m | £5.2m |
| Estimated rental value (£m per annum) | £187.5m | £73.0m | £49.4m | n/a | £6.8m |
| Rental increase (ERV) % | 5.26% | 3.59% | 3.46% | n/a | 4.52% |
| Vacancy rate (%) | 4.21% | 6.00% | 3.20% | 0.62% | 7.62% |
| **Like-for-like net rental income (100%)** | | | | | |
| **Current year net rental income** | £m | £m | £m | £m | £m |
| Properties owned throughout 2005/2006 | 101.4 | 31.2 | 33.2 | 9.8 | 2.6 |
| Acquisitions | 23.1 | 8.0 | 3.0 | 1.7 | 0.5 |
| Disposals | 0.9 | 1.0 | 0.3 | – | 0.1 |
| **Total net rental income – 2006** | **125.4** | **40.2** | **36.5** | **11.5** | **3.2** |
| **Prior year net rental income** | | | | | |
| Properties owned throughout 2005/2006 | 97.7 | 25.2 | 32.6 | – | – |
| Acquisitions | 6.2 | 5.1 | 2.1 | 3.3 | 0.3 |
| Disposals | 5.0 | 5.7 | – | – | – |
| Total net rental income – 2005 | 108.9 | 36.0 | 34.7 | 3.3 | 0.3 |
| **Other data** | | | | | |
| Unit price (£1.00 at inception) | £2.4883 | £2.8481 | £1.7586 | n/a | n/a |
| C & R Share | 24.24% | 27.32% | 10.59% | 92.16% | 100.00% |

| | UK GAAP 31 December 2002 £m | UK GAAP 31 December 2003 £m | UK GAAP 30 December 2004 £m | IFRS 30 December 2005 £m | **IFRS 30 December 2006 £m** |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Property assets | 55.5 | 51.5 | 83.0 | 425.8 | **621.8** |
| Other fixed assets | 13.0 | 12.3 | 12.5 | 0.7 | **1.2** |
| Intangible assets | – | 14.5 | 12.2 | 12.2 | **12.2** |
| Investment in joint ventures | 24.7 | 56.5 | 46.7 | 49.8 | **67.6** |
| Investment in associates | 286.4 | 372.7 | 477.1 | 583.7 | **685.4** |
| Other current assets/(liabilities) | 9.2 | (4.8) | 8.2 | 21.7 | **(5.9)** |
| Cash at bank | 4.2 | 4.5 | 4.4 | 40.1 | **35.5** |
| Bank loans greater than one year | (95.1) | (110.1) | (117.8) | (395.7) | **(456.8)** |
| Convertible unsecured loan stock | (24.4) | (24.5) | (20.4) | (3.0) | **(1.3)** |
| Other long-term liabilities | (3.5) | (5.5) | (11.4) | (27.6) | **(46.6)** |
| **Net assets** | 270.0 | 367.1 | 494.5 | 707.7 | **913.1** |
| **Financed by** | | | | | |
| Called up share capital | 6.2 | 6.3 | 6.4 | 7.1 | **7.2** |
| Share premium account | 162.7 | 165.6 | 167.4 | 216.9 | **219.5** |
| Revaluation reserve | 74.0 | 145.2 | 247.2 | 0.4 | **2.7** |
| Other reserves | 4.3 | 2.5 | 1.1 | 14.1 | **7.0** |
| Retained earnings | 22.8 | 47.5 | 72.4 | 469.2 | **676.7** |
| **Capital employed** | 270.0 | 367.1 | 494.5 | 707.7 | **913.1** |
| **Return on equity (%)** | | | | | |
| Return on equity | 14.6% | 37.6% | 37.0% | 40.5% | **31.6%** |
| Return on equity before exceptional items | 18.2% | 37.6% | 39.0% | 40.5% | **31.6%** |
| Increase in NAV per share + dividend | 16.7% | 32.8% | 36.6% | 40.8% | **30.8%** |
| Share price increase + dividend | 30.8% | 26.0% | 72.1% | 25.0% | **81.0%** |
| **Total return** | | | | | |
| Total return | 35.2 | 101.6 | 136.0 | 203.1 | **223.9** |
| Total return before exceptional items | 43.9 | 101.6 | 143.2 | 203.1 | **223.9** |
| **Net assets per share (pence)** | | | | | |
| Basic | 438p | 591p | 793p | 997p | **1261p** |
| Triple net diluted | 392p | 521p | 710p | 985p | **1272p** |
| EPRA diluted | – | – | – | 1006p | **1275p** |
| Triple net diluted net assets per share growth (%) | 15.5% | 32.9% | 36.3% | 38.7% | **29.1%** |
| Gearing (%) | 30.9% | 27.0% | 22.0% | 50.2% | **50.0%** |
| Gearing (%) on a see through basis | 122.0% | 129.0% | 126.0% | 126.0% | **125.0%** |
| **Income statement** | | | | | |
| Group turnover | 26.2 | 39.5 | 62.4 | 94.2 | **132.1** |
| Gross profit | 20.5 | 33.0 | 55.4 | 83.5 | **116.6** |
| Profit on ordinary activities before financing | 34.3 | 55.9 | 68.8 | 216.9 | **274.5** |
| Net interest payable | (25.0) | (29.6) | (34.5) | (18.2) | **(23.6)** |
| Exceptional items | (7.2) | – | (8.2) | – | **–** |
| Profit on ordinary activities before taxation | 2.1 | 26.3 | 26.1 | 198.7 | **250.9** |
| Taxation | (1.3) | (6.9) | (5.9) | 4.0 | **(28.6)** |
| Profit after tax | 0.8 | 19.4 | 20.2 | 202.7 | **222.3** |
| Recurring pre-tax profit | – | – | 16.6 | 23.1 | **32.3** |
| Fully taxed recurring dividend cover (x) | – | – | – | 1.25 | **1.19** |
| Interest cover (x) | 1.30 | 1.63 | 1.63 | 1.86 | **2.14** |
| **Earnings per share (pence)** | | | | | |
| Basic | 1.3p | 31.4p | 32.2p | 294p | **311p** |
| Diluted | 1.2p | 27.3p | 28.4p | 284p | **305p** |
| EPRA diluted | – | – | – | 33p | **46p** |
| Dividends per share | 7p | 9p | 14p | 18p | **26p** |
| Dividend cover (x) | (0.2) | 3.5 | 2.2 | 4.8 | **1.8** |

**Capital allowances deferred tax provision** In accordance with IAS 12, full provision has been made for the deferred tax arising on the benefit of capital allowances claimed to date. However, in the Group's experience the liabilities in respect of capital allowances provided are unlikely to crystallise in practice and are therefore excluded when arriving at EPRA NAV.

**CRPM** Capital & Regional Property Management Limited is a subsidiary of Capital & Regional plc and earns the management and performance fees arising from Capital & Regional's interests in the associated funds and joint ventures.

**Contribution** comprises Capital & Regional's share of the net rents less net interest arising from Capital & Regional's interests in its joint ventures, associates and wholly owned entities.

**CULS** is the Convertible Subordinated Unsecured Loan Stock.

**EPRA adjusted fully diluted NAV per share** includes the effect of those shares potentially issuable under the CULS or employee share options and excluding own shares held. The unrealised gains and capital allowances deferred tax provision, the fair value of borrowings net of tax and the fair value of trading properties are added back.

**EPRA earnings per share (EPS)** is the profit after taxation excluding gains on asset disposals and revaluations and their related taxation, movements in the fair value of financial instruments, intangible asset movements and the capital allowance effects of IAS 12 where applicable, less taxation arising on these items, divided by the weighted average number of shares in issue during the year excluding own shares held.

**EPRA triple net, fully diluted NAV** per share includes the effect of those shares potentially issuable under the CULS or employee share options and excluding own shares held. NAV is adjusted for the fair value of debt and the fair value of trading properties.

**Estimated rental value (ERV)** is the Group's external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

**Equivalent yield** is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' cost.

**ERV growth** is the total growth in ERV on properties owned throughout the year including growth due to development.

**Gearing** is the Group's net debt as a percentage of net assets. Seeing through gearing includes our share of non-recourse net debt in the associates and joint ventures.

**Initial yield** is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development properties.

**IPD** is Independent Property Databank Ltd, a company that produces an independent benchmark of property returns.

**Loan to value (LTV)** is the ratio of net debt excluding fair value adjustments for debt and derivatives, to the aggregate value of properties (including the surplus of the open market value over the book value of trading properties), investments in joint ventures and funds and other investments.

**Market value** is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers). In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees.

**Net assets per share (NAV)** are shareholders' funds divided by the number of shares held by shareholders at the period end, excluding own shares held.

**Net rent** is Capital & Regional's share, on a see through basis, of the rental income, less property and management costs excluding performance fees, of the Group, its associates and joint ventures.

**Net interest** is Capital & Regional's share, on a see through basis, of the interest payable less interest receivable of the Group, its associates and joint ventures.

**Passing rent** is the gross rent, less any ground rent payable under head leases.

**Return on equity** is the total return, including revaluation gains and losses, divided by opening equity plus time weighted additions to share capital, excluding share options exercised, less reductions in share capital.

**Recurring pre-tax profit** is the sum of contribution plus management fees, SNO!zone income less SNO!zone expenses, less fixed management expenses.

**Reversion** is the estimated increase in rent at review where the gross rent is below the estimated rental value.

**Reversionary percentage** is the percentage by which the ERV exceeds the passing rent.

**Reversionary yield** is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

**See through balance sheet** is the pro forma proportionately consolidated balance sheet of the Group, its associates and joint ventures.

**See through income statement** is the pro forma proportionately consolidated income statement of the Group, its associates and joint ventures.

**Total return** is the Group's total recognised income for the year as set out in the Consolidated Statement of Recognised Income and Expense ("SORIE") expressed as a percentage of opening equity shareholders' funds, excluding CULS reserve.

**Total shareholder return** is the growth in price per share plus dividends per share.

**Triple net, fully diluted NAV per share** includes the effect of those shares potentially issuable under the CULS or employee share options.

**SIC 15 "Operating lease – incentives" debtors** under accounting rules the balance sheet value of lease incentives given to tenants is deducted from property valuation and shown as a debtor. The incentive is amortised through the income statement.

**Vacancy rate** is the estimated rental value of vacant properties expressed as a percentage of the total estimated rental value of the portfolio, excluding development properties.

**Variable overhead** includes discretionary bonuses and the cost of awards to employees made under the LTIP and CAP and is spread over the performance period.

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## 2007 financial calendar

| | |
|---|---|
| Annual General Meeting | 11 June 2007 |
| Final dividend payment | 15 June 2007 |
| Interim results | September 2007 |
| Interim dividend | October/November 2007 |
| 2007 preliminary results announcement | March 2008 |

## Final dividend 2006 timetable

| | |
|---|---|
| Record date | 20 April 2007 |
| Last day to receive DRIP mandates | 1 June 2007 |
| Dividend warrants posted | 14 June 2007 |
| Payment date/shares purchased | 15 June 2007 |
| Certificates/purchase statements dispatched | 28 June 2007 |
| CREST accounts credited | 29 June 2007 |

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