Capital & Regional

Annual Report 2008

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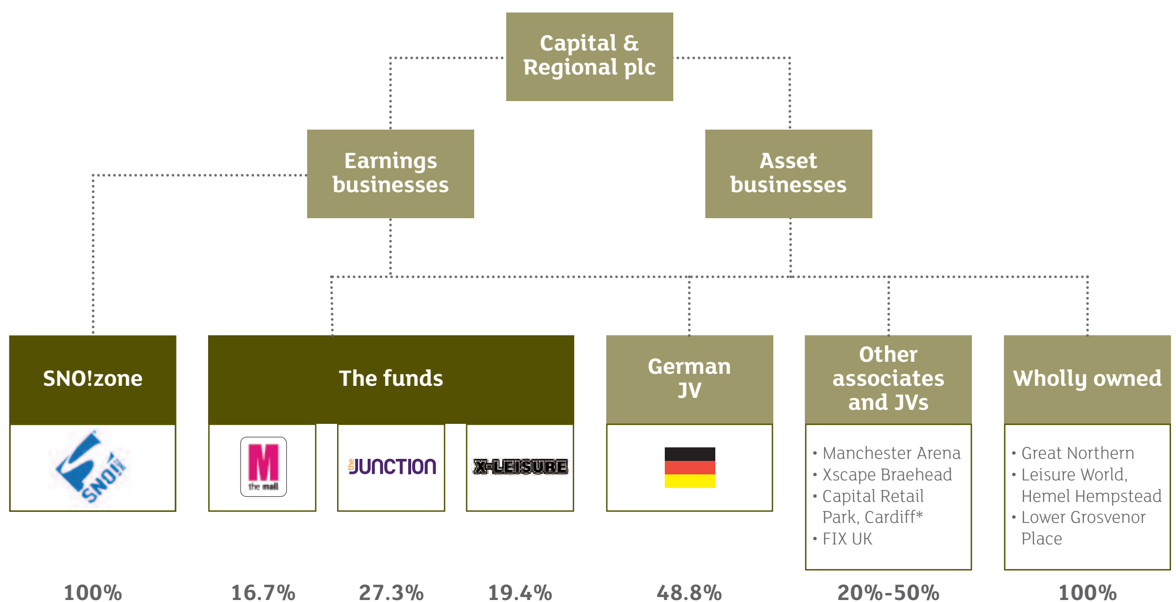
Capital & Regional... what we do

- C&R is a co-investing property asset manager. This means that we manage property assets for funds and joint ventures in which we hold a significant stake
- We aim to build best-of-class specialist management teams for the retail and leisure sectors in which we operate

...business model

- We operate asset businesses and earnings businesses
- Asset businesses comprise our investments in property funds and joint ventures, and our wholly-owned properties
- Earnings businesses comprise our property management teams, which manage the funds and German joint venture, and SNO!zone

...corporate structure



* Agreement was reached to sell the 50% investment in Capital Retail Park, Cardiff on 23 April 2009.

Chairman's statement

Tom Chandos
Chairman

"Capital & Regional's performance in 2008 has been severely impacted by the fall in property valuations resulting from a year of extreme financial and economic turbulence."

Overview

In a year of extreme financial and economic turbulence, Capital & Regional's performance in 2008 has been severely affected by the related fall in property valuations. Nonetheless, however difficult market conditions have been and however widespread their impact on property investors, your Board regards the pre-tax loss of £516 million and the resulting 73% fall in triple net diluted net assets per share as a deeply unsatisfactory outcome.

Throughout 2008, however, initiatives have been taken by management, under its new leadership, which have enabled the Company to keep its head above the rising floodwater, and, although this task is not yet complete while further transactions progress towards finalisation, the further action being taken promises to restore the Group's financial resilience.

Dividend

In the light of the continuing uncertainty in the property market and the consequent desirability of the Group conserving its cash resources, the Board is not recommending the payment of a final dividend, leaving the total for the year at the 5p paid at the interim stage.

The Board

Hans Mautner has asked to retire from the Board following this year's Annual General Meeting, when he will have completed two three-year terms. His knowledge of the worldwide property industry and his strong judgement have made him a highly valued Board member and we are very grateful for his significant contribution.

Responsible business

Capital & Regional has continued to manage responsible business in the same way as it does other operating areas, by allowing operating divisions autonomy to develop an approach suitable for them, whilst providing broad strategic direction through a Responsible Business Committee. The statement on responsible business sets out the Group's achievements in 2008.

Our people

Our teams have worked tirelessly throughout the year, despite the severe headwinds the Group has encountered. The restructuring and re-financings undertaken or in train would not be possible without the recognised excellence of their core property asset management skills. I would like to thank them on your behalf for their efforts.

Outlook

Despite some improvement in sentiment around the property market in recent weeks, valuations have been generally declining in the first quarter albeit at a slower rate than at the end of 2008 and rental income is inevitably being affected to some extent by the economic conditions. In this environment it is therefore important for the Company to finalise the transactions currently in an advanced stage of negotiation.

The Company enjoys partnerships, some long established, others more recent, with a number of powerful financial institutions and these have proved vital in securing both a more stable immediate position for the funds and joint ventures and the prospects of renewed success in the future.

The Board is determined that, in the foreseeable future, shareholders should enjoy an improvement in returns, after a period of very poor performance. It continues, therefore, to review and explore a wide range of options, in addition to the transactions currently being pursued, which could accelerate the achievement of this objective.

Tom Chandos
Chairman

Chief Executive's statement

"Management's focus has been and remains on strengthening the financial position of the Group. We have made solid progress towards achieving this critical objective during the year."

Hugh Scott-Barrett
Chief Executive

Results
The last 12 months have seen some of the most difficult conditions for the property market in many years. Falling property values have had a very significant impact on the Group's performance in 2008. We have reported a pre-tax loss of £516 million, a result which I know is deeply disappointing not only for shareholders but also for all who work at Capital & Regional.

Recurring profitability, which measures the underlying tenant-facing business, has been more resilient. We have reported recurring pre-tax profits of £27.6 million compared to £32.7 million in 2007, reflecting sound underlying operating performance. Our core skills are as a property asset manager of complex retail and leisure assets. These strengths have again proven themselves in challenging market conditions. As at 30 December 2008, we continue to manage a portfolio of just under £4 billion. Whilst the market environment remains uncertain, this franchise provides a solid platform to grow the business as market conditions stabilise.

Property values have fallen significantly further and faster than anticipated at the end of 2007, reflecting a lack of liquidity in investment markets. Valuations at a property level for each of the Mall, The Junction and X-Leisure funds have collectively fallen by over £1.5 billion during 2008 and the falls in unit prices have been proportionally still greater given the gearing levels in the funds. It is this combination that has led to a fall in Capital & Regional's NAV from £10.04 to £2.67 per share over the year.

Financial position
Against this background, management's focus has been on strengthening the financial position of the Group and each of the funds. We have made solid progress towards achieving this critical objective during the year:

- Statutory debt (which has some recourse to the Group balance sheet) has fallen from £625 million at 30 December 2007 to £113 million as at 30 December 2008. This was largely achieved by the sales of 80% of the FIX UK portfolio and 50% of the German portfolio.
- The Mall's financial position has been substantially strengthened as a result of the £286 million sale of three shopping centres to Carlyle and the £286 million rights issue.
- We renegotiated our financial covenants with our principal lending bank to provide us with greater covenant headroom within our facilities.
- Actions have been taken to deliver cost savings of £3 million per annum in 2009 which will help offset the impact on recurring pre-tax profits of disposals, dilution and lower valuations.

These actions have ensured that as at 30 December 2008 we were in compliance with all our key banking covenants at Group and core fund level. Since the year end, we have continued to progress plans to strengthen the financial position of both The Junction and X-Leisure funds. X-Leisure has completed the sale of the 02 Centre, Finchley Road, for £92.5 million. Both X-Leisure and The Junction have also announced plans to raise new equity in transactions which, once approved, will also benefit from revised banking arrangements to ensure both funds have the necessary financial resilience.

In view of the wish to maintain financial flexibility, we are also in negotiations with our principal lending bank on further amendments to the Group's core revolving credit facility.

Operations
We believe that current market conditions will have a long lasting impact on the relationship between landlord and retailer which will inevitably have an impact on the structure of leases in the medium term. The direct management approach adopted by Capital & Regional's Property Asset Management teams is geared to being responsive to retailer needs which will be critical in attracting new retailers to the attractive and competitively priced space we offer.

Outlook
Market conditions remain fragile. It is therefore important that the Group is resilient enough to absorb further falls in property values in 2009. The actions which are under way to strengthen the financial position of The Junction, X-Leisure and the Group are indicative of our determination to ensure Capital & Regional is not only well positioned against further market weakness but can also begin to take advantage of opportunities as market conditions improve. I strongly believe that our operating platform has unique characteristics which can be leveraged more effectively in the future. In particular, our specialist expertise and management skills in the retail and leisure sectors will give us clear advantages in this challenging market environment.

Execution is key. A number of transactions both at the Fund and Group level have yet to close. Although I believe we are well on the way to a successful outcome, uncertainty remains until completion. These risks are covered more fully in the risks and uncertainties section.

I am realistic about the need for the Group to consider a wide range of financial and strategic options both to strengthen the Group's financial position and to begin the task of rebuilding shareholder value. We will therefore continue to focus on de-leveraging the Group balance sheet, to identify opportunities to recycle capital and to make selective investment where returns are compelling.

Hugh Scott-Barrett
Chief Executive

Operating review

Tenant markets

Despite well-publicised problems in the wider economy and a number of high-profile failures and administrations, our tenant-facing business has continued to deliver a satisfactory performance, though in the light of the continuing downturn, we closely monitor the financial position of our tenants. During the year, the part of the leisure sector in which we operate was hit less hard than the retail sector, with cinemas and restaurants at the value end of the spectrum continuing to trade reasonably well, and this appears to have remained the case in the first quarter of 2009. We therefore believe that the Group has the right mix of properties and management skills to work with our tenants through the recession.

The Group benefited from the diversification that its German joint venture brings, by providing exposure to a tenant market with a different cycle to the UK that has continued to perform strongly over the year.

The operating performance of our tenant markets has therefore shown resilience in the face of the economic downturn during 2008. The key aspects of this performance were as follows:

Occupancy levels

We continue to see satisfactory levels of occupancy across the three funds, notwithstanding the increased pressure that tenants are facing. Where possible we aim to work with tenants who are facing difficulties so they are able to continue trading. Across the three main UK funds, occupancy was 94.6% at the year end compared to 94.8% at the end of 2007. In the German joint venture, occupancy remained high at 98.2% at the year end compared to 98.7% at the end of 2007. Our German portfolio is defensive in nature with a tenant base comprising a majority of food retailers in established retail locations.

Passing rent

Rental growth is a key measure of demand for space and therefore an important driver of performance. Notwithstanding the pressures from the wider economy, passing rent fell by only 0.4% on a weighted average like-for-like basis in the three funds during 2008. This fall was driven largely by weakness in the retail market, as The Mall and The Junction saw passing rent falling by 1.7% and 0.5% respectively, in contrast to X-Leisure where a combination of stronger underlying tenant performance and a greater proportion of index-linked leases led to a 4.6% increase in passing rent over the course of the year. In Germany, where index-linked rents are common, passing rent increased by 0.6% in 2008.

Administrations

Administrations are one of the most important indicators by which the Group gauges the state of its tenants, and management of the administration process can be a driver of relative outperformance. During 2008, there were a number of significant tenant administrations, particularly in the last quarter of the year following the rapid decline in sentiment in the economy.

- The Mall saw administrations in 114 units during the year, with passing rent of £11.0 million. This represented 7.2% of the rent roll at the start of 2008. Of this, 39 units with passing rent of £4.5 million entered administration in the last quarter of the year. A further 73 units went into administration in the first quarter of 2009, with passing rent of £5.0 million. 37 of these were still trading at the end of the quarter with passing rent of £2.9 million.

- The Junction saw administrations in only four units during the year, but because these were predominantly large tenants this represented passing rent of £1.8 million or 3.8% of the rent roll at the start of 2008. Three of the units with passing rent of £1.7 million went into administration in the last quarter of the year. A further five units went into administration in the first quarter of 2009, with passing rent of £1.5 million. None of these were still trading at the end of the quarter.

- X-Leisure saw administrations in 22 units during the year, with passing rent of £1.7 million or 3.5% of the rent roll at the start of 2008. The last quarter of the year accounted for 11 of these units, with passing rent of £0.9 million. A further five units went into administration in the first quarter of 2009, with passing rent of £0.4 million. One of these was still trading at the end of the quarter with passing rent of £0.1 million.

- There were minimal administrations in the German portfolio in the year and in the first quarter of 2009.

Administrations are not necessarily an indication of tenant failure as many occupiers are able to continue trading through the process, but where units do close our ability to find replacement tenants quickly is a key driver of performance. As a result of the increased level of administrations in the last quarter of the year, 35% (by value of passing rent) of the 2008 administrations were either still trading or had been replaced by new lettings by the end of the first quarter of 2009.

Monthly rent payments

In Germany, monthly rent payments are standard but in the UK leases generally provide for quarterly payments. Requests to move to monthly rent payments are therefore an indicator of increasing tenant distress as occupiers seek to manage cash flow in challenging economic times. The Group considers such requests on a case-by-case basis. At the year end, 5.2% of passing rent was paid monthly under non-contractual concessions across the three funds, compared to 1.1% at the end of 2007. Contractual concessions (i.e. monthly payment plans as a term of the lease) are also increasingly common with 6.7% of passing rent now paid in this way, the majority of which relates to The Junction.

New lettings and rent reviews

Both The Mall and X-Leisure continue to make new lettings and settle many rent reviews above ERV, in contrast to The Junction where the difficulties in the retail warehouse market have led to settlements on average 3% to 3.5% under ERV. Across the three funds, 180 rent reviews were settled in the year at passing rent of £24.3 million at 1.3% above ERV, and 255 new lettings were made at passing rent of £9.9 million, which was 0.9% above ERV. This excludes any temporary lettings in the funds. The Group's ability to attract new tenants and settle rent reviews above ERV in the period was encouraging.

Outlook

As indicated, since the year end, there have been a number of further administrations, particularly in The Mall and The Junction at the start of the quarter, and it is expected that tenants in these funds will continue to face a difficult trading environment for some time. We nevertheless believe that in these challenging conditions our asset and property management skills will stand us in good stead to generate relative outperformance. Our exposure to the leisure sector and the German market also helped to offset the problems faced by retailers during 2008, and this trend has continued in the first quarter of 2009.

The level of incentives that are required to attract new tenants is likely to increase as their bargaining position is improved. Nevertheless, with a good proportion of retail administrations and insolvencies continuing to trade, and the vast majority of tenants continuing to meet their obligations, we believe that the Group is well placed to withstand the full impact of the recession that will undoubtedly continue to be felt throughout 2009.

Property investment markets

Significant yield shift was the key driver of property investment markets in 2008, affecting the Group's investments in the UK, and to a lesser extent, Germany. The availability of debt funding deteriorated through 2008 and essentially dried up at the start of the global financial crisis triggered by the collapse of Lehmans. Even where debt funding can be raised, this is only on margin terms which are markedly more costly than was previously available.

As a result, the yields on the Group's main investments moved outwards over the course of the year as follows:

Yield shift

	2008	2007[1]	Yield shift in year
Initial yields			
Mall	**7.15%**	4.81%	2.34%
Junction	**6.20%**	4.44%	1.76%
X-Leisure	**6.68%**	5.06%	1.62%
UK weighted average	**6.74%**	4.76%	1.98%
German joint venture	**6.51%**	5.99%	0.52%
Nominal equivalent yields[2]			
Mall	**8.44%**	5.71%	2.73%
Junction	**7.12%**	5.39%	1.73%
X-Leisure	**7.68%**	5.78%	1.90%
UK weighted average	**7.84%**	5.64%	2.20%

1 Adjusted to be like for like with 2008.
2 Nominal equivalent yields in Germany are equal to initial yields.

These rising yields, magnified by gearing at the fund and German joint venture level, have resulted in significant negative performance in these investments in 2008.

Fund and German joint venture performance

	2005	2006	2007	2008
Mall				
Property level returns	16.5%	17.6%	(3.3)%	**(33.2)%**
Geared returns	22.8%	26.3%	(13.2)%	**(65.4)%**
IPD shopping centre index	16.3%	12.7%	(4.3)%	**(22.0)%**
Junction				
Property level returns	23.3%	15.0%	(16.8)%	**(26.1)%**
Geared returns	34.1%	18.3%	(34.0)%	**(57.1)%**
IPD retail parks index	22.1%	14.7%	(9.6)%	**(25.6)%**
X-Leisure				
Property level returns	15.3%	19.7%	2.1%	**(21.9)%**
Geared returns	28.3%	30.4%	(3.0)%	**(48.2)%**
UK weighted average[1]				
Property level returns	18.9%	16.9%	(6.1)%	**(28.2)%**
Geared returns	27.3%	23.9%	(17.3)%	**(58.5)%**
German joint venture				
Property level returns		15.2%	7.5%	**(5.2)%**
Geared returns		34.2%	16.2%	**(32.4)%**

1 Based on Group exposure to the three funds.

The Mall's underperformance against its benchmark was largely attributable to the prime centres included in IPD, where yield shift has been less pronounced. In 2007 the differential between prime and secondary stock was minimal but has widened considerably since, and this has had a negative impact on the relative performance of the mainly secondary centres held in the fund.

The Junction was much closer to its benchmark for the year following its underperformance in 2007. This year, the amount of yield shift was broadly in line with the wider market but the fund's estimates of falls in ERV have been more pessimistic than the market.

X-Leisure is not measured against a specific benchmark but has moved broadly in line with the IPD All Property return of (22.1)% for the year. It saw much lower falls in values than the other funds in 2007 and the first half of 2008 but declined significantly in the second half of the year.

Whilst the German portfolio has seen a smaller fall in value than the Group's other portfolios at a property level, the impact of the higher levels of debt in the portfolio on geared returns has been more dramatic. The German property market has historically been less volatile than the UK market and the returns for the German joint venture highlight the benefits of diversification for the Group.

Outlook

We have already seen further falls in value in 2009 due to further outward yield shift but also brought about by the impact of tenant failures and weaker occupational demand. Note 36 to the financial statements sets out the valuations of the properties in the three funds at 31 March 2009. This has been exacerbated by the continued stagnation of the debt markets. Given the experience to date, it is difficult to predict how far the market will fall but one of the key requirements for the stabilisation of values is an improvement in the availability of debt funding and the cost of borrowing.

Financial review

KPI summary

The key performance indicators the Group uses to monitor performance are summarised in the table below and explained in more detail in the following paragraphs.

Key performance indicators

	2006	2007	**2008**
Scale of business			
Property under management	£6.5bn	£6.1bn	**£4.0bn**
Investment returns			
Triple net diluted NAV per share	£12.72	£10.04	**£2.67**
Total return on equity	32%	(18)%	**(72)%**
Year end share price	£15.42	£3.92	**£0.45**
Total shareholder return	81%	(73)%	**(77)%**
Profitability			
Recurring pre-tax profit	£32.3m	£32.7m	**£27.6m**
Dividend per share	26p	27p	**5p**
Profit/(loss) before tax	£251m	£(167)m	**£(516)m**
Debt			
Group debt	£460m	£625m	**£113m**
Off-balance sheet debt	£678m	£709m	**£723m**
Total debt	£1,138m	£1,334m	**£836m**
Gearing			
Group debt to equity ratio*	50%	89%	**60%**

* Group debt divided by shareholders' equity.

Property under management

In line with the Group's strategy of reducing debt, there were no property acquisitions but a number of disposals during 2008. There were also reduced levels of capital expenditure on the underlying assets. The key movements in property under management in the year were as follows:

	Mall	Junction	X-Leisure	German portfolio	FIX UK	Other	Total
2007	3,016	1,223	947	490	170	289	6,135
Disposals	(359)	(204)	–	–	(170)	(28)	(761)
Capital expenditure	23	3	18	1	–	33	78
Revaluation	(988)	(288)	(244)	(43)	–	(51)	(1,614)
Exchange difference	–	–	–	147	–	–	147
2008	**1,692**	**734**	**721**	**595**	**–**	**243**	**3,985**

- The Mall disposed of three properties in Chester, Edgware and Epsom in July 2008 for £286 million at a net initial yield of 6.0%. The proceeds of these property disposals and the £286 million open offer were used in part to repay in full the fund's banking facility, which left the fund with no effective LTV covenant. The balance was maintained to cover committed future capital expenditure, mainly at Luton and Blackburn. The fund spent £23 million during the year on reconfigurations and redevelopments.

- The Junction made three disposals during the year: Great Western Retail Park, Glasgow in March 2008 for £58.5 million at a net initial yield of 5.75%; Templars Retail Park, Oxford in August 2008 for £57 million at a net initial yield of 5.7%; and St George's Retail Park, Leicester in November 2008 for £32 million at a net initial yield of 8.2%. Since the year end it has also sold its non-core property at Victory Industrial Estate, Portsmouth for £1.65 million at a net initial yield of 9.3%. The proceeds in each case were used to reduce debt in the fund.

- X-Leisure had no disposals in 2008, although in April 2009 the sale of the O2 Centre, Finchley Road completed for £92.5 million at a net initial yield of 7.8%. The proceeds were used to reduce the fund's debt.

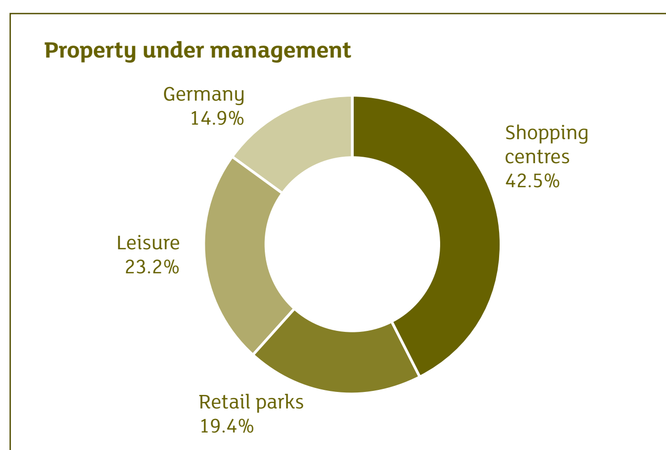
- There were no acquisitions or disposals in the German portfolio during the year. Although the Group sold 50% of its German interests to AREA in October 2008, the whole portfolio is still included in property under management as our German team continue to manage the portfolio.

- The Group disposed of 80% of its FIX UK portfolio in March 2008 for £32.2 million at a net initial yield of 5.8%. The properties are no longer managed by the Group and are therefore no longer included in property under management.

- The Group's joint venture in Cardiff disposed of the Costco Unit at the Capital Retail Park in December 2008 for £17 million at a net initial yield of 6.1%. The proceeds were used to pay down debt in the joint venture. In April 2009, the Group agreed to sell its remaining interest in the joint venture to its partner for £1.2 million at an estimated contracted net initial yield of 5.9%. This continues our strategy of de-gearing the Group and releases us from future capital commitments of approximately £2 million and a small bank guarantee.

The split of the £4 billion property under management by sector was as follows:

Property under management



Investment returns

All measures of investment returns saw a significant fall in 2008, reflecting the overall loss for the year which was broken down as follows:

	2006 £m	2007 £m	**2008 £m**
Recurring pre-tax profit	32.3	32.7	**27.6**
Revaluation of investment and trading properties	166.7	(164.4)	**(397.4)**
Performance fees	62.6	(52.8)	**(9.9)**
Gain/(loss) on disposal	11.1	1.6	**(42.3)**
Deemed disposal	–	–	**(28.8)**
Revaluation of financial instruments	23.5	(7.0)	**(47.8)**
Other non-recurring items	(45.3)	22.9	**(17.7)**
Tax and reserves movements	(27.0)	1.9	**13.6**
Total returns	223.9	(165.1)	**(502.7)**
As % of opening equity	31.6%	(18.1)%	**(71.5)%**

The main factors behind the significant loss in the year were:

- revaluation losses and losses on disposals across the Group's portfolio, reflecting valuation movements in the overall property investment market in both the UK and Germany. As described in the operating review the key driver behind the movements during the year was yield shift, in particular the sharp falls seen in the last three months of the year.
- a deemed disposal that represented the dilution caused by the Group's decision not to participate in the Mall's capital raising. This decision has been supported by the fact that the value of fund units has since fallen below the open offer unit price.
- losses on the Group's interest rate swaps, which have been driven by the sharp falls in interest rates towards the end of the year. As a result, the floating rates receivable under the swaps are now lower than the fixed rates payable, creating a balance sheet liability for accounting purposes.

The other non-recurring items include the Group's share of performance fees repaid as an investor in the funds, impairments, one-off expenses and the costs of the Group's various management incentive schemes. These items are described in more detail in note 2 to the financial statements.

Profitability

The Group's recurring profit is derived from its two segments, being:

- **Asset businesses:** comprising our share of the net rent less net interest arising from interests in associates, joint ventures and wholly-owned entities, in both the UK and Germany.
- **Earnings businesses:** property management fees less fixed management expenses, and the profit from its SNO!zone operating business.

Recurring pre-tax profit

	2006 £m	2007 £m	**2008 £m**
Property investment UK	11.3	10.2	**6.1**
Property investment Germany	5.8	9.6	**11.1**
Managing property funds	13.4	10.8	**8.9**
SNO!zone	1.8	2.1	**1.5**
Recurring pre-tax profit	32.3	32.7	**27.6**

- **Property investment:** the Group earns profits from its share of the net rental income less net interest payable in its investments. The cost of managing its wholly-owned investment and trading properties is allocated to the property investment business.

  The fall in UK profit is largely the result of lower net rental income from The Mall, following the sale of three properties in the year and dilution of the Group's share in the fund following the rights issue; significant loan renegotiation costs incurred by The Junction; and the part disposal of FIX UK.

  The increase in profit from the German portfolio is the result of favourable foreign exchange movements, which more than offset the fall in income in the last quarter that resulted from the part-disposal in October 2008.

- **Managing property funds:** a subsidiary of the Group, Capital & Regional Property Management Limited ("CRPM") earns fees from managing the funds and joint ventures and employs all the Group's staff. This property management business continued to be profitable at an operational level in 2008 as follows:

CRPM income statement

	2006 £m	2007 £m	**2008 £m**
Asset management fees	17.0	18.6	**14.9**
Service charge fees	4.6	4.4	**4.9**
Other fees	5.8	3.0	**3.0**
Fixed management expenses*	(14.0)	(15.2)	**(13.9)**
CRPM recurring profit	13.4	10.8	**8.9**
Performance fees	62.6	(52.8)	**(9.9)**
Variable overheads	(18.3)	7.9	**0.1**
Impairment of goodwill	–	–	**(8.0)**
Other non-recurring items	(2.1)	–	**(5.6)**
Profit/(loss) before tax	55.6	(34.1)	**(14.5)**

* Excluding overhead allocated to property investment business.

The decline in CRPM recurring profit over the year was primarily the result of falling fund valuations and, to a lesser extent, disposals in The Mall and The Junction which reduced the base on which asset management fees are calculated. This was partially offset by a fall in fixed management expenses, which reflects part of the benefit of an ongoing programme of cost reduction to ensure that CRPM's property management business will continue to generate profits for the Group despite the falls in property under management.

CRPM's income statement also reflects performance fees which, as discussed in more detail below, were a net repayment to the funds in 2008. We have also impaired the carrying value of the goodwill associated with the X-Leisure fund, reflecting the fact that falling valuations will reduce the income stream we expect to receive from the fund over the remainder of its life and uncertainty as to whether the fund's life will be extended in 2018. Amounts shown under "other non-recurring items" include costs relating to The Mall rights issue, to which CRPM contributed as the property manager; the change of Chief Executive during the year; and redundancies under the cost reduction programme mentioned above.

CRPM income arises principally from management contracts on The Mall, The Junction and X-Leisure funds. During 2008, as part of the negotiations around the capital restructuring of the fund, the contract for The Mall was amended to include an expiry date of 31 December 2012 if not extended by a continuation vote in June 2011, in line with the requirement to refinance the fund's bonds in 2012. The expiry date of the contract for The Junction is also currently subject to renegotiation as part of the restructuring described in note 36 to the financial statements.

Financial review continued

In addition to the amended expiry dates and in light of the funds' recent underperformance, the fee basis on each of the funds is also subject to further negotiation. While any new calculation for The Mall is expected to generate income for CRPM at a similar rate to the old, fees for The Junction will be lower, as described in note 36 to the financial statements. We have already looked to reduce costs in line with this anticipated fall.

- **SNO!zone** is the UK's premier real snow indoor ski slope operating business, based at three sites in Group properties at Milton Keynes, Castleford and Braehead. With virtually no requirement for capital from the Group it has been generating strong cash flows since its inception in 2001.

SNO!zone income statement

	2006 £m	2007 £m	**2008 £m**
Income	9.3	14.3	**14.9**
Cost of sales and operating expenses	(7.6)	(11.5)	**(13.1)**
Cash profit	1.7	2.8	**1.8**
Tenant incentives	–	(0.7)	**(0.3)**
Accounting profit	1.7	2.1	**1.5**

Despite a challenging trading environment, SNO!zone revenue increased over the year, driven by a strong performance at Milton Keynes, but this was offset by higher costs at all three sites. The largest increases were in salaries and marketing, where spending was increased in order to maintain revenue, and rent, following the commencement of a turnover rent in Milton Keynes and a rent increase in Castleford.

Performance fees

CRPM has historically received performance fees from the funds it manages, based on complex formulae designed to deliver a share of any outperformance over a three-year period compared to a defined IPD benchmark (in the case of The Mall and The Junction) and an absolute 12% hurdle return. Fees can be positive or negative, but negative fees are capped at the amount received over the previous two years.

Over the five years to 30 December 2006, the Group earned £161 million in performance fees. In 2007, however, falling property valuations caused negative geared returns and resulted in significant clawback of prior years' performance fees. Provisions were made in 2007 for the return of all of the performance fees earned from The Mall and The Junction in 2006 and no fees were accrued for X-Leisure due to the likelihood of clawback. As a consequence, the only fees that could potentially be clawed back in 2008 were the X-Leisure fees earned in 2006.

The continued negative performance of the funds in 2008 has meant that the Group has earned no performance fees this year. The 2008 performance of the X-Leisure fund has resulted in the clawback of £9.9 million of the 2006 performance fees. No further amounts can be clawed back but given the continuing falls in property values and the impact this has on fund performance, we are not anticipating that any performance fees will be earned in 2009.

A new basis for calculating performance fees is also expected to be agreed as part of the fee negotiations on The Junction and X-Leisure funds discussed above. The basis for calculating The Mall's performance fee may also change when discussions take place regarding management fees later in 2009.

Balance sheet summaries

The Group presents its balance sheet in three ways:

- the enterprise balance sheet shows everything the Group manages;
- the "see through" balance sheet shows the Group's economic exposure to the different property portfolios; and
- the statutory balance sheet follows the accounting and statutory rules.

Three balance sheets at 30 December 2008

	Enterprise £m	See through £m	Statutory £m
Fund properties			
Mall	1,800	301	86
Junction	712	194	58
X-Leisure	720	140	39
Joint venture properties			
Germany	595	297	40
Other joint ventures	143	60	(5)
Wholly-owned properties			
Great Northern, Hemel Hempstead and others	99	99	99
Total property	4,069	1,091	317
Working capital etc	(115)	(69)	(18)
Debt	(2,947)	(836)	(113)
Net assets	1,007	186	186
C&R shareholders	186	186	186
Fund and other joint venture investors	821		
Total equity	1,007	186	186

NAV per share is £2.67 on a triple net basis, down from £10.04 at December 2007. As noted above under the commentary on investment returns, the major causes of this were:

- the adverse shift in valuation yields which led to losses on revaluation and on disposal of investment properties;
- the one-off impact of the Mall rights issue and the dilution following the Group's decision not to participate; and
- the fall in interest rates which led to a loss on revaluation of interest rate swaps.

Debt

During the year, Group debt fell from £625 million to £113 million, largely as a result of the disposals of 80% of FIX UK and 50% of the German portfolio. The Group's share of the FIX UK and German joint venture debt is now included in the value of its associates and joint ventures and in both cases is non-recourse to Capital & Regional plc. As a result, despite the net repayment of debt within associates and joint ventures, off balance sheet debt has increased slightly in the year. A summary of the movements in Group debt and off balance sheet debt is as follows:

	Group debt £m	Off-balance sheet debt £m	Total debt £m
As at 30 December 2007	625	709	1,334
Net repayments*	(18)	(197)	(215)
Part sale of FIX UK	(120)	24	(96)
Part sale of German portfolio	(374)	187	(187)
As at 30 December 2008	**113**	**723**	**836**

* Including foreign exchange movements and impairments.

In the case of the German joint venture the Group has agreed to provide a €5 million loan facility if required for working capital. This facility was undrawn at 30 December 2008.

The breakdown of Group debt at the end of the year was as follows:

Group debt

	Debt at 30 December 2008 £m	Average interest rate %	Fixed %	Duration of fixing (months)	Duration to loan expiry (months)
Core revolving credit facility	**27**	6.45	238	24	25
Great Northern debt	**67**	6.39	104	21	21
Hemel Hempstead debt	**11**	6.27	100	8	8
10 LGP debt	**8**	7.14	–	n/a	10
	113	6.45	128	21	20

In August 2008, the Group reached agreement with its principal lending bank in relation to the covenants on its core revolving credit facility. In return for a reduction in the amount of the facility from £175.5 million to £125.5 million and an increase in interest margin from 0.9% to 1.4%, the bank amended the see through gearing covenant so that only debt with recourse to the Group is included. This removed all fund, German and other non-recourse debt from the calculation as no Group guarantees have been given in respect of these facilities. The new covenant is set at 200%.

The central facility is supported by the Group's investments in The Mall, The Junction and X-Leisure funds and the cash flows arising from SNO!zone and CRPM. In addition to the amended gearing covenant described above, interest cover must be greater than 150% and asset cover greater than 2:1, meaning that the carrying value of our investments, based on the fund unit prices at certain dates, cannot fall below 200% of the amount drawn.

The facility was £27.4 million drawn at 30 December 2008. The status of the covenants at the end of the year was as follows:

	Covenant	Actual
Gearing	Less than 200%	38%
Interest cover	Greater than 150%	462%
Asset cover	Greater than 200%	738%

Because of the restrictions of the asset cover covenant, only £101 million of the facility was actually available at the end of the year.

In view of the wish to maintain financial flexibility, we are also in negotiations with our principal lending bank on further amendments to the Group's core revolving credit facility.

Off balance sheet debt

The breakdown of off balance sheet debt at the end of the year was as follows:

Off balance sheet debt

	Debt at 30 December 2008 £m	Average interest rate %	Fixed %	Duration of fixing (months)	Duration to loan expiry (months)
Mall (16.7% share)	**208**	5.01	100	40	40
Junction (27.3% share)	**138**	5.92	100	37	27
X-Leisure (19.4%)	**94**	5.88	91	29	39
German joint venture (48.8% share)	**228**	4.68	100	32	32
Other JVs and associates (20%-50% share)*	**55**	6.37	63	29	37
	723	5.29	96	35	35

* Excluding FIX UK where the Group has conservatively written down its investment to £nil.

- **The Mall's** financial stability was improved by raising new equity in June 2008 and selling three shopping centres as described above. At 30 December 2007 the fund had debt of £1,698 million made up of £1,435 million in bonds and £263 million of bank debt. At 30 December 2008 that debt had been reduced, leaving £1,246 million of bond financing. The proceeds of the rights issue were used to pay off the entire outstanding balance on the RBS facility, so removing the 60% LTV covenant. The remaining £23 million was retained to fund committed capital expenditure. The proceeds of the Carlyle sale were used to pay down £189 million of The Mall's bonds and the remainder has also been set aside to cover future capital expenditure.

  The only remaining LTV restriction is in the partnership deed and only operates on an "incurrence basis". This means that no remedy was required once falling valuations caused the LTV limit to be exceeded at the end of the year, although no additional borrowing can take place until the LTV falls back below 60%. At 30 December the LTV was 66.1%.

  The Mall bonds contain an interest cover covenant set at 130%. For the year to 30 December 2008, interest cover was 195%.

Financial review continued

- **The Junction** continued to pay down debt with the proceeds of disposals. At 30 December 2007 the fund had debt of £649 million from one bank facility. At 30 December 2008, this had reduced to £506 million following the receipt of £148 million from the three property sales described above under "Property under management".

  The fund also reached agreement with its banks in October 2008 to extend the LTV covenant from 60% to 70% for a period of 12 months. At 30 December 2008, this covenant stood at 69.0% and in view of the limited headroom, investors agreed to move to quarterly valuations in January 2009 to allow time for a long-term financial solution to be found for the fund. An LTV waiver has now been agreed with the banks until 1 June 2009 and a refinancing package has been agreed which will put the fund on a secure financial footing. The refinancing is subject to new equity being injected as further discussed in note 36 to the financial statements.

  The existing facility also has an interest cover covenant of 127.5%. For the year to 30 December 2008, interest cover was 161%.

- **X-Leisure** has three property level banking facilities and a £415 million central facility. At 30 December 2007 £485 million was drawn down under these facilities and since there were no acquisitions or disposals during the year, the amount drawn down at 30 December 2008 was virtually unchanged at £487 million.

  There were a number of changes to the facilities in the year, with the refinancing of the Milton Keynes property and the addition of the previously uncharged property at Norwich to the asset pool for the main facility.

  The LTV covenant on this main facility is 70% and at 30 December 2008 this stood at 69.7%. In view of the limited headroom, investors agreed to move to quarterly valuations in January 2009 to allow time for a long-term financial solution to be found for the fund. Discussions are ongoing with investors about a capital raise and the fund is seeking to amend the terms of its banking arrangements to create additional financial flexibility. An LTV waiver has now been agreed with the banks until 31 May 2009 in order to facilitate the implementation of this strategy.

  The existing facility also has an interest cover covenant of 130%. For the year to 30 December 2008, interest cover was 177%.

- **The German portfolio** is financed by six facilities denominated in euros. At 30 December 2008 the underlying debt was €484 million, which was virtually unchanged from the comparative figure of €485 million for 2007, but the treatment in the financial statements is now different. In 2007, the portfolio was majority owned and the borrowings were included in Group debt. At the prevailing 2007 year-end exchange rate this was equivalent to £355 million. Following the disposal of half the Group's interest, this debt is now shown off balance sheet and the Group's see through share is 48.8%. At the prevailing 2008 exchange rate, this was equivalent to £228 million. Since the investment in Germany is largely hedged, the significant difference arising from foreign exchange movements is predominantly shown through reserves.

  All LTV and ICR covenants on the German debt were met at the year end.

- **FIX UK** has debt of £135 million, of which the Group's share is 20%. The Group is not exposed to any further drawdowns that may be required if valuations threaten the LTV covenants on this debt. As explained in note 18b to the financial statements, at the end of the year the Group had conservatively written off the value of its remaining interest in FIX UK so the debt has been excluded from the figures above.

- **Other JVs** include the investments in Braehead, Cardiff and the MEN Arena. The Group continued to provide cost overrun and interest guarantees on Cardiff in the year though, following the sale of the Costco unit, £16.4 million of the relevant loan was repaid. As described above, the sale of our remaining joint venture interest in Cardiff will release the Group from any further obligations under this loan.

  The Braehead development is now complete and the relevant loan has been transferred into long-term investment finance, as a consequence of which the Group guarantee has expired.

Interest rate hedging

The Group has a number of interest rate swaps against loans on its wholly-owned properties and the core revolving credit facility. It is also exposed to a share of interest rate swaps held by its associates and joint ventures. The effect of these swaps is to fix the amount of interest payable on the loans but, as a result of the dramatic falls in interest rates in the latter part of 2008, the change in fair value of these swaps has led to an unrealised loss of £47.8 million for the year. The recognition of this loss is required by accounting standards but it should be noted that it will not be crystallised unless the underlying swaps are closed out.

Foreign exchange hedging

During the year, the Group entered into a forward currency contract for €115 million to be settled in April 2009 as a hedge of its net investment in its German portfolio. On the disposal of 50% of this portfolio, half of this hedge was closed out by an offsetting trade to purchase €57.5 million on the same maturity date. Owing to the strengthening of the euro against sterling in the latter part of 2008, the value of the net hedge at the year end was a liability of £14.2 million.

Since the year end, the Group has entered further forward contracts to fix the amount payable on the expiry of these initial contracts as protection against further changes in exchange rates, and to extend the life of the hedge to April 2010 but in the reduced amount of €47 million. The cash settlement on 30 April 2009 as a consequence of these transactions is £8.8 million.

To the extent the hedge is effective under accounting rules, valuation movements on the forward contracts are shown in reserves where they partially offset the gain in the value of the Group's German investments.

Tax

The Group tries to ensure that its corporate structure remains as tax efficient as possible under current legislation. During 2008 there was a current tax credit of £1.1 million and a deferred tax credit of £13.0 million, reflecting the reversal of previous deferred tax liabilities arising on financial instrument revaluations in 2008.

The Group has significant tax losses which may be available for offset against future profits and is carrying a small deferred tax asset in respect of these.

Dividends

In the light of the continuing uncertainty in the property market and the consequent desirability of the Group conserving its cash resources, the Board is not recommending the payment of a final dividend, leaving the total for the year at the 5p paid on 17 October 2008.

Despite recurring pre-tax profit remaining strong, impairments caused by falls in the value of the Group's investment and trading properties have exhausted the Company's distributable reserves at the end of the year. The Company would therefore have been unable to pay a final dividend in any event.

Although a capital restructuring has been approved by shareholders to convert the Company's share premium account into distributable reserves, this will not become effective until approved by the Court. Before approving the reduction, the Court will look to see that the creditors of the Company have either consented to it or that protections have been put in place to safeguard their position. Court approval will be sought once the position of the Company's creditors can be satisfactorily agreed.

Charles Staveley
Group Finance Director

C&R Retail

"The bringing together of our market-leading retail teams, under the C&R Retail banner, enhances our capability to both deliver on our existing commitments and to better take advantage of new opportunities."
Ken Ford

The C&R Retail team
From left: Ken Ford, Mark Bourgeois, Gaynor Gillespie, Graham Inglis

Introduction

The evolution of our divisional retail management team into the unified C&R Retail management platform recognises increasing operational and market synergies available to us across the retail sector.

C&R Retail brings together the wealth of experience and talent within the Group to both better deliver on our existing commitments and also take advantage of additional co-investment opportunities, in a market that is increasingly recognising the importance of direct, experienced and motivated management to stabilising and growing relative value.

The Mall Fund

The Mall is the UK's leading Community Shopping Centre brand. The fund owns 21 shopping centres throughout the UK with a total floor space of 7.8 million sq ft, offering a local, community based, value focused shopping proposition. Following the 2008 open offer, Capital & Regional holds 16.7% of the fund and acts as Property and Asset Manager. Aviva Investors (formerly Morley Fund Management) acts as Fund Manager. Steps have also been taken to further strengthen the corporate governance structure of the fund with the appointment of an independent Chairman, Sir Robert Finch, and an independent director, David White.

Investors hold units in a Jersey Property Unit trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax.

The fund's investment criteria are as follows:

- Town centre locations.
- Dominant in localised town catchments.
- Minimum 250,000 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.

Strategy

In 2008, the fund has sought to stabilise its capital structure and reduce gearing, in part through the disposal of £286 million of assets and also through an open offer in June 2008 which raised a further £286 million. The majority of the proceeds were used to pay down debt, including a bank facility which was entirely repaid to remove a restrictive covenant. The balance of the proceeds are largely earmarked for both committed developments and revenue generative initiatives arising from the continuing active management of the portfolio.

Management is focused on protecting and, where possible, growing net revenue. A realistic approach to maintaining occupancy levels whilst at the same time being rigorous on delivering value-for-money service charges has long been a recognised hallmark of The Mall management model and this has never been more important than in the current economic climate.

Outlook

At the fund level, the revamped General Partner board, under the chairmanship of Sir Robert Finch, is well equipped to give strategic direction to The Mall in these difficult times for indirect investment vehicles.

At the asset level, The Mall's local community and value proposition is displaying some resilience both with the shopper and the retailer in these recessionary times.

Our direct management model is cost-effective for our retailers where our longstanding relationships are helping to maintain occupancy levels whilst protecting cash flow and maintaining flexibility for recovery. Allied to this, our imaginative marketing and promotional campaigns remain focused on delivering more customers and sales, reinforcing our community and value positioning to our shoppers.

The Mall key statistics

	At 30 December 2008	At 30 December 2007
Gross property asset value	**£1,692m**	£3,016m
Number of properties	**21**	24
Number of units	**2,200**	2,504
Initial yield	**7.15%**	4.81%*
Equivalent yield	**8.44%**	5.71%*
C&R share	**16.7%**	24.2%
Total debt (excluding amortised costs)	**£1,246m**	£1,698m

* Like for like.

Top five tenants by rental income (2008)

	Units	%
Boots	18	3.19
Arcadia	33	3.14
Debenhams	7	2.40
Clinton Cards	29	2.31
New Look	15	2.14

The C&R Retail team (continued)
From left: Jo Lord, Richard Stubbs, John Wood

The Junction Fund

The Junction Fund is a specialist retail park fund, owning 11 core retail parks and three industrial properties (one of which was sold in April 2009) throughout the UK, and as at 30 December 2008 had a total floor space of 3.1 million sq ft. Capital & Regional currently holds 27.3% of the fund and acts as Property and Asset Manager. Aviva Investors (formerly Morley Fund Management) currently acts as Fund Manager.

Investors hold units in a Jersey Property Unit Trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax.

The fund's current investment criteria are as follows:

- 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.
- Asset management opportunities.
- Either the dominant scheme in a local catchment area or the ability to become so.

The Junction specialises in prime mixed-use retail parks. Open A1 consent allows any sort of retailing (including fashion) whereas bulky goods consent typically only allows the sale of goods that cannot easily be carried away by the customer. This includes DIY chains, furniture and carpet retailers, and electrical outlet stores.

The portfolio is broadly split 40% to open A1 and 60% to bulky goods.

Strategy

As with The Mall, management's focus is to maintain and, where possible, grow income streams whilst minimising the costs of void units. Our retailer relationships enable realistic and informed decisions to be made on support whether through monthly or concessionary rents. Whilst revenue is the priority, the fund continues to maintain its position in key development opportunities at Oldbury and Thurrock.

As discussed above, the fund has sought to de-gear during the year as rising yields have threatened the LTV covenants on its bank debt.

Outlook

On 20 April 2009 we announced The Junction's intention to raise £65 million of capital through a deeply discounted fundraising. Further details of the fundraising can be found in note 36 to the financial statements.

The Junction's banks have also agreed to a waiver of the LTV test until 1 June 2009 to allow for the capital restructuring to be approved by unitholders and implemented. The vote for unitholders is scheduled for 29 April 2009 and it is envisaged that the transaction will complete following a successful vote by the end of May.

A restructuring of the financing arrangements for the fund has been agreed with the lending banks but is contingent upon the injection of new capital. Together, these will ensure the fund can operate on a firm financial footing going forward.

With an appropriate capital structure to see the fund through the current adverse markets we believe the quality of the assets and the management will enable the fund to generate attractive returns over its remaining life.

The Junction key statistics

	At 30 December 2008	At 30 December 2007
Gross property asset value	**£734m**	£1,223m
Number of properties (core)	**11**	14
Number of units	**196**	223
Initial yield	**6.20%**	4.44%*
Equivalent yield	**7.12%**	5.39%*
C&R share	**27.3%**	27.3%
Total debt (excl amortised costs)	**£507m**	£649m

* Like for like.

Top five tenants by rental income (2008)

	Units	%
B&Q	4	12.8
Home Retail Group	7	8.1
DSG	8	7.2
Comet	6	5.3
DFS	4	4.4

C&R Retail continued

The Mall locations

Aberdeen
Barnsley
Bexleyheath
Blackburn
Bristol
Camberley
Falkirk
Gloucester
Ilford
Luton
Maidstone
Middlesbrough
Norwich
Preston
Romford
Southampton
Sutton Coldfield
Uxbridge
Walthamstow
Wood Green

The Mall properties

	Description	Size (sq ft)	Car park spaces	Principal occupiers	Number of lettable units
Valued at over £130 million					
The Mall, Luton	Leasehold covered shopping centre on two floors, offices extending to over 65,000 sq ft	956,000	2,300	Debenhams, Boots, Primark, Next, Top Shop and Top Man, Marks & Spencer	163
The Mall, Wood Green	Freehold, partially open shopping centre, on two floors with nearly 40,000 sq ft of offices	590,000	1,500	Cineworld, TK Maxx, Wilkinson, Peacocks, H&M, HMV, Boots, Argos, WHSmith	158
Valued at £75 million to £130 million					
The Mall, Middlesbrough	Freehold single level covered shopping centre with offices extending to over 50,000 sq ft	424,000	550	Boots, BHS, WHSmith, Top Shop, New Look, H&M	95
The Mall, Bexleyheath	Freehold single level covered shopping centre	420,000	800	M&S, BHS, WHSmith, Boots, HMV, Next	92
The Mall, Blackburn	Leasehold partially covered shopping centre on three floors	609,000	1,078	Debenhams, Tesco, Boots, Argos, BHS	141
The Mall, Bristol	Leasehold covered shopping centre on three floors	350,000	1,000	TK Maxx, Boots, Argos, WHSmith, Waterstones	165
The Mall, Camberley	Part leasehold covered shopping centre on one floor	398,000	1,040	Argos, Army & Navy, Boots, Littlewoods, Sainsbury's	188
The Mall, Ilford	Freehold covered shopping centre on three floors	294,000	1,200	Marks & Spencer, Debenhams, HMV, TK Maxx, WHSmith	108
The Mall, Maidstone	Freehold covered shopping centre on three floors with offices extending to 40,000 sq ft	553,000	1,050	Boots, BHS, TJ Hughes, Wilkinson	122
The Mall, Norwich	Freehold covered shopping centre on six floors	371,000	800	Argos, Boots, TK Maxx, Mothercare, New Look, Vue Cinemas	132
The Mall, Preston	Freehold covered shopping centre on three floors	287,000	400	Marks & Spencer, H&M, Superdrug, New Look, Wallis, Vision Express, Peacocks, WHSmith	117
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, Boots, Argos, WHSmith	132
The Mall, Uxbridge	Leasehold single level covered shopping centre with 40,000 sq ft of offices	482,000	1,150	Marks & Spencer, Tesco, TK Maxx, Peacocks, Wilkinson	123
Valued at below £75 million					
Broadway Square, Bexleyheath	Leasehold hybrid retail warehouse scheme	135,000	345	Sainsbury's, TK Maxx, Wilkinson, Peacocks	8
The Mall, Aberdeen	Freehold single level covered shopping centre	190,000	400	Debenhams, Argos, HMV, Superdrug, Waterstones	37
The Mall, Barnsley	Leasehold covered shopping centre on two floors	180,000	519	TK Maxx, Wilkinson, Next, Primark	49
The Mall, Falkirk	Freehold covered shopping centre, on two floors	170,000	400	Marks & Spencer, Debenhams Desire, Argos, River Island, Boots, HMV	74
The Mall, Gloucester	Leasehold covered shopping centre, on two floors	187,000	400	H&M, Marks & Spencer, Republic, Sports Soccer	73
The Mall, Romford	Leasehold covered shopping centre on three floors	180,000	1,000	Asda, Wilkinson, Peacocks, McDonald's, Toni & Guy, Superdrug	56
The Mall, Southampton	Freehold covered shopping centre on two floors	202,000	810	Matalan, Poundland	95
The Mall, Walthamstow	Freehold covered shopping centre on two floors	260,000	870	Asda, BHS, Boots, Dixons, HMV, Top Shop, Top Man	72

The Junction locations

Aberdeen
Aylesbury
Bristol
Hull
Maidstone
Oldbury
Paisley
Portsmouth
Renfrewshire
Slough
Swansea
Telford Forge
Thurrock

The Junction properties

	Description	Size (sq ft)	Car park spaces	Principal occupiers	Number of lettable units
Valued at over £100 million					
The Junction West Thurrock Retail Park, Essex†	Open A1 non-food and leisure retail park	555,868	2,398	Decathlon, M&S Outlet, Asda Living, TK Maxx, Furniture Village	31
Valued at £50 million to £100 million					
The Junction Imperial Park, Bristol	Mixed bulky and open A1 non-food retail warehouse park	338,667	1,200	B&Q, Tesco Home Plus, Next, JJB, Argos	21
The Junction Telford Forge Retail Park, Telford	Open A1 non-food retail warehouse park	312,962	1,343	Next, Tesco Home Plus, Arcadia, TK Maxx, Boots	19
The Junction St Andrew's Quay, Hull	Bulky retail warehouse park	350,521	1,315	B&Q, DFS, Comet, DSG	22
The Junction Morfa Retail Park, Swansea	Mixed bulky and open A1 non-food retail warehouse park, adjacent to a Morrisons supermarket	339,568	1,042	B&Q, TK Maxx, Next, New Look, Sportsworld	20
The Junction South Aylesford Retail Park, Maidstone	Bulky retail warehouse park	166,784	551	Homebase, Comet, BHS, Halfords, Currys	10
The Junction Slough Retail Park, Slough	Mixed bulky and open A1 non-food retail warehouse park	152,929	546	Homebase, Wickes, DFS	7
The Junction Cambridge Close Retail Park, Aylesbury	Bulky retail warehouse park	199,120	650	Wickes, Comet, Argos, Sportsworld	17
The Junction Ocean Retail Park and Victory Industrial Estate, Portsmouth*	Bulky retail warehouse park with adjacent industrial estate	233,926	705	Homebase, DSG, Halfords, Toys R Us	19
Valued at below £50 million					
The Junction Kittybrewster Retail Park, Aberdeen	Open A1 non-food retail warehouse park	141,493	626	TK Maxx, Halfords, Sportsworld, DFS	13
The Junction Abbotsinch Retail Park, Paisley	Bulky retail warehouse park	184,581	694	B&Q, DFS, Comet	7
Broadwell Industrial Estate, Oldbury	Mixed use development site with consent for bulky and open A1 non-food retail and leisure	37,065	NA	–	6
Renfrew Retail Park, Renfrewshire	Mixed bulky retail warehouse and industrial scheme	57,089	NA	Pets at Home	4

* Victory Industrial Estate was sold in April 2009.
† 100% figures. The Junction owns a 65% share in the property.

C&R Leisure

"Parts of the leisure sector continue to trade well despite the adverse economic environment."
PY Gerbeau

The C&R Leisure team
From left: PY Gerbeau, Pierre Hardy, Robert Warner, Polly Farrell, Alastair Bell

X-Leisure Fund

The X-Leisure Fund is the largest specialist fund investing in UK leisure property, owning 18 properties throughout the UK (after the sale of the 02 Centre), and as at 30 December 2008 had a total floor space of 3.7 million sq ft. Capital & Regional currently holds 19.4% of the fund and acts as Property and Asset Manager. Hermes Investment Management acts as Fund Manager.

Investors hold units in a Jersey Property Unit Trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax.

The fund's investment criteria are as follows:

- 50% or more of rental income generated from leisure operators.
- Either is, or is able to be, anchored by a cinema.
- Either is the dominant scheme in a local catchment area or has the ability to become so.
- Has asset management opportunities or has latent potential to deliver required performance.

Strategy

The current strategy of the X-Leisure fund is to protect and maintain the income stream, and minimise the void element through active management.

The fund has completed a number of key asset management projects in the year, including the letting of the former Healthlands health club at Bentley Bridge to AMF for a bowling and family entertainment centre and the completion of the refurbishment of the O2 Centre. The O2 Centre was subsequently sold in April 2009 and the proceeds used to pay down debt.

Outlook

X-Leisure's banks have agreed to a waiver of the fund's LTV test until 31 May 2009. The fund is also seeking to amend the terms of its banking arrangements to create additional financial flexibility. The steps are intended to leave the fund well placed to benefit from recovery in the leisure property market.

X-Leisure key statistics

	At 30 December 2008	At 30 December 2007
Gross property asset value	**£721m**	£947m
Number of properties	**19**	19
Number of units	**360**	365
Initial yield	**6.68%**	5.06%
Equivalent yield	**7.68%**	5.78%
C&R share	**19.4%**	19.4%
Total debt (excluding amortised costs)	**£485m**	£485m

Top five tenants by rental income (2008)

	Units	%
Cine UK	12	15.8
Vue Entertainment	4	6.7
Sainsbury's	1	4.3
Virgin Active (including Holmes Place)	5	3.6
Mitchells & Butlers	6	2.9

X-Leisure locations

Aberdeen
Ashford
Birmingham
Brighton
Cambridge
Castleford
Croydon
Edinburgh
Leeds
London
Maidstone
Manchester
Milton Keynes
North Finchley*
Norwich
Poole
Tyneside
West India Quay, London
Wolverhampton

X-Leisure properties

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at over £50 million				
Xscape, Milton Keynes	This destination is anchored by one of the UK's largest indoor real snow slopes	423,770	SNO!zone, Cineworld, Virgin Active, Spirit Group, Ellis Brigham	39
Xscape, Castleford	This destination is anchored by one of the UK's largest indoor real snow slopes	363,385	SNO!zone, Cine UK, Bowlplex, Ellis Brigham	47
Brighton Marina, Brighton	The marina combines a mix of retail, leisure and residential, a working harbour and yacht moorings	334,951	Cine UK, Bowlplex, David Lloyd	75
02, Finchley Road, London*	This modern urban entertainment centre contains a multiplex cinema, health club, a mix of bars and restaurants and retail	275,200	Vue Cinema, Sainsbury's, Homebase, Habitat, Esporta	25
Valued at £25 million to £50 million				
Cambridge Leisure Park, Cambridge	This centre has a nine screen multiplex cinema, health club, bowling, a hotel and range of international bars and restaurants	149,219	Cine UK, LA Fitness, Tenpin	19
Tower Park, Poole	Comprises a range of attractions, including a multiplex cinema, bowling, bingo, health club, water park and family restaurants	199,358	Empire, Bowlplex, LA Fitness	17
Fountain Park, Edinburgh	Scotland's largest entertainment destination	237,739	Cine UK, Tenpin, Virgin Active, Mecca Bingo, Stanley Casinos	12
Riverside, Norwich	This entertainment centre comprises bars, restaurants, nightclubs, multiplex cinema and bowling	210,209	UCI	13
Parrs Wood, Manchester	This centre has a mixture of facilities, including family restaurants, health and fitness, bowling, multiplex cinema, bingo, children's entertainment and a hotel	231,907	Cine UK, Virgin Active, Ten Pin	11
Grants, Croydon	This modern urban entertainment centre is constructed behind a restored listed façade and contains a multiplex cinema, health club, bars, nightclubs and restaurants	149,002	Vue Cinema, Virgin Active, Tiger Tiger, Mitchells & Butler	10
Fiveways, Birmingham	In central Birmingham, Fiveways comprises a cinema, casino, restaurants and late night bars	186,345	Cine UK, Grosvenor Casino	11
Cardigan Fields, Leeds	This scheme is approximately 1.5 miles from Leeds city centre. It comprises a cinema, bowling, health club and numerous restaurants. Included within the 14 units are two industrial units	216,191	Vue, Hollywood Bowl, Virgin Active, Spirit Group	14
Valued at below £25 million				
Boldon Leisure Park, Tyneside	Cinema & restaurant complex adjacent to Asda	56,777	Cine UK	4
Bentley Bridge, Wolverhampton	Comprises a multiplex cinema, restaurants and canal-side pub	98,609	Cine UK, AMF Bowling	10
Queens Links, Aberdeen	This leisure park, adjoining The Beach Esplanade, features a cinema and numerous restaurants	128,884	Cine UK, Gala	11
Great North Leisure Park, North Finchley, London	Comprising a multiplex cinema, bowling, restaurants and a local authority swimming pool	88,185	Vue Cinema, Hollywood Bowl	7
Eureka Park, Ashford	This centre comprises multiplex cinema, family restaurants, health and fitness, nightclub, hotel, and free parking	120,194	Cine UK, Travelodge, Bannatyne	8
West India Quay, Docklands, London (50%)	This listed building contains bars, restaurants, multiplex cinema, health and fitness centre and the Museum of Docklands	71,986	Cine UK, LA Fitness, Tattersall Castle Group	17
Lockmeadow, Maidstone	This destination is home to the 700 year old Maidstone Lockmeadow market	139,484	Odeon Cinema, Luminar Leisure, David Lloyd	10

* Sold in April 2009.

C&R Germany

"The defensive qualities of the German portfolio benefited the Group in 2008."
Xavier Pullen

The C&R Germany team
From left: Xavier Pullen, Wilhelm zu Wied, Christoph Friedrich

Capital & Regional began to develop a portfolio of German property in 2005. The portfolio now stands at 50 properties throughout Germany and as at 30 December 2008 had a total floor space of 469,000 sq m, 98% fully let and occupied. The investment criteria are as follows:

- Established out-of-town retail locations.
- Large standalone hypermarkets and retail parks with sales areas of more than 3,500 sq m with substantial land and car parkings.
- 70% of passing rent anchored by food retailers with strong financial covenants.
- Strongly cash generative with additional asset management opportunities.

The properties are held through a series of Jersey companies, which either own the properties directly or through interests in German limited partnerships. As at 30 December 2007, the portfolio was 91.4% owned by Capital & Regional.

In October 2008 we sold 50% of our investment in Jersey to an investment fund managed by AREA. This disposal followed our strategy of building portfolios to a critical mass and creating a track record before divesting part of the investment to enhance our co-investing asset management business model. The transaction was structured such that the existing bank debt and interest rate swaps remained in place. As there were change of control provisions on the bank debt supporting one of the underlying portfolios, we initially sold 49.9% of our interest in this Jersey company and subsequently introduced joint control once bank approval had been obtained at the end of 2008.

As part of the transaction the joint venture then bought out the equity interest that the Hahn group owned in the portfolio and as a result, Capital & Regional's share is now 48.8% of the total property portfolio with various minority shareholders in the underlying German entities.

Strategy

We continue to manage the properties from a strategic perspective with our in-house team based in the UK. Local German specialist property managers provide the day-to-day management services such as rent collection and service charge accounting. In addition, we employ specialist asset managers to implement property-specific business plans within the joint venture.

Outlook

We believe the portfolio is very defensive and well placed to withstand the negative effects of the recession.

Our tenant base has strong defensive qualities: just under 70% of passing rent is anchored by food retailers with what we believe to be affordable rents, and our portfolio occupies established retail locations.

We are also confident about future demand for out-of-town retail and food stores in Germany which continues to be underpinned by the expansionary moves of a number of our retailers, who see the downturn as an opportunity to increase their market presence.

In the short term the German economy will be adversely affected by the global recession but the peak-to-trough fall in the German property market has typically been far less pronounced than the UK market and it did not see the same level of inward yield shift in the past few years. For this reason and because of the defensive nature of the portfolio, we therefore expect the impact of the recession on our portfolio to be less marked than in the UK.

Germany key statistics

	At 30 December 2008	At 30 December 2007
Gross property asset value	**€615m**	€668m
Number of properties	**50**	50
Number of units	**193**	193
Initial yield (including land)	**6.51%**	5.99%
Initial yield (excluding land)	**6.62%**	6.13%
Equivalent yield	**n/a**	n/a
C&R share	**48.8%**	91.4%
Total debt	**€484m**	€485m

Top five tenants by rental income (2008)

	%
Metro	37.4
Rewe	10.1
Edeka	9.1
Coop eG	7.0
Praktiker	6.1

Germany locations*

Balingen
Bremen (Haferwende)
Bochum Langendreer
Brühl
Cottbus
Dortmund
Elchingen
Hameln
Herne
Ingelheim
Krefeld
Köln Gremberg
Lauchhammer
Lübeck
Marl
Mörfelden
Oschersleben
Rangsdorf
Sinzheim
Sobernheim
Stadthagen
Tönisvorst
Trier – Kenn

* Valued at €10 million and above.

German properties

	Description	Size (sq m)	Principal occupier	JV share
Valued at €50 million to €100 million				
Dortmund	Retail park	32,978	Real	95%
Tönisvorst	Retail park	20,603	Real	100%
Valued at €20 million to €50 million				
Lübeck	Hypermarket	29,077	Plaza	100%
Bremen Haferwende	Logistics	54,391	MGL	100%
Cottbus	Retail park	29,884	Praktiker	100%
Hameln	Retail park	16,893	Kaufland	95%
Mörfelden	Retail park	12,140	REWE	95%
Trier – Kenn	Hypermarket	11,634	Real	100%
Valued at €10 million to €20 million				
Brühl	Supermarket	17,525	Real	95%
Balingen	DIY	7,457	Toom	95%
Rangsdorf	Furniture store	18,506	Roller	100%
Bochum Langendreer	Hypermarket	6,388	Kaufland	85%
Elchingen	Hypermarket	7,433	Real	100%
Krefeld	DIY	11,697	Praktiker	100%
Herne	Hypermarket	7,412	Toom	100%
Sinzheim	Hypermarket	16,536	Real	95%
Ingelheim	Hypermarket	10,245	Real	95%
Köln Gremberg	Hypermarket	8,300	Real	100%
Lauchhammer	Retail park	17,675	Marktkauf	95%
Marl	Retail park	8,795	Kaufland	100%
Oschersleben	Retail park	10,484	Marktkauf	95%
Sobernheim	Hypermarket	7,387	Real	95%
Stadthagen	DIY	10,913	Hagebau	100%
Valued at less than €10 million				
27 properties	Various	94,276	Various	Over 85%

Joint venture and other interests

Capital & Regional holds a number of other retail and leisure property investments on its own account and through associates and joint ventures.

	Partners	Group share
Great Northern Warehouse, Manchester	–	100%
Leisure World, Hemel Hempstead	–	100%
Capital Retail Park, Cardiff	PMG Estates	50%
Xscape Braehead, Glasgow	Capital Shopping Centres	50%
MEN Arena	GE Real Estate	30%
FIX UK portfolio	Various	20%
SNO!zone	–	100%
Capital & Regional Property Management	–	100%

Great Northern Warehouse, Manchester
Great Northern Warehouse is a wholly-owned converted Victorian warehouse in the heart of Manchester including bars, restaurants, shops and a multiplex cinema. It generates a positive income return but following a period of active asset management it is being actively marketed for sale, either in whole or by way of introducing a new joint venture partner.

Leisure World, Hemel Hempstead
Leisure World is a wholly-owned leisure park, which was acquired for its refurbishment/redevelopment potential but is now being actively marketed for sale.

Capital Retail Park, Cardiff
The Capital Retail Park is a 50:50 joint venture with PMG Estates, which involved the construction of Cardiff Shopping Park, a 280,000 sq ft retail park which achieved practical completion in July 2008. The local council is constructing a new football stadium for Cardiff City Football Club on an adjacent site, due for completion in summer 2009.

In December 2008, the unit on the site let to Costco was sold to a private investor for £16.95 million. The price represented a net initial yield of 6.1% and the proceeds were used to pay down debt. As described in note 36 to the financial statements, the Group has agreed to sell its remaining share in the joint venture to PMG Estates for £1.2 million.

Xscape Braehead, Glasgow
Xscape Braehead is a 50:50 joint venture with Capital Shopping Centres next to the Braehead Shopping Centre on the outskirts of Glasgow. It offers indoor snow skiing, bowling, dining, cinema and a range of other leisure activities. As described in note 36 to the financial statements, in April 2009 the joint venture settled a long-standing litigation claim involving problems with the cinema's roof.

MEN Arena
The Group owns 30% of the Manchester Evening News Arena in a joint 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 arena, the largest indoor arena in the UK, together with office and retail space.

FIX UK
FIX UK is a portfolio of trade centres that was built up by Capital & Regional. In March 2008 the Group sold 80% of its investment to a number of investors, including Paradigm Real Estate Managers who took over day-to-day management responsibilities. The Group retains a minority share but following the continuing fall in property values after the date of disposal has written the value of this remaining investment down to zero.

SNO!zone
SNO!zone is the ski operator which rents the real snow slopes in the three Xscapes. It is wholly-owned by Capital & Regional, which built it up out of the bankruptcy of Leisurenet in 2001. It is the largest indoor ski operator in the UK, but is now seeing more competition from new operators and venues.

Capital & Regional Property Management (CRPM)
CRPM is the company which employs our specialist property management teams. It also holds the management contracts with each of the three funds and the German joint venture, though as noted in the financial review some of these are currently under renegotiation. It earns a regular stream of fee income, which covers the cost of the specialist teams and corporate overheads and we expect it to generate a profit.

Joint venture and other interests

	Description	Size (sq ft)	Principal occupiers	Number of lettable units
Valued at over £100 million				
FIX UK	Portfolio of trade centres throughout the UK	1,793,456	Wolseley Centres, Multi Tile, MKM Building Supplies	282
Valued at £50 million to £100 million				
Xscape Braehead, Glasgow	This newest Xscape has all the extreme sports of Xscape Castleford and Milton Keynes but also includes golf and football attractions	373,977	Odeon, SNO!zone, Bowlplex, Ellis Brigham	36
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	360,293	AMC Cinema, Virgin Active, London Clubs International	44
Manchester Evening News Arena	Largest indoor arena in the UK with additional mixed use and retail space	154,749	SMG (UK), Network Rail, JD Williams & Co	5
Valued at £25 million to £50 million				
Capital Retail Park, Cardiff*	Recently-constructed retail park adjacent to new football stadium for Cardiff City Football Club	144,500	Marks & Spencer, JJB Sports, Smyths Toys, Next	17
Valued at below £25 million				
Leisure World, Jarman Fields, Hemel Hempstead	First generation leisure park acquired in 2005 for redevelopment or refurbishment	156,000	Luminar Leisure, Odeon Cinema	2

* Exchanged for sale in April 2009.

In addition, the Group owns its main office at 10 Lower Grosvenor Place, London, and a number of other small investments including its remaining share in the future profits of Glasgow Fort, which is included as an asset in the financial statements.

Risks and uncertainties

There are a number of principal risks and uncertainties which could have a material impact on the Group's future performance and could cause actual results to differ materially from expected and historical results. We have identified the following principal risk areas which the Group could face in the future. References to the Group include the funds and joint ventures in which Capital & Regional has an interest.

Funding and treasury risks

Funding risks

The Group has a significant amount of indebtedness that may limit its financial and operational flexibility. The Group's ability to generate sufficient cash flow and to refinance its indebtedness when due will depend on its future financial performance, which over the longer term will be affected by a range of economic, competitive and business factors, many of which are outside the Group's control. Given the existing level of indebtedness of the Group, and the significant deterioration in the credit markets, there can be no assurance that the Group will be able to refinance its existing debt when it matures or obtain additional debt financing on economic terms.

Covenant compliance

The various borrowings of the Group contain covenants. A breach of any of these restrictions or covenants, whether as a result of declining property values or otherwise, could cause a default with respect to the debt and, if unremedied, result in the accelerated maturity of some or all of the indebtedness of the Group. If over the longer term the Group is unable to dispose of sufficient assets to fund repayment of debt due in the event of an acceleration of maturity, the Group risks becoming insolvent or otherwise ceasing its operations.

Foreign exchange rate risks

The Group may incur losses as a result of fluctuations in the exchange rate between the pound and the euro in respect of its German joint venture for which it has not, or not effectively, hedged its risk. The underlying exposure on the euro value of its German joint venture properties is partially hedged by funding their purchase with euro denominated debt. The Group hedges part of the remaining exposure through the use of derivatives such as forward contracts, which may limit gains, result in losses or have other adverse consequences. There may be a timing difference on the cash settlement of a gain or loss on the derivative and the realisation of the equal and opposite gain on the investment being hedged, which will only arise when that asset is sold.

Interest rate hedging risks

The expiration of interest rate swaps, entering into certain transactions for which hedging is not available on commercially reasonable terms (if it all), or the inaccurate hedging of interest rate exposure, may expose the Group to market interest rate risk.

The hedging transactions used by the Group to minimise interest rate risk may limit gains, result in losses or have other adverse consequences. Where interest rate swaps are treated as liabilities because the contracted interest rate is above the current market rate, if the underlying asset is sold before the swap matures it can result in the realisation of significant losses. Because a significant proportion of the Group's indebtedness has been incurred at a fixed rate of interest, the Group will not fully benefit from the current low interest rate environment. In addition, the Group is potentially subject to credit risk in the current economic environment based on hedge counterparties' inability to perform their obligations.

Property risks

Property investment market risks

The Group's business is dependent on economic conditions and commercial real estate markets, which have recently experienced significant distress. Small changes in property market yields can have a significant effect on the value of the properties owned by the Group. The effect of the significant levels of debt funding magnifies the impact of valuation movements. The real estate markets in the UK and, to a lesser extent, Germany have been adversely impacted by the ongoing global banking crisis, with property values demonstrating substantial and continuing declines. It is not clear for how long or the extent to which economic conditions will continue to impact these markets adversely, or to what degree economic conditions will deteriorate further.

Tenant risks

The Group is subject to the credit risks associated with tenants and is specifically dependent on the retail and leisure sectors, which are exposed to declining consumer spending in the current economic climate. A significant decline in overall retail and leisure tenant revenues, or the bankruptcy or insolvency of significant individual tenants, or of a substantial number of smaller tenants, would materially decrease revenues (including SNO!zone revenues) and available cash, and could also materially lower the value of the properties owned by the Group. Retail tenants are also facing increasing competition from major supermarkets and hypermarkets as they expand the range of products offered and from the increased penetration of online and discount retailers. Any resulting trade diversion from traditional retail outlets to the internet and major supermarkets could adversely affect the Group's tenants, with the risk that tenant defaults and voids could increase.

Property management fee risks

A significant part of the Group's income is derived from property and asset management fees, which its wholly-owned subsidiary CRPM earns as property and asset manager pursuant to management contracts with each of the three funds in which it has investments. This income is to a large extent based upon property valuations and as property values have fallen, so has the income derived from this activity. These long-term management contracts can be terminated under certain circumstances, including amongst other things, underperformance of the property portfolio over a period of time, failure to hold the minimum number of fund units required, change of control, or negligence.

Nature of investments

It may not be possible for the Group to realise its investments in associates and joint ventures at the net asset values carried in the Group's accounts. The Group's principal investments comprise units in the funds and the shares in its German joint venture. The market for these units and shares is illiquid. There may also be other restrictions on the ability to sell these investments in the joint venture agreements and fund management agreements, such as the requirement to hold a minimum number or value of the units in a given fund so long as the Group acts as property and asset manager for that fund.

Tax and regulation

The Group is exposed to changes in tax legislation or the interpretation of tax legislation, particularly changes in the basis of taxation or those directed at offshore structures. In addition, the Group is potentially exposed to tax liabilities in respect of previous transactions it has undertaken where the tax authorities disagree with the tax treatment adopted. One such exposure is the potential £19.5 million tax and interest liability resting upon the outcome of current litigation as described in note 10 to the financial statements, which whilst provided for, would need to be funded.

Changes in property-related regulations could also adversely affect the Group.

Loss of key management

The Group's business is dependent on the skills of a small number of key individuals. Whilst the Group has ongoing service agreements with each of these individuals, their retention cannot be guaranteed. Equally, the ability to attract new employees with the appropriate expertise and skills cannot be guaranteed.

The risks noted above do not comprise all those potentially faced by the Group and are not intended to be presented in any order of priority. Additional risks and uncertainties currently unknown to the Group, or which the Group currently deems immaterial, may also have an adverse effect on the financial condition or business of the Group in the future. These issues are kept under constant review to allow the Group to react in an appropriate and timely manner to help mitigate the impact of such risks.

Going concern

The statement of the directors in respect of going concern is included in the corporate governance report. The basis of preparation of the financial statements is explained in note 1 to the financial statements. Detailed disclosures regarding the liquidity risk of the Group are included in notes 23 and 24 to the financial statements.

Current economic conditions have created uncertainty across many business sectors including the property investment market. In particular the Group has suffered significant decreases in the value of its property assets. The availability of finance to the sector has become significantly restricted and the terms on which finance is made available have become markedly more stringent.

The Group prepares cash flow and covenant compliance forecasts to demonstrate that it has adequate resources available to continue in operation for the foreseeable future, being at least 12 months from the date of this report. In these forecasts the directors specifically consider anticipated future market conditions and the Group's principal risks and uncertainties.

The directors consider that a material uncertainty exists around the continuing availability of satisfactory levels of bank and other funding to the Group in the light of the current adverse conditions in the property market and the wider economy, and the possibility that these could deteriorate further. This material uncertainty reflects the potential for further falls in property valuations to cause breaches of various financing covenants, either at Group, fund or joint venture level. In particular the Group is dependent upon its core central facility which has asset cover and gearing covenants. This material uncertainty may cast significant doubt on the Group's ability to continue as a going concern, such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As described in the Chairman's statement, the Chief Executive's statement and the financial review, the Group is working on plans to minimise the effects of further adverse market conditions and strengthen its financial position through:

- the completion of fundraisings and renegotiation of banking facilities in The Junction and X-Leisure;
- the refinance or sale of some or all of its wholly-owned properties; and
- the completion of a satisfactory renegotiation of the Group's core revolving credit facility, including providing headroom in the facility should the potential tax liability described in note 10 to the financial statements become due for payment.

The directors are confident that the transactions described above can be successfully completed. However, if this were not to be the case then the directors believe that the funding and covenants would need to be further renegotiated with the appropriate lenders in line with the changed circumstances of the Group and market environment.

Therefore, after making enquiries, and considering the likelihood of completion of the transactions set out above, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Directors

From left: Hugh Scott-Barrett, Ken Ford, PY Gerbeau, Xavier Pullen, Charles Staveley

Executive directors

Hugh Scott-Barrett, Chief Executive, 50
Hugh has been Chief Executive since 1 April 2008. He was previously a member of ABN AMRO's Managing Board and served as Chief Operating Officer between 2003 and 2005 and Chief Financial Officer from 2006 to July 2007. Hugh brings over 25 years' banking experience having also worked at SBC Warburg and Kleinwort Benson prior to joining ABN AMRO. He was educated both in Paris and at Oxford University.

Ken Ford BSc FRICS, Managing Director of Retail, 55
Ken has been a director of Capital & Regional since 1997 and, as Managing Director of Retail, is responsible for the Group's shopping centre and retail park portfolios. Ken has been involved in commercial property for over 30 years.

PY Gerbeau, Managing Director of Leisure, 43
PY was appointed to the Board in 2003, and as Chief Executive of X-Leisure in the same year. 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.

Xavier Pullen, Deputy Chief Executive, 57
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 co-investment business together with the co-ordination of all property matters and the development of new and joint venture business initiatives including Germany.

Charles Staveley, Group Finance Director, 46
Charles was appointed to the Board as Group Finance Director in October 2008. He qualified as a Chartered Accountant with Arthur Andersen and has additional tax and treasury qualifications. Before joining the Company he was Head of Tax and Treasury at COLT Telecommunication Group. Prior to that he held roles with various other companies, including De La Rue Group plc, Textron Inc and Novar Group plc.

From left: Tom Chandos, Alan Coppin, Hans Mautner, Philip Newton, Paul Stobart, Manjit Wolstenholme

Non-executive directors

Tom Chandos, Chairman, 56
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 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. Tom was appointed as a director of the Company in 1993 and as Chairman in 2000.

Alan Coppin, Non-executive, 58
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 both Berkeley Group Holdings plc, the urban regenerator and residential developer, and Air Command (Royal Air Force). 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.

Hans Mautner, Non-executive, 71
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. Hans was appointed as a director of the Company in 2003 and will retire from the Board at the Annual General Meeting.

Philip Newton, Non-executive, 60
Chairman 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. He is Chairman of Windsor Vehicle Leasing Ltd, a vehicle finance and fleet management company, and Cornish Kitchen, a fast food retail business with 20 stores. 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.

Paul Stobart, Non-executive, 51
Senior Independent Director and member of Audit, 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.

Manjit Wolstenholme, Non-executive, 44
Chairman of Audit Committee and Member of Remuneration and Nomination Committees
After qualifying as a Chartered Accountant with Coopers & Lybrand, 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 also a non-executive director of Provident Financial plc, the specialist non-standard lender. Manjit was appointed as a director of the Company in 2006.

Directors' report

Introduction
The directors present their annual report on the results of the Group together with the audited financial statements for the year ended 30 December 2008.

Results and proposed dividends
The consolidated income statement shows a loss on ordinary activities after taxation of £502.2 million (2007: loss of £166.8 million).

An interim dividend of 5p per ordinary share was paid on 17 October 2008. Due to a lack of distributable reserves, no final dividend will be paid. As far as future dividend policy is concerned, the directors will take a decision on whether or not to pay a dividend in future based on the financial circumstances of the Company at that future date, and its ability to legally pay a dividend.

Shareholders have given approval to the conversion of the Company's share premium account into distributable reserves, and Court approval will be sought once the agreement of the Company's creditors is obtained.

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, the Chief Executive's statement and the operating review and financial review.

Business review
The information that fulfils the requirements of the business review including key performance indicators can be found in the operating review and financial review which are incorporated in this report by reference.

Events after the reporting period are set out in note 36 to the financial statements.

More detail on the financial risks facing the Company is set out in note 24 to the financial statements.

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: H Scott-Barrett (appointed 1 April 2008), M Barber (retired 31 March 2008), T Chandos, A Coppin, K Ford, PY Gerbeau, H Mautner, P Newton, X Pullen, C Staveley (appointed 1 October 2008), P Stobart, W Sunnucks (resigned 30 September 2008) and M Wolstenholme.

H Mautner will retire from the Board at the Annual General Meeting.

In accordance with the Articles of Association, PY Gerbeau, P Stobart and M Wolstenholme will retire from the Board by rotation and offer themselves for re-election. C Staveley, who having been appointed by the Board would vacate office at the conclusion of the AGM also offers himself 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 252 of the Companies Act 2006) are interested in 2,653,635 issued shares representing 3.72% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report.

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 1998 Share Option Schemes are disclosed in the directors' remuneration report.

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 17 April 2009 (the latest practicable date prior to the issue of this report):

	Number of shares	%
RREEF Real Estate	7,800,653	10.93
Morgan Stanley Investment Management	6,588,535	9.23
Henderson Global Investors	3,423,928	4.80
United Nations Pensions	3,270,000	4.58
APG Asset Management	3,243,725	4.55
Legal & General Investment Management	3,036,666	4.26
Dimensional Fund Advisors	2,993,522	4.20
Goldman Sachs collateral account	2,408,690	3.38
Mr Martin Barber	2,378,567	3.33

Capital structure
The Company has one class of ordinary shares with equal voting rights. In addition, the trustees of the Long Term Incentive Share Scheme have the right to vote on behalf of the Company's employees.

The Company has agreements in place which alter upon a change of control of the Company as follows:

The current asset management agreements the Company has in respect of its three funds can be terminated by the fund partnerships if there is a change of control of the Company, which is defined to be either 50% of its issued share capital being held by or on behalf of a single entity or group or 30% or more of its issued share capital being held by or on behalf of a single entity or group if, in addition, one half or more of its executive directors over the previous 12 months cease to be the executive directors.

A similar definition applies to the £125.5 million core revolving credit facility. The 30% change of control provision differs and requires that more than 50% of the directors at February 2006 cease to be directors, or to constitute 50% of the Board. If this occurs the bank has the right to repayment of the loan.

Use of financial derivatives
The use of financial derivatives is set out in note 24 to the financial statements.

Charitable donations
The main thrust of charitable support is at local level through fund investments. At Group level small donations have been made during the year totalling £22,898 (2007: £18,364).

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, the Company endeavours to make payment within one month of the receipt of the goods or service. At the year end, the Company had an average of 38 days' (2007: 114 days') purchases outstanding.

Compliance with combined code
A statement on corporate governance is set out in the corporate governance report.

Responsible business
The responsible business statement is set out in the responsible business report.

Employees
The Company is committed to a policy that treats all of 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 been able to join this scheme since May 2001.

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 auditor 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.

Explanation of business to be conducted at the Annual General Meeting
Resolutions 1 to 8 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 9, 10 and 11 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution. The directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board unanimously recommends that you vote in favour of the resolutions.

Ordinary resolutions
Resolution 1 – Accounts and reports
Company law requires the directors to present to the meeting the audited annual accounts and the directors' and auditors' report for the year ended 30 December 2008.

Resolutions 2 to 5 – Re-appointment of directors
In accordance with the Articles of Association, PY Gerbeau, P Stobart and M Wolstenholme will retire from the Board by rotation and offer themselves for re-appointment. In accordance with the Articles of Association C Staveley, who having been appointed by the Board would vacate office at the conclusion of the AGM, also offers himself for re-appointment. The Chairman has confirmed that P Stobart and M Wolstenholme's performances continue to be effective and each demonstrates commitment to the role and that each should therefore be put forward for re-appointment at the AGM.

Biographical details of all the directors standing for election appear before this report. The Board recommends that you support the election of each of the retiring directors standing for election.

Resolution 6 – Re-appointment of auditors
The Company must appoint auditors at each general meeting at which financial statements are presented to shareholders to hold office until the conclusion of the next such meeting. This resolution seeks shareholder approval to re-appoint Deloitte LLP as the Company's auditors and seeks authority for the Company's directors to fix their remuneration.

Resolution 7 – Directors' remuneration report
The resolution proposes that the directors' remuneration report for the year ended 30 December 2008 be approved by the meeting.

Resolution 8 – Directors' 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 8, which is proposed as an ordinary resolution, the directors seek authority to allot shares up to an aggregate nominal value of £2,378,297 representing one-third of the nominal value of the Company's share capital in issue at 17 April 2009 (being the last practicable date prior to the publication of this report). The authority will expire at the conclusion of the Company's AGM in 2010. This authority complies with guidelines issued by institutional investors. The directors have no immediate plans to make use of this authority. As at the date of this report the Company does not hold any ordinary shares in the capital of the Company in treasury.

Special resolutions

Resolution 9 – Pre-emption rights

Under section 89 of the Companies Act 1985, when new shares are allotted or treasury shares are sold for cash, they must first be offered to existing shareholders pro rata to their holdings. This special resolution renews, for the period ending on the date of the next Annual General Meeting, the authorities previously granted to the directors to: (a) allot shares of the Company in connection with a rights issue or other pre-emptive offer; and (b) otherwise allot shares of the Company, or sell treasury shares for cash, up to an aggregate nominal value of £356,745 (representing in accordance with institutional investor guidelines, approximately 5% of the share capital in issue as at 17 April 2009 (being the last practicable date prior to the publication of this report) as if the pre-emption rights contained in section 89 did not apply. The directors have no immediate plans to make use of these authorities.

Resolution 10 – Authority to purchase own shares

At the last AGM in 2008, 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 fully exercised, expires at the conclusion of the Company's 2009 AGM. Therefore by resolution 10, it is proposed as a special resolution that this authority in respect of the Company is renewed.

The power is limited to a maximum aggregate number of 10,630,991 ordinary shares (representing 14.9% of the issued share capital as at 17 April 2009 (being the latest practicable date prior to publication of this report) and details the minimum and maximum prices that can be paid, exclusive of expenses. This resolution authorises the Company to pay a maximum price for an ordinary share that is an amount equal to the higher of: (i) 105% of the average market price for an ordinary share for the five dealing days preceding any such purchase; or (ii) the higher of the last independent trade for an ordinary share and the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out. The authority conferred by this resolution will expire at the conclusion of the 2010 AGM or 15 months from the passing of this resolution, whichever is the earlier.

The shares repurchased by the Company under the renewed authority would either be cancelled or held as treasury shares. No dividends may be paid on shares which are held as treasury shares and no voting rights are attached to them. Once held in treasury, treasury shares may be cancelled, sold for cash or used for the purpose of employee share schemes. The Company currently holds no shares in treasury.

The directors have no present intention of exercising the authority to purchase the Company's ordinary shares. The directors would only purchase shares if, in their opinion, the expected effect would be to result in an increase in asset value per share and would benefit shareholders generally.

The total number of options to subscribe for new ordinary shares in the Company as at 17 April 2009 was 100,000 representing 0.14% of the Company's issued share capital as at that date. Such number of options to subscribe for new ordinary shares would represent approximately 0.16% of the reduced issued share capital of the Company assuming full use of the authority to make market purchases sought under resolution 10.

Resolution 11 – Notice of general meetings

At a general meeting held on 26 March 2009, amendments were made to the Company's articles of association to allow the notice period required to convene a general meeting to be 14 days. The Company is required to pass a special resolution at each AGM from 2009 onwards to maintain the authority to call general meetings on 14 days' notice.

By order of the Board

F Desai
Company Secretary
23 April 2009

Statement of directors' responsibilities

The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS"). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group'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 expense 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. 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;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

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 judgements and estimates that are reasonable and prudent; and
- 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 which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985. The directors, having prepared the financial statements, have permitted the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit opinion.

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

Directors' responsibility statement

The annual report and accounts comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority in respect of the requirement to produce an annual financial report.

The annual report and financial statements are the responsibility of, and have been approved by, the directors.

We confirm that to the best of our knowledge:

- the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU;
- the Company financial statements have been prepared in accordance with the applicable accounting standards;
- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report includes a review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

H Scott-Barrett
Chief Executive

C Staveley
Group Finance Director
23 April 2009

Directors' remuneration report

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee ("the Committee") appointed by the Board, consisting entirely of non-executive directors which is constituted in accordance with the recommendation of the Combined Code. Throughout the year, the members were M Wolstenholme (Chairman), P Newton and P Stobart. P Newton took over as Chairman from 24 February 2009. The terms of reference of the Remuneration Committee are available for inspection on the Company's website.

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 Company's share schemes. Advice from independent external advisers is obtained when required. During the year, the Committee has sought advice from PricewaterhouseCoopers in respect of the Company's incentive schemes as the current schemes expired at the 2008 AGM.

Remuneration policy

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. The basic salaries are set with reference to the FTSE 350 Real Estate comparative group. The executive directors (except H Scott-Barrett) received a salary increase of 5% per annum in July 2008, the previous increase being in 2005. However, with effect from January 2009, all the executive directors (except H Scott-Barrett and C Staveley) have reduced their salaries by 5% per annum. H Scott-Barrett reduced his salary by 6% per annum with effect from January 2009. As the appointment of C Staveley to the Board was a promotion from the post of Deputy Finance Director, the salary reduction will not apply in his case. The car allowance has been consolidated with basic salaries from July 2008.

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 financial performance during the year and the individual contribution made by each executive director. Individual contributions are assessed on business building (success in growing the business), financial results (total return and return on equity), team building (indicated by low staff turnover and progress in developing key individuals) and financial control (adequate reporting, systems and procedures). No bonuses were awarded to the executive directors for 2008 due to the poor financial performance of the Company.

Incentive schemes

Current incentive schemes

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

Existing schemes

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

New schemes

- Matching Share Agreement for H Scott-Barrett (the "Agreement")
- The Co-Investment Plan (the "COIP")
- The Save As You Earn Plan (the "SAYE")

In addition, the New Long-Term Incentive Plan (the "New LTIP") was approved by shareholders in November 2008. No further awards will be made under the 1998 Scheme which was 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 salaries. All the executive directors, except H Scott-Barrett and C Staveley, together with other key executives of the Company are participants in the LTIP. No shares were awarded in 2008.

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. A summary of the performance conditions are set out under the heading "Long Term Incentive Plan" below.

All the executive directors, except H Scott-Barrett and C Staveley, together with other key executives of the Company, 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, The Junction and X-Leisure funds. The performance fees are subject to rigorous performance conditions and thus the CAP payments are indirectly subject to the performance conditions. To the extent that awards ultimately vest, the individual entitlements are reduced by 80% of the initial value of the shares awarded under the LTIP. The last awards under the CAP were made in 2006 and any final payment, subject to clawback, will be made in May 2009.

The current LTIP and CAP schemes expired in June 2008 and three new schemes were approved by shareholders at an Extraordinary General Meeting on 5 November 2008.

Review of the CAP

The CAP was approved by shareholders in December 2002. This plan was designed to deliver to executives a proportion of the performance fees earned by the Group on the funds it manages and has, in recent years, delivered substantial rewards to certain executives.

A rolling three-year period is used for calculating performance fees on the funds under the CAP. In light of recent difficulties in the property markets, executives are likely to receive little or no value from awards made in 2006 and no awards were made in 2007. Any further awards made under the CAP would be unlikely to generate payments to executives until the effect of falling property values has worked its way through future three-year periods.

Whilst the Committee believes that award holders must accept there will be no payout in times of poor performance (which will be the case at least for the periods commencing in 2006 and 2007), this needs to be balanced with the problem that key executives, facing the prospect of no further payments in the medium term, are difficult to retain and motivate.

Notwithstanding the current prospects of future payouts, the Committee was of the view that the CAP was no longer appropriate in its current form.

New incentive schemes

Introduction

The Committee considered that a review of the existing executive incentive arrangements was appropriate since:

- in order to achieve its business objectives it is essential that the Group be able to retain and incentivise a number of key individuals over the next few years;
- the new Chief Executive wished to create a management team whose objectives are aligned through incentive arrangements which emphasise the success of the Group rather than encouraging behaviour based on the success of individual funds;
- it was becoming clear that the Group has outgrown some aspects of the current arrangements as the complexity and range of the business has increased; and
- the long-term incentive schemes approved by shareholders in 2002 and 2005 would in any event require further approval if they were to be extended for another term.

Following the review, the current LTIP and the CAP were replaced with the New LTIP and COIP.

The Company also introduced new all employee share incentive arrangements in the form of a "Save As You Earn" share option scheme ("SAYE"). Employees will be able to save and subsequently acquire shares in Capital & Regional plc through a tax efficient share option arrangement thereby providing an opportunity for employees to become shareholders in the Company. The executive directors have agreed that they will not participate in this plan.

The proposed equity incentive arrangements were discussed with institutional investor representative bodies as a matter of best practice. The proposed arrangements were also presented to the Company's major shareholders.

The COIP

The COIP is designed to incentivise senior team members who are key to the future success of the business. In view of the arrangements introduced when he was appointed, H Scott-Barrett was not eligible to participate under the COIP in 2008 but will be eligible in future years.

Participants will be invited, on an annual basis, to acquire shares in the Company out of post tax annual bonus payments (if a bonus is paid in that year). These share acquisitions will be eligible for a matching share award which will vest after three years subject to continued employment and achievement of performance targets based on the Group's TSR relative to the constituents of the FTSE Real Estate Sector.

The performance conditions are the same as those applying to two of the three tranches of the matching award made to H Scott-Barrett on his appointment. The performance period will run for three years from the date of the award or from the date of the Extraordinary General Meeting where the purchase has already been made. The maximum match will be two for one for executive directors. For other participants the maximum match will be one for one. Further details of performance conditions are set out under audited information below.

Investment eligible for a matching award will normally be limited to 30% of gross basic salary. Individuals who have received a payout in 2008 from the 2005 CAP awards may invest this payment up to a maximum of 100% of their gross salary.

As payments in respect of the 2005 CAP awards had already been made to participants and an outline of the proposed COIP has been communicated to them, it is proposed that share purchases made since 28 August 2008 by any executive who is subsequently invited to participate in the COIP, as approved by shareholders, would be eligible for a matching award. It is our view that encouraging investment of the last CAP payment in the Company's shares via the COIP is important in ensuring senior executives are retained and incentivised appropriately as well as giving them the opportunity to demonstrate their commitment to the Company during a period of difficult market conditions. It is for this reason that a limit of 100% of gross salary has been chosen for the first investment. A summary of the principal features of the COIP is set out under audited information below.

The SAYE Scheme

The introduction of the SAYE Scheme is to demonstrate the Company's commitment to encouraging wider employee share ownership. The SAYE Scheme has received formal approval from HM Revenue & Customs for under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003. A summary of the principal features of the SAYE is set out under audited information.

The New LTIP

The 2002 LTIP did not reflect current terms of comparable schemes in a number of respects. The New LTIP is designed as an evolution from the 2002 LTIP but also to take into account current best practice, such as the recommendations contained in the ABI guidelines and legislative changes since 2002. The New LTIP will also offer the opportunity to deliver part of the benefits through HM Revenue & Customs approved share option arrangements, which would benefit the Group through reduced national insurance costs.

The maximum award under the New LTIP for executive directors will be increased from 100% to 150% of salary, although in exceptional circumstances such as recruitment or retention of a director, the maximum award will be extended to 200%. Vesting of awards above 100% of salary will be subject to stretching performance targets over and above performance required to achieve 100% of salary vesting. In light of the current difficult market conditions, the Committee has deferred the first awards under the New LTIP, which would have been made in or around April 2009. The Committee will consider making the awards following the Company's announcement of its interim results in 2009.

The first awards under the New LTIP will be subject to performance conditions based on Total Shareholder Return ("TSR") relative to the constituents of the FTSE Real Estate Sector and Total Property Return ("TPR") measured against the relevant IPD benchmark indices. In addition, as mentioned above, the Company is introducing HMRC approved share option arrangements as part of the New LTIP. This will allow gains under the New LTIP to be delivered tax efficiently for the employee and will also deliver NIC savings for the Company. The approved part of the New LTIP has received formal approval by HM Revenue & Customs under Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003. Each participant will be granted an HMRC approved share option over shares worth up to £30,000. If there is a gain under the approved option, the final proceeds from an award under the New LTIP will be reduced by the same amount. This ensures that the proceeds are limited to the gain on the maximum 150% award and no more. A summary of the principal features of the New LTIP is set out under audited information.

Matching Share Agreement for H Scott-Barrett

As part of the negotiation to secure H Scott-Barrett's appointment and also for H Scott-Barrett to demonstrate his commitment to the Group, H Scott-Barrett agreed to purchase shares in the Company on condition that he was provided with certain matching shares.

Accordingly H Scott-Barrett was granted an award of matching shares in accordance with Rule 9.4.2 of the Listing Rules. The principal terms of the incentive arrangement are set out below.

The Agreement was entered into by the trustee of the Capital & Regional plc Employee Share Ownership Trust 2002 (the "Trustee") and H Scott-Barrett on 9 March 2008.

Under the Agreement, H Scott-Barrett agreed to acquire between 100,000 and 200,000 shares in the Company ("Acquired Shares") within 30 days of the announcement of the Company's results for the period ended 30 December 2007. H Scott-Barrett acquired 150,000 shares on 11 March 2008.

For every Acquired Share the Trustee agreed to provide a maximum of three matching shares ("Matching Shares") at the end of a three-year vesting period (the "Vesting Period"), as follows:

- one share in the Company without a performance condition, ("Match 1"); plus
- up to one further share in the Company subject to the performance condition described below ("Match 2"); plus
- up to one further share in the Company subject to a tougher performance condition described below ("Match 3").

The vesting of all Matching Shares is subject to H Scott-Barrett remaining in employment with the Group during the Vesting Period (subject to the specified exceptions referred to below) and not transferring or otherwise disposing of the Acquired Shares during that period.

100% of Match 2 will vest if the Company's total shareholder return ("TSR") is at least equal to the upper quartile of the TSR performance of the constituent companies of the FTSE Real Estate sector. 20% of Match 2 vests for median performance and between median and upper quartile vesting is on a straight-line basis. In addition, none of Match 2 will vest unless the Company's TSR is at least 8% per annum over the Vesting Period.

100% of Match 3 will vest if the Company's TSR is at least equal to the upper decile of the TSR performance of the constituent companies of the FTSE Real Estate sector. Match 3 does not vest for performance below upper decile. In addition, none of Match 3 will vest unless the Company's TSR is at least 15% per annum over the Vesting Period.

H Scott-Barrett retains the right to vote in relation to the Acquired Shares and to receive any dividends or other distributions which may be made in respect of the Acquired Shares.

H Scott-Barrett has no rights over Matching Shares unless and until they vest. Dividend equivalents are not paid on Matching Shares which vest.

If H Scott-Barrett dies before the end of the Vesting Period, his personal representatives are entitled to the Matching Shares in full. If H Scott-Barrett ceases to be employed within the Group by reason of injury, disability, redundancy, retirement, or because the business for which he works ceases to be part of the Group, or if he is dismissed without cause or constructively dismissed the Matching Shares shall vest as follows:

- Match 1 – in full, regardless of when the cessation of employment occurs; and
- Match 2 and Match 3 – if the cessation occurs before 9 March 2009, up to one-third may vest but subject to the relevant performance target. If cessation occurs on or after 9 March 2009, the vesting level will taking into account the time elapsed since award and the extent to which the relevant performance target has been met.

If H Scott-Barrett leaves employment before the end of the Vesting Period for any other reason, the Matching Shares will lapse, although the Trustee may, at its discretion (with the written consent of the Board), determine that some or all of the Matching Shares shall vest.

In the event of a takeover, reconstruction or winding-up of the Company during the Vesting Period, the Matching Shares will vest on the same basis as would apply on a cessation of employment by reason of injury, disability and redundancy.

In the case of a demerger the Trustees can determine that the Vesting Period ends for some or all of the Matching Shares and determine the extent to which those shares vest.

Benefits under the Agreement are not pensionable.

If there is a rights issue or similar variation of capital the Trustee can take up the rights attaching to the Matching Shares as H Scott-Barrett may direct. Any additional shares are held and released with the corresponding Matching Shares.

As described in note 26 to the financial statements, H Scott-Barrett has since waived his entitlement to any awards under Match 2 and Match 3.

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 H Scott-Barrett where salary supplements of £14,184, £50,855 and £47,088 respectively were paid to them in lieu of pension contributions.

Other benefits
Benefits consist of private medical insurance cover, permanent health insurance cover, critical illness cover, Group life cover and additional salary in lieu of a company car (until June 2008).

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. In the case of PY Gerbeau, his service agreement was amended on 1 December 2008 providing that, between 12 March and 12 June 2009, either party can terminate the service agreement by giving two months' notice. After this time, the notice period reverts to 12 months. This change was made in the context of the potential recapitalisation of the X-Leisure fund referred to elsewhere in the report.

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 directors' duty to mitigate loss.

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

M Barber (retired 31 March 2008)	28 October 1993
X Pullen	28 October 1993
K Ford	17 May 1996
W Sunnucks (resigned 30 September 2008)	15 October 2002
PY Gerbeau	14 April 2003
H Scott-Barrett	9 March 2008
C Staveley	1 October 2008

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.

X Pullen is a non-executive director of two funds managed by Brandeaux, a privately owned fund management group. W Sunnucks is the Chairman of Land Management Limited, a family-run company. The Company does not consider that these appointments involve significant commitment or that the roles conflict with their duties to the Company. Any earnings received from the appointments are kept by the individuals concerned and have not been disclosed to the Company.

On 31 March 2008, M Barber retired as Chief Executive. He received a compensation payment of £732,000. M Barber was considered to be a "good leaver" for the purposes of the Company's incentive schemes. On 30 September 2008, W Sunnucks resigned as a director but continued to be employed until 28 February 2009. W Sunnucks was considered to be a "good leaver" for the purposes of the Company's incentive schemes. As good leavers, they will be eligible to receive a time pro-rated vesting of the awards under the LTIP scheme for 2006 and 2007. They will also be eligible to receive awards under the CAP for 2006. Both awards are subject to the attainment of the relevant performance conditions.

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

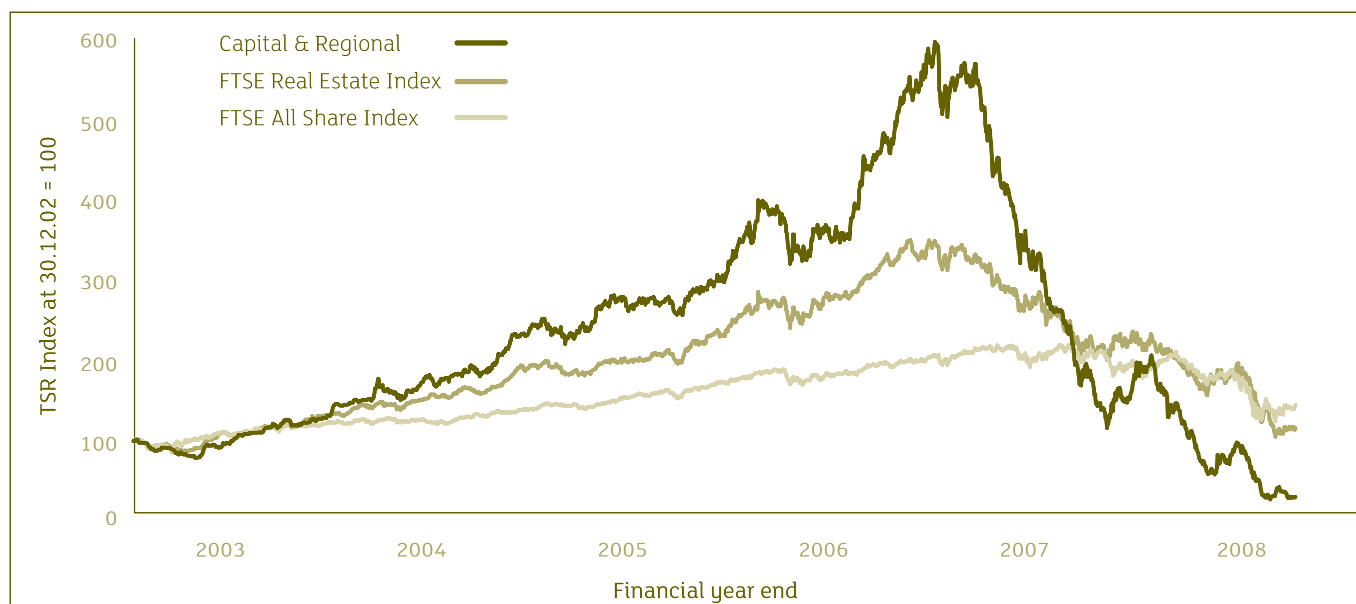
The Chairman receives additional fees of £89,000 per annum and the Chairman of each of the Audit, Remuneration and Responsible Business Committees and the Senior Independent Director receives an additional fee of £6,000 per annum. The non-executive directors are not entitled to bonuses, benefits, pension 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.

Their remuneration comprises a standard director's fee and a fee for additional responsibilities. The remuneration provided takes into account the level of responsibility, experience and abilities required and the marketplace for similar positions in comparable companies. In certain circumstances, if there is a requirement for extra work to be carried out by a non-executive director, an additional fee is paid by the Company to that director from time to time. Details of the non-executive directors' fees are set out under audited information below.

Performance graph

The 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).



Audited information

Long Term Incentive Plan

Shares have been conditionally awarded to the directors under the Long Term Incentive Plan as set out below:

	LTIP awards outstanding as at 30 December 2007	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 2008**
M Barber*	39,702	08/07/2005	806.0	188.2	31/12/2007	–
	28,700	28/04/2006	1,115.0		31/12/2008	**28,700**
	20,500	23/04/2007	1,561.0		31/12/2009	**20,500**
X Pullen	33,871	08/07/2005	806.0	188.2	31/12/2007	–
	24,484	28/04/2006	1,115.0		31/12/2008	**24,484**
	17,489	23/04/2007	1,561.0		31/12/2009	**17,489**
W Sunnucks*	26,055	08/07/2005	806.0	188.2	31/12/2007	–
	18,834	28/04/2006	1,115.0		31/12/2008	**18,834**
	13,453	23/04/2007	1,561.0		31/12/2009	**13,453**
K Ford	32,568	08/07/2005	806.0	188.2	31/12/2007	–
	23,542	28/04/2006	1,115.0		31/12/2008	**23,542**
	16,816	23/04/2007	1,561.0		31/12/2009	**16,816**
PY Gerbeau	32,568	08/07/2005	806.0	188.2	31/12/2007	–
	23,542	28/04/2006	1,115.0		31/12/2008	**23,542**
	16,816	23/04/2007	1,561.0		31/12/2009	**16,816**

* As at the point of resignation/retirement.

A total of 68,995 shares awarded in 2005 vested during the year. The remaining 95,769 lapsed because performance conditions were not met. All directors exercised their 2005 awards that vested. The value of the awards exercised was M Barber, £31,288; X Pullen, £26,692; W Sunnucks, £20,533; K Ford, £25,667; and PY Gerbeau, £25,667. The value of the award for A Lewis-Pratt, who retired in June 2007, was £25,667. The outstanding LTIP awards for all employees are summarised in note 26 to the financial statements.

The Company's policy was to make conditional awards to executive directors of shares with a market value equivalent to up to 100% of salary at the discretion of the Remuneration Committee. The Remuneration Committee made 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 will vest is determined by reference to the level of the Group's average post-tax return on equity (ROE) for the year of grant and following two years (the 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 will vest according 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. The Board has had advice that measurement against TSR provides significant performance incentive and is in line with best market practice.

In addition, vesting of 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.

Awards made in 2005, 2006 and 2007 have to satisfy both the ROE and TSR performance conditions. The Remuneration Committee has exercised discretion to adjust the total return calculation to eliminate the effect of the CULS premium write-off because, in their view, the CULS buybacks enhanced shareholder value at that time.

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 executive directors and other key employees to build up long-term shareholdings in the Company and thereby further align their interests with those of the Company's shareholders.

Capital Appreciation Plan

The Remuneration Committee decided 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 in note 1 to the financial statements.

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.

Details of awards vested are shown in the directors' emoluments table below. The last awards were made in 2006.

Principal features of the new schemes

New LTIP

The New LTIP will be offered to selected executive directors and senior employees of the Group the opportunity to acquire ordinary shares in the capital of the Company. The first awards are anticipated to be made following the announcement of the Group's interim results in 2009.

Participant limits

The maximum annual value of shares that may be awarded to a participant under the New LTIP cannot ordinarily exceed 150% of the participant's basic salary from the Group expressed as an annual rate at the award date. The share value used for the purpose of the calculation will be the market value of the shares on the award date. In addition awards of 200% of the participant's base salary will be awarded in exceptional circumstances such as recruitment or retention of a director. If the exceptional circumstances provision is used the Remuneration Committee will explain and justify its rationale in the next Remuneration Committee report.

Performance targets

At the time of making an award the Remuneration Committee will set performance targets which must be satisfied before the award can vest. Such targets will normally be measured over a three-year period.

Performance targets once set will not be amended or waived unless an event occurs which causes the Remuneration Committee to consider that an amended target would be a fairer measure of performance and is not materially less difficult to satisfy, or that it is appropriate to waive the target.

It is the intention of the Remuneration Committee that the first awards under the New LTIP will be subject to the following performance targets.

Directors' remuneration report continued

Total Shareholder Return (TSR) – 50% of the award

No award will vest for performance below median. It is proposed that 16% of this part of the award (i.e. 8% of the total award) will vest for median performance when compared to the TSR of the constituent companies of the FTSE Real Estate sector with 66% (i.e. 33% of the total award) vesting at upper quartile performance and 100% (i.e. 50% of the total award) vesting if the Company's performance is upper decile. There is straight-line vesting for performance between median and upper quartile and upper quartile and upper decile.

Total Property Return (TPR) – 50% of the award

The Company's TPR will be measured on a Group-wide, ungeared basis. Measurement will be made against the appropriate IPD indices, the constituents of which the Remuneration Committee feels most closely match the portfolios concerned. If such an index cannot be identified the IPD UK Quarterly All Property Index will be used.

The Committee expects to use the following indices:

Portfolio	Appropriate index
The Mall	IPD Shopping Centre Index
The Junction	IPD Retail Parks Index
Germany	IPD Germany Index or possibly a subsector thereof
Other properties	IPD UK Quarterly All Property Index

FIX UK will not be included as the Company owns a minority share in this fund and does not have primary management responsibility.

No award will vest for performance below the index. It is proposed that 16% of this part of the award (i.e. 8% of the total award) will vest if the Company achieves 0% outperformance of the index per annum (representing median performance), with 66% (i.e. 33% of the total award) vesting if the index is out-performed by 1.0% per annum (representing upper quartile performance) and 100% vesting (i.e. 50% of the total award) if the Company outperforms the index by 3.0% per annum (representing upper decile performance). Straight-line vesting will apply for performance between 0% and 1.0% and 1.0% and 3%.

No re-testing of the performance targets will occur.

Vesting of awards

An award will vest only at a time or times between the third anniversary of its date of grant and the tenth anniversary of that date, except in certain circumstances.

Approved schedule to the New LTIP ("the Approved Section")

As an appendix to the New LTIP, the facility has been included to grant HM Revenue & Customs (HMRC) approved options in a manner that will allow part of the value of awards under the New LTIP to be delivered in a tax efficient manner.

Options granted under the Approved Section will be subject to the same rules as other awards made under the New LTIP except where these do not meet the requirements of the approved scheme legislation. The principal differences between options granted under the Approved Section and awards made under the main Plan are:

i) Under the Approved Section, options may only be granted to an eligible employee up to a limit of £30,000; and

ii) Under the Approved Section, options cannot be granted with an exercise price less than market value of a share at the date of grant.

As options under the Approved Section can only vest and be exercised if the same value of New LTIP awards are forfeited, the options under the Approved Section will be taken into account for the purpose of the limits.

COIP

The COIP will normally be operated in conjunction with the Group's annual bonus arrangements. The Remuneration Committee will invite certain key employees to acquire shares in Capital & Regional (the "Company") from a proportion of their annual bonus and lodge such shares for the purposes of the COIP.

Participants who are invited to lodge such shares (the "Lodged Shares") may receive an award (the "COIP Award") enabling them to acquire additional matching shares at the end of a performance period subject to the satisfaction of performance conditions, continued employment and based on the number of Lodged Shares which have been acquired.

Participation limits

Participants will be invited to acquire Lodged Shares using a percentage of their net (post tax) annual bonus. It is currently envisaged that the maximum investment eligible for a matching award will normally be 30% of gross basic salary, but individuals who have recently received a payout from the Company's Capital Appreciation Plan (CAP) may invest this payment up to a maximum of 100% of their gross salary.

The number of matching shares which may be awarded to a participant will be limited to two shares for every one Lodged Share for executive directors and one share for every one Lodged Share for other employees.

Making of COIP Awards

COIP Awards may only normally be made in the period of 42 days beginning on the dealing day following the date on which the COIP is adopted by the Company, or within the period of 42 days beginning on the dealing day following the announcement of the Company's interim or final results, or otherwise at other times if the Remuneration Committee considers there are exceptional circumstances.

No COIP Award may be made to a participant during a period proscribed for dealings in shares by directors or certain employees of the Group whether by the Listing Rules of the United Kingdom Listing Authority or otherwise, except where this is permitted under the Model Code or the Company's own code on dealing by directors and employees in its securities. A COIP Award will be personal to the participant and not transferable (other than on death when it can be exercised by the participant's personal representatives).

No COIP Award can be made more than ten years after adoption of the COIP.

Performance targets

At the time of making a COIP Award the Remuneration Committee will set performance targets which must be satisfied before it can vest.

Such targets will normally be measured over a three-year period. If an event occurs which causes the Remuneration Committee to consider that an amended target would be a fairer measure of performance and not materially less difficult to satisfy, the performance targets may be amended.

The Remuneration Committee's overall policy is to make awards under the COIP using performance conditions and target levels which are believed to be stretching and provide value to the participants commensurate with the performance achieved. The policy when deciding on performance measures is to use measures the participants can by their actions influence, in order to provide effective motivation. The policy is to make COIP Awards annually and, as has been mentioned above, to ensure that the targets are set at the time of award with regard to prevailing conditions and that all the equity incentive arrangements in which an employee participates are considered as one whole.

It is the intention of the Remuneration Committee that the first COIP Awards made will be subject to the following performance targets based on Total Shareholder Return (TSR). The award has two parts each giving a 2:1 match for executive directors and a 1:1 match for other participants.

100% of the first half of the matching award will vest for upper quartile performance when the Company's TSR is compared to the TSR of the constituent companies of the FTSE Real Estate sector, with only 20% of this part of the award vesting for median performance. Nothing will vest if performance is below this level. Straight-line vesting will occur between median and upper quartile. None of this part of the award will vest if the Company's absolute TSR is less than 8% per annum over the Vesting Period.

100% of the second half of the matching award will vest for upper decile performance when the Company's TSR is compared to the TSR of the constituent companies of the FTSE Real Estate sector, with no part of this award vesting if performance is below this level. None of this part of the award will vest if the Company's absolute TSR is less than 15% per annum over the Vesting Period.

No re-testing of the performance criteria will occur.

The Lodged Shares

The Lodged Shares cannot be forfeited by participants regardless of performance as these have already been "earned" through the mechanism of the annual bonus (or the CAP) scheme and they have been purchased with post-tax income. Any increases/decreases in the value of the Lodged Shares will therefore be received/borne by the participants. However, the Lodged Shares must be held for at least the duration of the performance period otherwise any matching award may be forfeited. If a participant, without the consent of the Remuneration Committee, disposes of shares in the Company which he held at the date of grant of a COIP Award, the Remuneration Committee may, in its absolute discretion, decide that such disposal equates to a disposal of all or any of the Lodged Shares and that all or part of a COIP Award shall not vest but shall be forfeited.

The Lodged Shares are owned by the participants who shall be entitled to exercise the voting power attaching to those shares and shall be entitled to receive dividends.

Award price

The award price will be determined by the Remuneration Committee. If, as anticipated, awards will be satisfied by the transfer of shares purchased on-market by trustees, the award price may be nil. The award price will not be less than the nominal value of a share where awards will be satisfied by the issue of shares directly to the award holder. Flexibility has been retained for the award price to be set at any other value (for example at the market value of a share).

Vesting of COIP Awards

A COIP Award will vest only at a time or times between the third anniversary of its date of award and the tenth anniversary of that date, except in certain circumstances.

2008 COIP Awards

In December 2008 the Committee recommended that the Trustees of the COIP grant matching awards to the following executive directors:

Director	Shares purchased	Maximum matching award
X Pullen	100,000	200,000
K Ford	125,000	250,000
C Staveley	25,000	50,000

SAYE

Employee eligibility

Generally, all UK resident and ordinarily resident employees and executive directors of a participating company (who in the case of directors are contracted to work at least 25 hours per week for the Group) are eligible to participate. The Grantor will have the discretion to set a minimum service requirement of up to five years in order for an employee or executive director to be eligible to participate in a particular offer under the SAYE Scheme.

Savings contract

When an employee accepts an invitation to participate in an issue of SAYE options they will be required to enter into a savings contract for a period of three or five years under which they must save between £5 and £250 per month (or such other minimum or maximum amount determined by the directors and permitted by legislation). The £250 limit is reduced by any other savings contract linked to this or any other savings related share option scheme. These contributions will be deducted from the employee's salary.

If the participant ceases to make contributions before the third or fifth anniversary of the commencement of the savings contract, the option will lapse, except in the case of a deferral of contributions for a period of up to six months.

Exercise price

The option exercise price shall be determined by the directors and will be not less than 80% of the market value of a share on the dealing day, or the average of up to five dealing days, immediately prior to the date of invitation (or, in the case of an option where the Company has determined that the option exercise will be satisfied by the issue of shares directly to the participant, the exercise price shall not be less than the nominal value of a share, if higher).

Directors' remuneration report continued

Exercise of options

During the period of six months following the end of the savings contract, the participant may exercise their option to acquire, at the exercise price, ordinary shares up to the total value of their monthly savings contributions (plus any bonus or interest paid thereon where appropriate). Alternatively, the participant may withdraw their contributions and any bonus or interest.

Termination of employment

If a participant ceases to be employed within the Group during the savings period their option will lapse except where cessation is due to death, injury, disability, redundancy or retirement or as a result of the Company or the part of the business by which the participant was employed ceasing to be a member or part of the Group, in which case the participant will be able to exercise their option within six months (or 12 months in the case of their personal representatives after death) from the date of cessation of employment, but only to the extent of their total savings plus any interest or bonus accrued.

Takeover, reconstruction, amalgamation and winding up

In the event of a takeover, reconstruction, amalgamation or voluntary winding up of the Company during the savings period, participants may exercise options early and within a specified period to the extent of their total savings plus any interest or bonus accrued to the date of exercise. If the acquiring company agrees, the option may be exchanged for an option over shares in the acquiring company.

Directors' emoluments

	Salary and fees £000	Discretionary bonus £000	Compensation payment £000	Pension contributions £000	Other benefits[1] £000	2005 CAP payment[2] £000	**2008 Total £000**	2007 Total £000
Executive directors								
H Scott-Barrett	270	–	–	47[3]	2	–	**319**	–
M Barber	89	53	686	14[3]	11	1,389	**2,242**	1,374
K Ford	279	–	–	41	11	1,497	**1,828**	1,391
PY Gerbeau	279	–	–	22	11	1,145	**1,457**	763
X Pullen	289	–	–	51[3]	12	1,317	**1,669**	1,245
C Staveley	65	–	–	10	1	–	**76**	–
W Sunnucks[4]	165	–	–	25	11	1,250	**1,451**	963
Non-executive directors								
T Chandos	125	–	–	–	–	–	**125**	125
A Coppin	42	–	–	–	–	–	**42**	42
H Mautner	36	–	–	–	–	–	**36**	36
P Newton	36	–	–	–	–	–	**36**	36
P Stobart	42	–	–	–	–	–	**42**	42
M Wolstenholme	63	–	–	–	–	–	**63**	47
Total	1,780	53	686	210	59	6,598	**9,386**	6,064

1 Other benefits include the taxable value of private medical insurance and any salary supplement in lieu of a company car.

2 In respect of 2005 awards. These awards relate to the performance of the funds for the period from 31 December 2003 to 30 December 2005. In addition, the clawback of these fees in 2006 and 2007 was deducted in determining the payment made in 2008. A Lewis-Pratt, who retired in June 2007, received a payment of £1,320,000. The following amounts are expected to be paid in 2009 in connection with the 2006 CAP award: M Barber £12,551; X Pullen £12,551; K Ford £12,551; W Sunnucks £10,177; PY Gerbeau £10,516.

3 Amounts paid as salary in lieu of pension contributions were £14,184 to M Barber (2007: £56,738), £50,855 to X Pullen (2007: £48,404), and £47,088 to H Scott-Barrett.

4 W Sunnucks received £100,000 in relation to his notice period after he ceased to be a director.

Interests in shares

The directors and, where relevant, their connected persons (within the meaning of Section 252 of the Companies Act 2006) were beneficially interested in the ordinary share capital of the Company at the dates shown in the table below.

	30 December 2008 Shares	30 December 2007 Shares
M Barber	**n/a**	2,385,367
K Ford	**689,444**	534,986
PY Gerbeau	**100,970**	92,992
X Pullen	**1,296,181**	1,147,062
H Scott-Barrett	**275,000**	–
C Staveley	**77,707**	–
W Sunnucks	**n/a**	76,204
T Chandos	**140,071**	40,071
A Coppin	**3,350**	3,350
H Mautner	**38,083**	38,083
P Newton	**4,600**	4,600
P Stobart	**–**	–
M Wolstenholme	**28,229**	3,477

There have been no changes to the directors' interests in shares since 30 December 2008.

Interests in share options

Share options held by directors were as follows:

	As at 30 December 2007	Exercised	**As at 30 December 2008**	Exercise price (p)	Earliest exercise date	Latest exercise date	Exercise condition met	Gain on exercise (£)
K Ford	175,000	(175,000)	**–**	279.5	18/05/01	18/05/08	Yes	131,425
	50,000	–	**50,000**	211.5	13/09/03	13/09/10	Yes	–
	225,000	(175,000)	**50,000**					131,425
X Pullen	100,000	(100,000)	**–**	279.5	18/05/01	18/05/08	Yes	292,000
	50,000	–	**50,000**	211.5	13/09/03	13/09/10	Yes	–
	150,000	(100,000)	**50,000**					292,000

During the year, the share price ranged from a high of 579p to a low of 36.75p. The share price as at 30 December 2008 was 44.5p.

No share options were granted during 2008 and no further awards will be made under these schemes.

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
23 April 2009

Corporate governance report

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 describe how the Company complies with the provisions of the June 2006 Financial Reporting Council Combined Code on Corporate Governance ("the Combined Code").

Statement of compliance

The Company has complied throughout the year ended 30 December 2008, with the provisions set out in Section 1 of the Combined Code issued by the Financial Reporting Council in June 2006. This section applies to the Capital & Regional plc Group and its subsidiaries.

Application of the principles

The Company has applied the principles set out in section 1 of the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the directors' remuneration report and Audit Committee report.

The Board of directors

Details of the directors are set out before the directors' report. The Company is controlled through the Board of directors which comprised the Chairman, five executive and five non-executive directors throughout the year.

Board balance and independence

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 2008.

The Company has well-established differentiation between the roles of Chairman and Chief Executive. Written terms of reference, which have been approved by the Board, are available for inspection on the Company's website.

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 other commitments of the Chairman are detailed in the directors' biographies.

Board effectiveness

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. The executive directors take operational decisions and also approve certain transactions within defined limited parameters. An Executive Directors' Committee 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, Remuneration Committee and Nomination Committee consist solely of non-executive directors and meet at least twice a year.

Re-election

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.

Performance evaluation

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 are discussed with the Senior Independent Director.

Information and professional development

The Board schedules five meetings each year, as a minimum, and arranges further meetings as the business requires. Prior to each Board meeting, each member receives up-to-date financial and commercial information in respect of the divisions, and specifically, 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.

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, and their sharing of knowledge and experiences gained from a range of commercial backgrounds.

Nomination Committee

The Committee comprises T Chandos (Chairman), P Stobart, and M Wolstenholme.

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. The Board members are 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.

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 15 full Board meetings during the year, six of which were scheduled meetings and nine were ad-hoc meetings.

Board meetings attendance

	Scheduled meetings	Ad hoc meetings	Total attendance
T Chandos	6	9	15
H Scott-Barrett*	4	8	12
M Barber*	2	–	2
X Pullen	6	9	15
W Sunnucks*	4	8	12
C Staveley*	2	1	3
H Mautner	5	9	14
K Ford	6	9	15
PY Gerbeau	6	8	14
P Stobart	6	9	15
A Coppin	6	9	15
P Newton	6	7	13
M Wolstenholme	6	8	14

* Not eligible for all meetings.

Each director was eligible to attend 15 meetings except those marked with an asterisk in the table above. These directors became eligible to attend meetings on appointment to the Board or were no longer eligible to attend once they had ceased to be directors, but attended all the meetings they were eligible to attend.

There were five Audit Committee meetings during the year.

Audit Committee meetings

	Attendance
P Stobart	5
A Coppin	4
M Wolstenholme	5

Each director was eligible to attend five meetings.

There were eight Remuneration Committee meetings during the year.

Remuneration Committee meetings

	Attendance
M Wolstenholme	8
P Stobart	7
P Newton	8

Each director was eligible to attend eight meetings.

There was one Nomination Committee meeting during the year.

Nomination Committee meetings

	Attendance
T Chandos	1
P Stobart	1
M Wolstenholme	1

There were three Responsible Business Committee meetings during the year.

Responsible Business Committee meetings

	Attendance
A Coppin	3
X Pullen	3
W Sunnucks*	2

* This director was no longer eligible to attend meetings once he had ceased to be a director.

On occasion, Board meetings or committee meetings may be missed due to circumstances beyond the director's control.

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 statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report.

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. The Company also attends roadshows in the US and Europe, and participates in sector conferences. 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, regular announcements of fund unit valuations provide an 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 and risk management and to safeguard

shareholders' investment. 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. The key risks identified are set out in the risks and uncertainties section.

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 and the Board is satisfied that its process accords with the guidance in this document. This process has been in place for the year under review 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.

The Group has undertaken a comprehensive risk and controls review for the year involving interviews with each divisional management team, which has identified the principal risks facing the Group and its individual divisions. An updated risk map and internal control matrix have been produced for each division in the Group, clearly outlining the principal risks and the actions being taken to manage those risks to the desired level. Each risk has been evaluated in terms of its impact on the business and the likelihood of it occurring, and responsibility for the management of each risk has been clearly identified.

Other key features of the Company's system of internal control are as follows:

- 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.

The Company has established a whistleblowing policy to enable employees to raise issues of concern in relation to dishonesty or malpractice on an entirely confidential basis.

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 acted as Chairman until 24 February 2009 from which date M Wolstenholme took over as Chairman. A Coppin is the third member of the Audit Committee. The qualifications of the Audit Committee members are set out in the directors' biographies.

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 also approves the remuneration of the external auditors.

The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group by its external auditors. 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 in note 8 to the financial statements. The Group's aim is always to have any non-audit work involving the Group's auditors carried out in a manner that affords value for money and ensures independence is maintained by monitoring this on a case-by-case basis.

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 a number of other matters.

- 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.

- Internal Audit: The Group does not have an internal audit function. It has carried out a Group risks and control review and has also carried out a review of controls in the debtors cycle. In addition, it 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 will continue to review the position, but the belief at present is that the current size and complexity of the Group does not justify establishing an internal audit function.

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 and, having considered the material uncertainty described in the risks and uncertainties section and note 1 to the financial statements, 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
23 April 2009

Responsible business

Overview

Capital & Regional believes that the long-term success of its business depends on the ability to build sustainable relationships with investors, customers, suppliers, local community stakeholders, and its own people. This can only be done by behaving in a responsible manner towards them and towards the natural environment, and by being aware and responsive to their needs and points of view.

Being a responsible business (RB) means that all the Group's activities and operations must be carried out in a responsible manner, down to every decision that it takes and every interaction that it has. The key areas where the Group has an impact are the managing of responsible business; marketplace (customers and suppliers); the environment; workplace and people; and local communities.

Below is an outline of the Group-wide approach to these areas and highlights of some activities that took place over the last year showing how this approach is being implemented in practice. Further information on specific leisure and retail activities can be found on the divisions' websites. The Group acknowledges that there is more that can be done to improve its RB practice, and to this end has identified some priorities for the coming year within each key area.

Managing responsible business

In order to deliver value to all stakeholders, the Group believes that its RB programme must be action oriented and tailored to the relevant business divisions. Capital & Regional manages responsible business in the same way as it does other operating areas, by allowing its operating divisions autonomy to develop an approach that is suitable for them, whilst providing broad strategic direction and a forum for support, and encouraging progress through a Responsible Business Committee.

The Responsible Business Committee met three times during the year and consisted of three main Board directors: Alan Coppin (Chairman), Xavier Pullen and William Sunnucks (resigned on 30 September 2008), as well as divisional representatives who are responsible for delivering RB activities within the funds and who report on progress at each meeting. The Group has developed certain broad policies within which the divisions must work to enable consistent progression across all divisions and to allow the RB committee to ensure activities are aligned with good practice. The committee reports regularly to the Board.

In May 2008 Alan Coppin, Chairman of the Responsible Business Committee, became a member of a steering board for a Greening Management study to develop sustainable management practices for the future.

Marketplace – customers and suppliers

The Group's policy is to treat those who occupy, use and supply its properties with respect, and to engage with them as partners. It aims to work closely with its occupiers to respond to their needs and their customers' needs, for example through marketing and safety initiatives at its centres. It also looks to form strong relationships with suppliers, locally wherever practical, and to engage with them on responsible business activities, as they support the Group in the delivery of a successful RB programme.

The success of these relationships is measured on a divisional level. The Mall commissions independent tenant satisfaction surveys annually and SNO!zone conducts regular customer surveys, the results of which are published internally each month. The aim is to maintain or improve satisfaction each time, and so far this has been achieved. The Group strives to continuously build and improve on its existing relations by listening to the feedback it receives from customers and tenants at both head office and ground level.

2008 Highlights

- The Junction held regular meetings with principal tenants to understand their business challenges in order to respond in an appropriate manner, and took regular feedback from the PMA (Property Managers Association) to ensure a progressive stance on current industry issues.

- In 2008 The Junction achieved accreditation of Park Mark standard for all retail parks. This is a recognised standard awarded by the Association of Police Officers, intended to provide safer surroundings for the public. All parks have state-of-the-art CCTV which is centrally managed and monitored; this has improved safety and security for retailers, consumers and staff.

- At the recent 2008 Leisure Report Awards Xscape won the Revitalised Brand of the Year for its three Xscapes and Investor of the Year for X-Leisure.

- X-Leisure won Developer/Investor of the Year 2008 at the Retail and Leisure Property Awards.

- The Mall made a number of rent concessions to tenants in its properties. The rationale was that if tenants had a sustainable business but were struggling due to the current market, they would be considered for the assistance this would provide.

2009 Priorities

- Continue to monitor customer care levels through focused customer research to enable identification of areas for improvement.

- Continue to focus on supporting local businesses by using local tradesmen and suppliers wherever possible.

Environment

The Group believes it has a significant role to play in combating environmental degradation and strives to continuously improve the environmental sustainability of its investments. An Environmental Policy provides a framework for managing the Group's impact on the environment across the portfolio.

The Environmental Policy is made available to all interested parties through the www.capreg.com website, and directs that, as a minimum, the Group and its businesses will:

- comply with all relevant environmental legislation and regulations;

- identify and measure the most significant environmental impacts;

- set targets to improve environmental performance in these areas;

- include environmental criteria when choosing services and goods to purchase, and communicate objectives to its suppliers; and

- communicate the policy, targets and environmental activities to all staff and interested parties.

All divisions are expected to identify their own key environmental impacts, and develop their own environmental management systems to respond to these. In all cases, this will include the use of energy, water and other natural resources, and the production and disposal of waste.

Responsible business continued

The Mall and X-Leisure take part in the annual Upstream property benchmarking survey, which enables them to assess their environmental performance on a property by property basis. The Upstream Sustainability Benchmarking survey for 2008 will be published in May 2009. It is anticipated that there will be an improvement in performance across the various areas (energy and water consumption, recycling, community) for the fourth consecutive year.

In addition, Carbon Management Plans have been written for all three Xscape properties, which have been issued to the sites and recommendations taken on board. Further details of X-Leisure's activities can be found in their Responsible Business summary report for 2009.

Case study: Energy saving on the slopes at SNO!zone

As the original SNO!zone site, much of the focus for improving efficiency of energy consumption has been at Milton Keynes. Newer plant and technology at the Castleford and Braehead sites mean that they are about 23% more efficient in terms of electricity usage on the slope, in refrigeration systems and in snow making.

Since 2006 the team at Milton Keynes has been working hard to find innovative ways to utilise the systems already in place. An amount of capital has been set aside in order to progress any initiatives once they have been fully investigated, and an agreeable cost and payback time achieved. In 2007 it was reported that the lights on the slope at Milton Keynes had been upgraded to more energy-efficient 100 watt cold fluorescent fittings from an energy-hungry and heat-producing 2000 watt version. Initial savings from 2006 to 2007 totalled 382,189 kWh which equated to almost £29,000. 2007 to 2008 has netted a further saving of 17,358 kWh. More work on the snow making compressors is reducing usage and showing further savings month to month when compared to 2007. At this rate it is estimated that consumption in 2009 can be reduced by an additional 5% and save another £16,000 on energy bills.

SNO!zone Braehead and Castleford are now in the process of trialling a similar lighting system using energy-efficient bulbs to replace the current slope lighting, so a resulting reduction in electricity usage is also expected at these sites in 2009.

2008 Highlights

- All X-Leisure sites are recycling paper, cardboard, glass and plastic. Xscape and SNO!zone Milton Keynes are also recycling food waste to be sent to make bio-energy.
- Engagement of internal staff and partners by projecting a green message and communicating environmental policy.
- The Mall have continued the EnviroMall initiative, a comprehensive programme implemented across all its shopping centres, designed to take a lead in the environmental management of covered shopping centres in the UK. The initiative has its own website, www.enviromall.co.uk, where further information can be found.
- By the end of 2008, The Mall was 70% of the way to its target for 2012 of recycling 85% of all waste with zero going to landfill. The Mall also reduced its energy consumption by 4.5% in 2008.
- At the Group's head office, 100% of office paper waste was recycled, which was equivalent to saving 273 trees.

2009 Priorities

- Continue to monitor and focus on reducing carbon output.
- Continue to monitor energy use across the divisions and look at ways of reducing it. X-Leisure are aiming to reduce energy usage across all SNO!zone sites by a further 6% in 2009.

Workplace

Capital & Regional wants to recruit and retain the best talent available, to reflect the communities it serves and to help the business to continue to perform as well as it can. To do this, it believes it is important to provide fair pay, conditions, and health and safety standards; to treat staff fairly and equally; and to encourage its staff to grow through training and development opportunities. It also strongly believes in fostering a working culture that is professional but enjoyable, where a team spirit prevails, and where all individuals' contributions are valued.

Capital & Regional undertook a review of its staff costs in December 2008. Thereafter, a phased and limited redundancy programme across the business was implemented in such a way as to ensure that it did not impact on the level of service provided and in a way that it was hoped was sensitive to its people.

It believes that the diversity of its people is an asset to the business and has an equal opportunities policy which encourages and promotes diversity. At the end of 2008, the business employed 1,011 people across the Group.

The Mall and SNO!zone have their own HR teams to support the significant number of employees employed on-site (291 at The Mall, and 553 at SNO!zone), and they also continued to develop their people processes during the year. The Mall has been accredited as an "Investor in People" since 2002, and has a wide ranging training and development programme under the banner of "M Power". SNO!zone continues to establish best practice and strengthen human resource management. Their internal people development continues with training sponsorship for instructor qualifications, personal development plans for all, and training initiatives linked to improving management practices and customer skills leading to NVQ qualifications. A time attendance system was installed in all three SNO!zones in the last quarter of 2008 with the main merits so far being a marked reduction in absenteeism and the ability for the HR function to report on a set of KPIs to assist the operational management team.

2008 Highlights

- X-Leisure's internal people processes improved recruitment, selection, management and remuneration of personnel.

2009 Priorities

- X-Leisure plan to launch a new performance management process and initiate a solid structure for development plans and succession planning.
- Develop employee volunteering links to encourage wider participation.

Local communities

The Group aims to provide local communities with safe, clean and attractive centres in which to shop, work and spend leisure time, and recognises that its businesses can be integral parts of those communities. One of its key objectives is that local people see them as positive assets to their area, and it tries to ensure that this is the case by being responsive to the communities of which it is a part – by listening and responding to the views of a wide range of local people and demonstrating its long-term commitment to them.

It also believes that its responsibility to local communities goes beyond just providing high-quality work, leisure or shopping destinations, by actively participating in activities that bring sustainable support and benefit to the local area where it can, and supporting the causes that are important to its customers, visitors and neighbours. This allows it to build ongoing positive relationships with local people and communities, and it is believed this contributes to the long-term prosperity of its business. Part of this work is through fundraising for, or donating to, local charitable causes, which is done at a divisional level.

The Group also believes in the ability of shopping and leisure destinations to contribute to the regeneration of local areas, economically, socially and environmentally. It actively pursues opportunities to develop sites that will contribute to local regeneration.

2008 Highlights

- The Mall is a supporter of Business Improvement Districts (BIDs) in towns within which it invests. An example of one of these initiatives is Falkirk BID, which was drawn up by key stakeholders in the town including Suzanne Arkinson, General Manager at Mall Falkirk, and raised £105,000 to deliver specific projects around the town centre aimed at making the environment accessible, clean and friendly.

- "Job Junction", a initiative led by Telford and Wrekin Council in partnership with The Junction/Telford Forge Shopping Park, was launched in July 2008 to help local residents learn lifelong skills and thrive in the workplace.

- SNO!zone assisted and supported as a venue and sponsor a large number of charitable causes, examples of which include "Snowcamp" – a youth initiative to help those from the most deprived areas to experience skiing or snowboarding either in the UK or abroad – and "Ski to Help" – a student-led charity event in its fourth year which has raised more than £20,000 a year for worthy causes, including disability snowsports in 2008.

- The Young Enterprise Scheme in Poole, where the General Manager offered her time to be a mentor to students entering the competition.

- The Mall Cares programme raised a total of £1,077,031 for local charities.

2009 Priorities

- Focus on strengthening links with local communities through partnerships and support of local athletes, charities, schools and youth projects.

- Continue to offer free events to customers throughout 2009 to encourage local community participation.

Case study: The Mall Leadership Legacy

In 2008 around 80 Mall people embarked on The Mall Leadership Legacy, an innovative development programme where achieving the learning objectives is inextricably linked with pursuing community and corporate responsibility aims in the key areas of Community, Families, Disability, Environment, Sport and Youth.

Four events were held at various locations across the country, each with a separate charity partner, to deliver a physical project and leave a tangible legacy. This included renovating a dormitory for disabled athletes at Stoke Mandeville stadium, constructing a new boardwalk to allow improved access for disabled visitors at a Wiltshire Wildlife reserve and refurbishing and upgrading a Viking Longhouse and settlement at Penwortham Environment Education Centre, part of a network of National Grid Environmental Education Centres.

The Mall Leadership Legacy is more than just employee volunteering as it challenges people on many levels, is quite different to most other things they have done, and requires a great deal of personal commitment and positive energy from everyone taking part. It has a huge personal impact on people, enhances their personal and professional skills and relationships with colleagues and enables them to transfer that learning back to work.

This was typified by a project in the North East with Fairbridge, a national organisation which works with inner city young people from the most deprived backgrounds to give them the hope, confidence and life skills to meet the challenges in their lives and build trust and motivation through experiences and fun.

Mall people spent two days working with Fairbridge staff and also with some of the young people themselves. They experienced the terror of abseiling; helped them with the very real challenge for them of planning, shopping for and successfully cooking a meal; used their personal skills and hobbies to involve the young people in an art project; renovated the exterior of Fairbridge's offices in Middlesbrough; helped them acquire much needed furniture and equipment for their premises; gave advice on job applications and CVs; and held mock interviews for some very apprehensive and brave young people.

Conclusion

Capital & Regional believes that the value of its business is best enhanced by respecting the interests of all its stakeholders and that the creation of long-term financial returns is dependent on effective management of environmental and social performance. Capital & Regional is committed to fulfilling its key objectives and recognises the challenges currently facing the business.

This statement has been independently reviewed and verified by Bureau Veritas, which although not mandatory is regarded as good practice.

Consolidated income statement

For the year ended 30 December 2008

	Note	2008 £m	2007 £m
Rents, management fees and other revenue	4a	**75.3**	86.8
Performance fees	4a,4b	**(9.9)**	(52.8)
Revenue	4a	**65.4**	34.0
Cost of sales	5	**(41.7)**	(19.1)
Gross profit		**23.7**	14.9
Administrative costs		**(23.1)**	(13.7)
Share of loss in joint ventures and associates	18	**(432.9)**	(119.2)
Loss on revaluation of investment properties	13a	**(31.7)**	(14.8)
(Loss)/profit on sale of properties and investments	13c	**(6.5)**	1.8
Impairment of goodwill	14	**(8.0)**	–
Loss on ordinary activities before financing		**(478.5)**	(131.0)
Finance income	6	**2.4**	3.5
Finance costs	7	**(40.2)**	(39.5)
Loss before tax	8	**(516.3)**	(167.0)
Current tax	10a	**1.1**	3.9
Deferred tax	10a	**13.0**	(3.7)
Tax credit		**14.1**	0.2
Loss for the year		**(502.2)**	(166.8)
Basic loss per share	12	**(715)p**	(236)p
Diluted loss per share	12	**(715)p**	(236)p

All results derive from continuing activities. The loss for the current year and the preceding year is fully attributable to equity shareholders.

Consolidated balance sheet

As at 30 December 2008

	Note	2008 £m	2007 £m
Non-current assets			
Investment property	13a	**15.3**	678.5
Interest in long leasehold property	13a	**10.8**	15.6
Goodwill	14	**4.2**	12.2
Plant and equipment	15a	**1.3**	1.5
Available for sale investments	15b	**0.2**	0.3
Receivables	16	**30.2**	7.2
Investment in associates	18b	**182.3**	599.4
Investment in joint ventures	18c	**34.4**	12.0
Deferred tax asset		**1.4**	–
Total non-current assets		**280.1**	1,326.7
Current assets			
Trading property	13a	**72.8**	95.9
Receivables	17	**14.4**	19.9
Current tax recoverable		**1.6**	1.6
Cash and cash equivalents	19	**4.1**	37.1
Total current assets		**92.9**	154.5
Total assets		**373.0**	1,481.2
Current liabilities			
Bank loans	23a	**(18.7)**	(0.2)
Trade and other payables	20	**(55.7)**	(102.2)
Current tax liabilities		**(15.9)**	(18.4)
		(90.3)	(120.8)
Non-current liabilities			
Bank loans	23a	**(93.8)**	(622.4)
Other payables	21	**(2.8)**	(17.5)
Deferred tax liabilities		**–**	(17.5)
Total non-current liabilities		**(96.6)**	(657.4)
Total liabilities		**(186.9)**	(778.2)
Net assets		**186.1**	703.0
Equity			
Share capital	25	**7.1**	7.1
Share premium account	27	**220.5**	219.7
Revaluation reserve	27	**–**	2.4
Other reserves	28	**13.8**	10.9
Capital redemption reserve	27	**4.4**	4.4
Own shares held	27	**(9.7)**	(8.7)
Retained earnings	27	**(50.0)**	467.2
Equity shareholders' funds	24	**186.1**	703.0
Basic net assets per share	30	**£2.61**	£9.89
Triple net, fully diluted net assets per share	30	**£2.67**	£10.04
EPRA diluted net assets per share	30	**£3.25**	£10.08

These financial statements were approved by the Board of Directors, authorised for issue and signed on their behalf on 23 April 2009 by:

Charles Staveley
Group Finance Director

Consolidated statement of recognised income and expense

For the year ended 30 December 2008

	Note	2008 £m	2007 £m
Revaluation loss on owner occupied property	13a,27	**(2.4)**	(0.3)
Foreign exchange translation differences		**5.9**	7.6
Net investment hedge		**(4.0)**	(5.6)
		(0.5)	1.7
Loss for the year		**(502.2)**	(166.8)
Total recognised income and expense		**(502.7)**	(165.1)
Attributable to:			
Equity shareholders	31	**(502.7)**	(165.1)

Reconciliation of movement in equity shareholders' funds

For the year ended 30 December 2008

	Note	2008 £m	2007 £m
Opening equity shareholders' funds	31	**703.0**	913.1
Issue of shares	27	**0.8**	0.2
Share buy back and cancellation		**–**	(17.2)
Purchase of own shares	27	**(0.7)**	–
Credit in respect of charge for share-based payments	27	**1.2**	0.2
Arising on conversion/repurchase of CULS		**–**	(9.0)
Amortisation of IFRS 1 reserve	28	**(0.1)**	(0.1)
		704.2	887.2
Total recognised income and expense		**(502.7)**	(165.1)
		201.5	722.1
Dividends paid	11	**(15.4)**	(19.1)
Closing equity shareholders' funds		**186.1**	703.0

Consolidated cash flow statement

For the year ended 30 December 2008

	Note	2008 £m	2007 £m
Net cash from operations	29	**(23.5)**	62.6
Distributions received from joint ventures and associates		**20.4**	25.6
Interest paid		**(25.6)**	(30.7)
Interest received		**1.5**	2.7
Income taxes paid		**(0.8)**	(3.8)
Cash flows from operating activities		**(28.0)**	56.4
Investing activities			
Acquisitions of investment properties		**–**	(62.8)
Capital expenditure on investment properties		**(1.5)**	(15.2)
Acquisitions and disposals of other fixed assets		**(0.3)**	(1.1)
Disposals/(acquisitions) of subsidiaries		**75.1**	(39.4)
Cash (disposed of)/acquired in business combinations		**(19.1)**	1.0
Proceeds from sale of investment and trading properties		**–**	1.0
Proceeds from sale of investments		**–**	0.2
Investment in joint ventures		**(6.7)**	(3.3)
Loans to joint ventures		**(5.4)**	(6.1)
Loans repaid by joint ventures		**9.5**	0.7
Cash flows from investing activities		**51.6**	(125.0)
Financing activities			
Proceeds from the issue of ordinary share capital		**0.8**	0.1
Purchase of own shares		**(0.7)**	(1.3)
Share buy backs and cancellation		**–**	(17.2)
Repurchase of CULS		**–**	(10.5)
Bank loans drawn down		**162.3**	172.3
Bank loans repaid		**(199.9)**	(48.5)
Loan arrangement costs		**(0.3)**	(0.9)
Settlement of foreign exchange forward		**(2.9)**	(4.6)
Dividends paid to minority interests	22	**(1.3)**	(1.4)
Equity dividends paid	11	**(15.4)**	(19.1)
Cash flows from financing activities		**(57.4)**	68.9
Net (decrease)/increase in cash and cash equivalents		**(33.8)**	0.3
Cash and cash equivalents at the beginning of the year		**37.1**	35.5
Effect of foreign exchange rate changes		**0.8**	1.3
Cash and cash equivalents at the end of the year		**4.1**	37.1

Notes to the financial statements

For the year ended 30 December 2008

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 reviews.

Adoption of new and revised standards

In the current year, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" and the related amendment to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital as shown in note 24.

One interpretation issued by the International Financial Reporting Interpretations Committee was adopted by the Group in the current period:

IFRIC 11 IFRS 2: Group and Treasury Share Transactions

The adoption of this Interpretation has not led to any material changes in the Group's accounting policies.

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 (and in some cases had not yet been adopted by the EU):

IFRS 1/IAS 27 (amended May 2008) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (amended 2008) Share-based Payment – Vesting Conditions and Cancellations
IFRS 3 (revised 2008) Business Combinations
IFRS 8 Operating Segments
IAS 1 (revised 2007) Presentation of Financial Statements
IAS 23 (revised 2007) Borrowing Costs
IAS 27 (revised 2008) Consolidated and Separate Financial Statements
IFRIC 12 Service Concession Agreements
IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 18 Transfers of Assets from Customers
Amendments to IFRIC 9 and IAS 39 (March 2009) Embedded Derivatives
Amendments to IFRS 7 (March 2009) Improving Disclosures about Financial Investments
Amendments to IAS 32 and IAS 1 (February 2008) Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IAS 39 (July 2008) Eligible Hedged Items
Amendments to IAS 39 and IFRS 7 (October 2008) Reclassification of Financial Assets
Amendments to IAS 39 and IFRS 7 (November 2008) Reclassification of Financial Assets – Effective Date and Transition
Improvements to IFRS (May 2008)

The directors are assessing the impact that the adoption of these Standards and Interpretations will have on the financial statements of the Group in future periods.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements 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.

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.

Basis of preparation

Going concern

Current economic conditions have created uncertainty across many business sectors including the property investment market. In particular the Group has suffered significant decreases in the value of its property assets. The availability of finance to the sector has become significantly restricted and the terms on which finance is made available have become markedly more stringent.

The Group prepares cash flow and covenant compliance forecasts to demonstrate that it has adequate resources available to continue in operation for the foreseeable future, being at least 12 months from the date of this report. In these forecasts the directors specifically consider anticipated future market conditions and the Group's principal risks and uncertainties.

1 Significant accounting policies continued

The directors consider that a material uncertainty exists around the continuing availability of satisfactory levels of bank and other funding to the Group in the light of the current adverse conditions in the property market and the wider economy, and the possibility that these could deteriorate further. This material uncertainty reflects the potential for further falls in property valuations to cause breaches of various financing covenants, either at Group, fund or joint venture level. In particular the Group is dependent upon its core central facility which has asset cover and gearing covenants. This material uncertainty may cast significant doubt on the Group's ability to continue as a going concern, such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As described in the Chairman's statement, the Chief Executive's statement and the financial review, the Group is working on plans to minimise the effects of further adverse market conditions and strengthen its financial position through:

- the completion of fundraisings and renegotiation of banking facilities in The Junction and X-Leisure;
- the refinance or sale of some or all of its wholly-owned properties; and
- the completion of a satisfactory renegotiation of the Group's core revolving credit facility, including providing headroom in the facility should the potential tax liability described in note 10 become due for payment.

The directors are confident that the transactions described above can be successfully completed. However, if this were not to be the case then the directors believe that the funding and covenants would need to be further renegotiated with the appropriate lenders in line with the changed circumstances of the Group and market environment.

Therefore, after making enquiries, and considering the likelihood of completion of the transactions set out above, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Critical accounting judgements and key sources of estimation uncertainty

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.

The critical judgements and estimations that the directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements, or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The directors believe that the estimates and associated assumptions used in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated.

- The directors have assessed changes in recent legislation, case law and accounting standards, along with future projections for the Group, in determining the current and deferred tax assets and liabilities and credit to the income statement, as disclosed in note 10.
- The directors have relied upon the work undertaken at 30 December 2008 by independent professional qualified valuers, as disclosed in note 13b, in assessing the fair value of certain of the Group's investment and owner occupied properties. In particular, this has included an assessment of the uncertainty surrounding those valuations described in that note.
- The directors have also made judgements about future rental income and the likelihood of certain developments proceeding in arriving at the value of the investment and trading properties shown at directors' valuation as described in note 13b.
- Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires estimates of the expected life of the X-Leisure fund, the future cash flows expected to arise from the management of it and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £4.2 million after an impairment of £8.0 million during the year as disclosed in note 14.
- The directors have estimated the potential write down in the valuation of properties owned by FIX UK in calculating the impairment of the Group's investment in the associate as disclosed in note 18b.
- The directors have relied upon the work undertaken at 30 December 2008 by independent third party experts in assessing the fair values of the Group's derivative financial instruments, which are disclosed in notes 20 and 24f.
- The directors have reviewed the non-market-based vesting assumptions in relation to the LTIPs. Given the Group's performance over the past three years and the Group's estimated performance over the next two years, the directors have concluded that no shares will vest under the non-market conditions for 2006 and 2007. This leads to a credit to retained earnings of £0.3 million as shown in note 27.

1 Significant accounting policies continued

The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future 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 net assets and losses after tax. The losses include revaluation movements on investment properties. The reporting period for joint ventures and associates ends on 31 December and their financial statements are consolidated from this date. In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, associates and joint ventures are reviewed to determine whether any impairment loss should be recognised at the end of the reporting period.

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. The impairment is calculated on the value in use of the goodwill. 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 = €1.0344 (2007: £1 = €1.365). The principal exchange rate used for the income statement is the average rate for the year: £1 = €1.2558 (2007: £1 = €1.462).

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the foreign currency reserve and the effective portions of related foreign currency hedges are taken to the net investment hedging reserve. The net investment in foreign operations includes the equity of the underlying entities and the portion of shareholder loans to those entities that is treated as equity where there is no intention of repayment in the foreseeable future. All exchange differences previously accumulated in equity are transferred to the income statement upon disposal or, where control is lost, part-disposal of the foreign operation.

1 Significant accounting policies continued

Plant and equipment

Plant and equipment is 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 or director valuers, 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 investment properties.

Leasehold properties

Leasehold properties that are leased 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 at fair value with changes in fair value recognised directly in equity except for falls below historic cost which are recognised in the income statement.

Properties under development

Attributable internal and external costs incurred during the period of development are capitalised. Interest is capitalised gross in the associates and joint ventures before deduction of related deferred tax relief. There is no interest capitalised in the Group. 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 make 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. Investment properties in the course of disposal are reclassified as held for sale once contracts have been exchanged. Properties are transferred between categories at the estimated market value on the transfer date.

Trading property assets

Properties held with the intention of disposal are valued at the lower of cost and net realisable value. Any impairment in the value of trading properties is shown under cost of sales.

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 has determined that all such leases are operating leases. Incentives and costs associated with entering into tenant leases are amortised over a straight-line basis over the term of the lease.

Operating leases

Annual rentals under operating leases are charged to the income statement as incurred.

1 Significant accounting policies continued

Financial assets and financial liabilities

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.

Trade receivables and payables

Trade receivables and payables are stated at fair value, less any provision for impairment against trade receivables.

Borrowings

Borrowings are held at amortised cost. They are recognised initially at fair value, after taking into account 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.

Derivative financial instruments

Derivative financial instruments are designated as at fair value through profit or loss in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". They are recognised initially at fair value, which equates to cost, and are subsequently remeasured at fair value. The fair value of forward foreign exchange contracts is calculated by reference to spot and forward exchange rates at the balance sheet date. The fair value of interest rate and basis swaps is calculated by reference to forecasts of appropriate yield curves between the balance sheet date and the maturity of the instrument. Changes in fair value are included as finance income or finance costs in the income statement, except for gains or losses on the portion of an instrument that is an effective hedge of the net investment in a foreign operation, which are recognised in the net investment hedging reserve.

Minority interest

The minority interest, arising from the Group's German operations, is classified as a liability and held at fair value in the balance sheet of the joint venture. Under the terms of the contract the minority has a put option to sell their share back to the joint venture typically after five years from acquisition. The minority interests' share of income and expenses while the German operations were wholly owned is treated as a non-recurring finance charge in the income statement.

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 substantively 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 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.

1 Significant accounting policies continued

Employee benefits

Pension costs

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

Share-based payments

The Group has applied the arrangements of IFRS 2 "Share-based Payment". Equity settled share-based payments are measured at fair value at the date of grant. The fair values of the COIP, CEO share match scheme and SAYE scheme are calculated using Monte Carlo simulations or the Black-Scholes model as appropriate. The fair values of the 2006 and 2007 LTIPs are calculated using a normal distribution model, which the directors consider not to be materially different from a binominal model.

The fair values are dependent on factors including the exercise price, expected volatility, period to exercise and risk-free interest rate. Market-related performance conditions are reflected in the fair values at the date of grant and are expensed on a straight-line basis over the vesting period. Where awards are cancelled, the remaining fair value is expensed immediately. Non-market-related performance conditions are not reflected in the fair values at the date of grant. At each reporting date, the Group estimates the number of shares likely to vest under non-market-related performance conditions so that the cumulative expense will ultimately reflect the number of shares that do vest.

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 when shares in the underlying incentive schemes vest. The shares are held in an Employee Share Ownership Trust.

Revenue

Performance fees

Performance fees are recognised, in line with the property management contracts, at the end of the performance period to which they relate. The performance period is normally three years. CRPM earns performance fees for the Mall and Junction Funds on the outperformance relative to the greater of 12% and the appropriate IPD index. For the X-Leisure Fund the benchmark is only 12%. Where performance falls short of these benchmarks, fees are repayable, up to the amount received for the previous two years. Where there is a reasonable likelihood that part of a performance fee will be repaid the estimated repayment will not be recognised as income until the outcome can be reliably estimated.

Management fees

Management fees are recognised, in line with the property management contracts, in the period to which they relate. They include income in relation to services provided by CRPM to both joint ventures and associates 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 and including tenant incentives, less 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 has been established.

Finance costs

All borrowing costs are recognised under finance costs in the income statement in the period in which they are incurred. Finance costs also include the amortisation of loan issue costs; the unwinding of the discounting of liabilities relating to CAP awards; the minority interests' share of income and expenses while the German portfolio was wholly owned; any loss in the value of the Group's wholly-owned interest rate swaps; and any loss in the ineffective portion of the Group's hedge of its net investment in a foreign operation.

Segmental reporting

Segments

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.

Inter-segment transactions

All transactions between segments are accounted for on an arm's-length basis.

2 Segmental analysis: non-statutory information – see through basis

2a Segmental analysis

Year to 30 December 2008	Note	Assets: Property investment UK £m	Assets: Property investment Germany £m	Earnings: Property management UK £m	Earnings: SNO!zone £m	Total £m
Net rents	2b	56.7	29.4	–	–	**86.1**
Net interest	2b	(47.4)	(16.7)	–	–	**(64.1)**
Contribution	2b	9.3	12.7	–	–	**22.0**
Management fees	4a	–	–	22.8	–	**22.8**
SNO!zone income	4a	–	–	–	14.9	**14.9**
SNO!zone expenses	5	–	–	–	(13.4)	**(13.4)**
Management expenses		(3.2)	(1.6)	(13.9)	–	**(18.7)**
Recurring pre-tax profit		6.1	11.1	8.9	1.5	**27.6**
Performance fees clawback	4a,4b	–	–	(9.9)	–	**(9.9)**
Benefit of performance fee clawback	18d	2.4	–	–	–	**2.4**
Variable overhead		–	–	0.1	–	**0.1**
Revaluation of investment properties		(339.9)	(34.0)	–	–	**(373.9)**
Deemed disposal from Mall rights issue and related costs	18a	(26.2)	–	(2.6)	–	**(28.8)**
Loss on disposals		(41.9)	(0.4)	–	–	**(42.3)**
Impairment of trading property	5,13a	(23.5)	–	–	–	**(23.5)**
Impairment of goodwill	14	–	–	(8.0)	–	**(8.0)**
Impairment of associate	18b	(8.4)	–	–	–	**(8.4)**
Loss on financial instruments		(36.4)	(11.4)	–	–	**(47.8)**
Other non-recurring items		(2.8)	2.0	(3.0)	–	**(3.8)**
(Loss)/profit before tax		(470.6)	(32.7)	(14.5)	1.5	**(516.3)**
Tax						**14.1**
Loss after tax						**(502.2)**
Net assets/(liabilities)		152.1	39.9	(3.5)	(2.4)	**186.1**

2b Contribution

Year to 30 December 2008	Note	Gross rent £m	Property costs £m	Void costs £m	Net rent £m	Net interest £m	Contribution £m
Non-statutory information – see through basis							
Mall (Group share: 20.4%)[1]	18d	35.4	(8.5)	(1.4)	25.5	(16.8)	8.7
Junction (Group share: 27.3%)[1]	18d	13.8	(2.4)	(0.3)	11.1	(9.9)	1.2
X-Leisure (Group share: 19.4%)[1]	18d	10.4	(2.3)	(0.3)	7.8	(5.7)	2.1
FIX UK (Group share: 20.0%)[3]		1.9	(0.1)	(0.1)	1.7	(1.9)	(0.2)
Total associates		**61.5**	**(13.3)**	**(2.1)**	**46.1**	**(34.3)**	**11.8**
Xscape Braehead (Group share: 50%)[1]		1.6	(0.5)	(0.1)	1.0	(2.2)	(1.2)
German portfolio (Group share: 50%)[2]		4.7	(0.6)	–	4.1	(1.7)	2.4
Manchester Arena (Group share: 30%)[1]		1.8	(0.2)	(0.1)	1.5	(1.0)	0.5
Others (Group share: 50%)[1]		0.6	–	–	0.6	(0.6)	–
Total joint ventures		**8.7**	**(1.3)**	**(0.2)**	**7.2**	**(5.5)**	**1.7**
Statutory information							
German portfolio[2]		27.9	(2.6)	–	25.3	(15.0)	10.3
FIX UK[3]		1.7	(0.3)	–	1.4	(1.4)	–
Other UK		1.4	(0.4)	–	1.0	(3.9)	(2.9)
Total rental income from investment property		31.0	(3.3)	–	27.7	(20.3)	7.4
Great Northern[4]		6.6	(0.9)	(0.6)	5.1	(4.0)	1.1
Total rental income from wholly owned property	4a	**37.6**	**(4.2)**	**(0.6)**	**32.8**	**(24.3)**	**8.5**
Total on a see through basis	2a	**107.8**	**(18.8)**	**(2.9)**	**86.1**	**(64.1)**	**22.0**

With the exception of the German portfolio, all associates and joint ventures are held within the United Kingdom and Jersey.

1 The Group's average share during the year. As described in note 18b, following the rights issue on 27 June 2008, the Group's share in the Mall fell from 24.24% to 16.72%.
2 With the exception of Capital & Regional (Europe Holding 4) Limited, the German portfolio was treated as wholly owned until 6 October 2008 after which the sale of 50% of the Group's share of the relevant entities meant they were treated as joint ventures as described in note 32b. Capital & Regional (Europe Holding 4) Limited was treated as wholly owned until 30 December 2008.
3 FIX UK was wholly owned until 6 March 2008, after which the Group's share after minority interests was reduced to 20% and it was treated as an associate as described in note 32a.
4 Great Northern is carried as a trading property in the balance sheet.

2 Segmental analysis: non-statutory information – see through basis continued

2a Segmental analysis

Year to 30 December 2007	Note	Assets		Earnings		
		Property investment UK £m	Property investment Germany £m	Property management UK £m	SNO!zone £m	Total £m
Net rents	2b	70.0	24.9	–	–	94.9
Net interest	2b	(54.2)	(14.4)	–	–	(68.6)
Contribution	2b	15.8	10.5	–	–	26.3
Management fees	4a	–	–	26.0	–	26.0
SNO!zone income	4a	–	–	–	14.3	14.3
SNO!zone expenses		–	–	–	(12.2)	(12.2)
Management expenses		(5.6)	(0.9)	(15.2)	–	(21.7)
Recurring pre-tax profit		10.2	9.6	10.8	2.1	32.7
Performance fees clawback	4a,4b	–	–	(52.8)	–	(52.8)
Benefit of performance fee clawback	18d	18.1	–	–	–	18.1
Variable overhead		–	–	7.9	–	7.9
Revaluation of investment properties		(174.0)	9.6	–	–	(164.4)
Profit on disposals		1.6	–	–	–	1.6
(Loss)/gain on interest rate swaps		(8.8)	1.8	–	–	(7.0)
Other non-recurring items		–	(3.1)	–	–	(3.1)
(Loss)/profit before tax		(152.9)	17.9	(34.1)	2.1	(167.0)
Tax						0.2
Loss after tax						(166.8)
Net assets/(liabilities)		613.3	123.8	(34.0)	(0.1)	703.0

2b Contribution

Year to 30 December 2007	Note	Gross rent £m	Property costs £m	Void costs £m	Net rent £m	Net interest £m	Contribution £m
Non statutory information – see through basis							
Mall (Group share: 24.2%)[1]		44.2	(10.1)	(1.8)	32.3	(19.6)	12.7
Junction (Group share: 27.3%)[1]		15.7	(2.9)	(0.3)	12.5	(9.5)	3.0
X-Leisure (Group share: 18.8%)[1]		9.9	(2.1)	(0.3)	7.5	(5.1)	2.4
Total associates	18d	69.8	(15.1)	(2.4)	52.3	(34.2)	18.1
Xscape Braehead (Group share: 50%)[1]		2.0	(0.4)	(0.1)	1.5	(1.9)	(0.4)
Manchester Arena (Group share: 30%)[1]		1.6	(0.3)	(0.1)	1.2	(0.9)	0.3
Others (Group share: 50%-66.67%)[2]		0.9	(0.4)	(0.1)	0.4	(0.4)	–
Total joint ventures	18e	4.5	(1.1)	(0.3)	3.1	(3.2)	(0.1)
Statutory information							
German portfolio		29.6	(4.6)	(0.1)	24.9	(14.4)	10.5
FIX UK		9.5	(1.2)	(0.4)	7.9	(6.7)	1.2
Other UK		1.0	–	–	1.0	(6.1)	(5.1)
Total rental income investment property		40.1	(5.8)	(0.5)	33.8	(27.2)	6.6
Great Northern[3]		6.4	(0.3)	(0.4)	5.7	(4.0)	1.7
Total wholly-owned rental income	4a	46.5	(6.1)	(0.9)	39.5	(31.2)	8.3
Total	2a	120.8	(22.3)	(3.6)	94.9	(68.6)	26.3

Associates and joint ventures were all held within the United Kingdom and Jersey.

1 The Group's average share during the year.
2 Others include the share of results for Xscape Milton Keynes and Xscape Castleford up to the date of sale on 23 February 2007.
3 Great Northern is carried as a trading property in the balance sheet.

Notes to the financial statements continued

For the year ended 30 December 2008

3 Segmental analysis: statutory basis

3a Primary business segments

Year to 30 December 2008	Note	Assets: Property investment UK £m	Assets: Property investment Germany £m	Earnings: Property management UK £m	Earnings: SNO!zone £m	**Total £m**
Revenue from external sources	3b,4a	9.7	27.9	12.9	14.9	**65.4**
Transactions with other segments		0.9	–	0.4	–	**1.3**
Total segment revenue		10.6	27.9	13.3	14.9	**66.7**
Cost of sales	5	(25.7)	(2.6)	–	(13.4)	**(41.7)**
Transactions with other segments		(0.3)	–	(0.9)	(0.1)	**(1.3)**
Administrative costs*		(3.2)	(1.6)	(18.3)	–	**(23.1)**
Impairment of goodwill	14	–	–	(8.0)	–	**(8.0)**
Loss on sale of properties and investments		(6.1)	(0.4)	–	–	**(6.5)**
Loss on revaluation of investment properties	13a	(7.0)	(24.7)	–	–	**(31.7)**
Segment result		(31.7)	(1.4)	(13.9)	1.4	**(45.6)**
Share of loss in joint ventures and associates*		(420.5)	(12.4)	–	–	**(432.9)**
Net finance costs		(20.5)	(16.6)	(0.7)	–	**(37.8)**
(Loss)/profit before tax		(472.7)	(30.4)	(14.6)	1.4	**(516.3)**
Segment assets		134.2	–	15.5	3.6	**153.3**
Interest in joint ventures and associates						**216.7**
Tax assets – current tax						**1.6**
Tax assets – deferred tax						**1.4**
Consolidated total assets						**373.0**
Segment liabilities		(31.9)	–	(20.5)	(6.1)	**(58.5)**
Interest-bearing liabilities						**(112.5)**
Tax liabilities						**(15.9)**
Consolidated total liabilities						**(186.9)**
Capital expenditure		0.4	0.2	0.2	0.2	**1.0**
Depreciation		–	–	0.2	0.4	**0.6**
Significant other non-cash expenses		–	–	1.1	–	**1.1**
Aggregate investment in joint ventures and associates		176.8	39.9	–	–	**216.7**

* Including deemed disposal from Mall rights issue and related costs as appropriate.

3b Secondary business segments

	Note	United Kingdom £m	Germany £m	**Total £m**
Revenue	4a	37.5	27.9	**65.4**
Segment gross assets		153.3	–	**153.3**
Capital expenditure		0.8	0.2	**1.0**

3 Segmental analysis: statutory basis continued

3a Primary business segments

Year to 30 December 2007	Note	Assets: Property investment UK £m	Assets: Property investment Germany £m	Earnings: Property management UK £m	Earnings: SNO!zone £m	Total £m
Revenue from external sources	3b,4a	16.9	29.6	(26.8)	14.3	34.0
Transactions with other segments		1.0	–	1.1	–	2.1
Total segment revenue		17.9	29.6	(25.7)	14.3	36.1
Cost of sales	5	(2.2)	(4.7)	–	(12.2)	(19.1)
Transactions with other segments		(1.0)	–	(1.0)	(0.1)	(2.1)
Administrative costs		(5.6)	(0.9)	(7.2)	–	(13.7)
Profit on sale of properties and investments		1.8	–	–	–	1.8
(Loss)/gain on revaluation of investment properties	13a	(24.4)	9.6	–	–	(14.8)
Segment result		(13.5)	33.6	(33.9)	2.0	(11.8)
Share of loss in joint ventures and associates		(119.2)	–	–	–	(119.2)
Net finance costs		(21.6)	(14.4)	–	–	(36.0)
(Loss)/profit before tax		(154.3)	19.2	(33.9)	2.0	(167.0)
Segment assets		323.6	510.0	28.8	5.8	868.2
Interest in joint ventures and associates						611.4
Tax assets						1.6
Consolidated total assets						1,481.2
Segment liabilities		(21.0)	(24.2)	(68.8)	(5.9)	(119.9)
Interest bearing liabilities						(622.4)
Tax liabilities						(35.9)
Consolidated total liabilities						(778.2)
Capital expenditure		86.2	63.0	0.1	0.8	150.1
Depreciation		0.1	–	0.2	0.3	0.6
Significant other non-cash expenses		–	–	(10.3)	–	(10.3)
Aggregate investment in joint ventures and associates		611.4	–	–	–	611.4

3b Secondary business segments

	Note	United Kingdom £m	Germany £m	Total £m
Revenue	4a	4.4	29.6	34.0
Segment gross assets		358.2	510.0	868.2
Capital expenditure		87.1	63.0	150.1

4a Revenue

	Note	Year to 30 December 2008 Total £m	Year to 30 December 2007 Total £m
Assets business			
Property investment – gross rents from wholly-owned investment property	2b	**31.0**	40.1
Property investment – gross rents from wholly-owned trading property	2b	**6.6**	6.4
Property investment – gross rents from wholly-owned property	2b	**37.6**	46.5
Earnings business			
Property management – management fees	2a	**22.8**	26.0
SNO!zone income	2a	**14.9**	14.3
Rents, management fees and other revenue		**75.3**	86.8
Property management – performance fee clawback	2a,4b	**(9.9)**	(52.8)
Revenue per consolidated income statement	3a,3b	**65.4**	34.0
Finance income	6	**2.4**	3.5
Total revenue		**67.8**	37.5

4b Performance fees

	Note	Year to 30 December 2008 Total £m	Year to 30 December 2007 Total £m
Property manager future repayment of performance fees		**(9.9)**	(54.2)
Fund manager future repayment of performance fees		**(2.5)**	(17.8)
Total performance fees included in associates adjusted accounts	18d	**(12.4)**	(72.0)
Property manager future repayment of performance fees to others		**–**	1.4
Total future repayment of performance fees		**(12.4)**	(70.6)
Group share of future estimated repayments of performance fees			
Property manager future repayment of performance fees		**(9.9)**	(54.2)
Property manager future repayment of performance fees to others		**–**	1.4
Total Group share of future repayment of performance fees	4a	**(9.9)**	(52.8)

The overall effect of the repayment of performance fees is reduced as a result of the Group's share as an investor in the funds and a reduction in management incentive payments. Further disclosure relating to performance fees can be found in the financial review. All items in the current year relate to the X-Leisure fund.

5 Cost of sales

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Property and void costs		**4.8**	6.9
SNO!zone expenses	2a	**13.4**	12.2
Impairment of trading property	2a,13a	**23.5**	–
Total cost of sales		**41.7**	19.1

6 Finance income

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Interest receivable		**2.1**	2.7
Foreign exchange gain on loans to German portfolio		**0.2**	0.8
Gain in fair value of financial instruments – unhedged element of forward contracts		**0.1**	–
Total finance income	4a	**2.4**	3.5

The analysis of finance income by category of financial assets and liabilities is as follows:

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Derivatives in effective hedges	**0.1**	–
Fair value through profit or loss held for trading	**(0.7)**	–
Amortised cost	**0.2**	0.8
Loans and receivables	**2.8**	2.7
Total finance income	**2.4**	3.5

7 Finance costs

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Interest on bank loans and overdrafts		**27.4**	31.4
Interest receivable on swaps		**(3.2)**	(0.4)
Interest on other loans		**–**	0.4
Interest payable		**24.2**	31.4
Amortisation of loan issue costs		**0.7**	0.8
Unwinding of discounting of CAP awards		**0.7**	2.0
Share of income attributable to German minority interest classified as a liability	22	**(0.3)**	1.9
Other interest payable		**1.7**	1.9
Loss in fair value of financial instruments – interest rate swaps		**12.7**	1.6
Loss in fair value of financial instruments – forward contracts		**0.5**	–
Fair value gain on interest rate swaps transferred from equity		**–**	(0.1)
Total finance costs		**40.2**	39.5

The analysis of finance costs by category of financial assets and liabilities is as follows:

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Derivatives in effective hedges	**0.5**	–
Fair value through profit or loss held for trading	**9.5**	1.1
Amortised cost	**30.2**	38.4
Total finance costs	**40.2**	39.5

Notes to the financial statements continued

For the year ended 30 December 2008

8 Loss before tax

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
This is arrived at after charging/(crediting):			
Depreciation of owned assets		**0.6**	0.5
Depreciation of owner occupied property		**–**	0.1
Net exchange gains		**(0.2)**	(2.0)
Loss on revaluation of investment properties	13a	**31.7**	14.8
Impairment of trade receivables		**0.5**	0.4
Staff costs	9	**19.1**	7.8
Auditors' remuneration (see below)		**0.6**	0.6
Auditors' remuneration			
Fees payable to the Company's auditors for the audit of the Company 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 Company's subsidiaries and joint ventures pursuant to legislation		**0.1**	0.3
Total audit fees		**0.3**	0.5
Non-audit fees (see below)		**0.3**	0.1
Total fees paid to auditors		**0.6**	0.6

Included in non-audit fees are amounts for services supplied pursuant to legislation of £76,000 (2007: £60,000), services relating to tax of £19,000 (2007: £13,000) and other corporate services of £200,000 (2007: £nil). Fees payable to Deloitte LLP 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.

9 Staff costs, including directors

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

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Salaries		**16.4**	15.4
Ex-gratia payments		**1.7**	0.3
Discretionary bonuses		**0.5**	0.5
Capital Appreciation Plan[1]		**(2.5)**	(9.3)
Share-based payments	26	**1.2**	0.2
		17.3	7.1
Social security		**1.7**	0.6
Other pension costs		**0.1**	0.1
		19.1	7.8

1 The credit against the Capital Appreciation Plan relates to the effect of the clawback of performance fees.

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

Staff numbers

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

	2008 Number	2007 Number
Central management	**170**	183
SNO!zone	**286**	300
Total staff numbers	**456**	483

10 Tax

10a Tax credit

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Current tax credit		
UK corporation tax	**–**	0.1
Adjustments in respect of prior years	**(1.8)**	(4.0)
Foreign tax	**0.7**	–
Total current tax	**(1.1)**	(3.9)
Deferred tax (credit)/charge		
Origination and reversal of temporary timing differences	**(13.0)**	6.9
Adjustments in respect of prior years	**–**	(3.2)
Total deferred tax	**(13.0)**	3.7
Total tax credit	**(14.1)**	(0.2)

10b Tax credit reconciliation

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Loss before tax	**(516.3)**	(167.0)
Loss multiplied by the UK corporation tax rate of 28% (2007: 30%)	**(144.6)**	(50.1)
Non-allowable expenses and non-taxable items	**(161.4)**	8.6
Utilisation of tax losses	**14.7**	(4.2)
Tax on revaluation gains	**179.5**	0.1
Unrealised gains on investment property not taxable	**101.9**	52.6
Temporary timing differences	**(2.4)**	–
Prior year adjustments	**(1.8)**	(7.2)
Total tax credit	**(14.1)**	(0.2)

10c Deferred tax movements

	Capital gains net of capital losses £m	Capital allowances £m	Other timing differences £m	Total £m
UK				
As at 30 December 2007	(0.2)	7.0	2.8	9.6
Recognised in income	0.2	(2.9)	(8.3)	(11.0)
As at 30 December 2008	–	4.1	(5.5)	(1.4)
Germany				
As at 30 December 2007	5.1	2.8	–	7.9
Recognised in income to date of disposal	(3.6)	1.5	–	(2.1)
Recognised on disposal	(1.5)	(4.3)	–	(5.8)
As at 30 December 2008	–	–	–	–
Total deferred tax at 30 December 2008	–	4.1	(5.5)	(1.4)

German deferred tax is now included in investments in joint ventures.

10 Tax continued

At the balance sheet date, the Group has unused tax losses of £100.7 million (2007: £47.5 million) available for offset against certain future profits.

Unused tax losses

	30 December 2008 £m	30 December 2007 £m
United Kingdom	**94.7**	42.1
Overseas	**6.0**	5.4
Total unused tax losses	**100.7**	47.5

A deferred tax asset has been recognised in respect of £5.0 million (2007: £nil) of such losses. The remaining tax losses have not been recognised due to there being insufficient probability that future taxable profit will arise in the relevant loss-making companies, or for other reasons restricting the losses.

The UK Government announced a reduction in the mainstream corporation tax rate from 30% to 28%, effective from 1 April 2008. The German Government announced a reduction in the corporate income tax rate from 26.375% to 15.825%, effective from 1 January 2008. Consequently, the rate at which deferred tax is provided on UK deferred tax items is now 28% and the rate provided on German deferred tax items is 15.825%.

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. The Group has provided for tax of £15.9 million (2007: £15.9 million) plus accrued interest of £3.6 million (2007: £2.4 million) in respect of potential tax liabilities on capital gains on the sales of certain properties in 2004 and 2005. The tax treatment of similar transactions by another taxpayer has been the subject of ongoing litigation. In the latest decision on 12 March 2009 the Court of Appeal found against the taxpayer and denied the taxpayer leave to appeal to the House of Lords. The taxpayer has sought leave to appeal direct to the House of Lords and the outcome of this request should be known in the next couple of months. If the House of Lords agrees to hear the appeal the final decision is unlikely to be known before the end of 2010. These provisions are treated as amounts payable in less than one year irrespective of when formal resolution is expected. The ultimate outcome of this litigation is likely to have an important bearing on whether the Group will have to pay the tax provided and interest to the date of payment.

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 and that certain tax deductions and losses will be available following the restructuring, although the relevant computations have yet to be agreed.

11 Dividends

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Amounts recognised as distributions to equity holders in the year:			
Final dividend for the year ended 30 December 2007 of 17p per share (2006: 17p per share)		**11.9**	12.1
Interim dividend for the year ended 30 December 2008 of 5p per share (2007: 10p per share)		**3.5**	7.0
	27	**15.4**	19.1
Proposed final dividend for the year ended 30 December 2008 of nil p per share (2007: 17p per share)		**–**	11.9
		15.4	31.0

12 Earnings per share

12a Earnings per share calculation

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

Year to 30 December 2008	Note	Earnings £m	Weighted average number of shares (m)	Pence per share
Weighted average number of shares			71.3	
Own shares held			(1.0)	
Basic and diluted		(502.2)	70.3	(715)p
Revaluation movements on investment properties, development properties and other investments	12b	375.9		535p
Loss on disposal of investment properties (net of tax)	12b	30.5		44p
Movement in fair value of financial instruments	12b	47.8		68p
Impairment of goodwill		8.0		11p
Deferred tax credit		(14.1)		(20)p
EPRA diluted		(54.1)		(77)p
Performance fee clawback (net of back charge and management incentives)		5.1		7p
Adjusted EPRA diluted		(49.0)		(70)p

The Group has 637,257 share options that could potentially dilute basic earnings per share in the future, but have not been included in the calculation of diluted earnings per share because they are antidilutive for the period presented.

Year to 30 December 2007	Note	Earnings £m	Weighted average number of shares m	Pence per share
Weighted average number of shares			71.7	
Own shares held			(0.9)	
Basic and diluted		(166.8)	70.8	(236)p
Revaluation movements on investment properties, development properties and other investments	12b	164.4		232p
Profit on disposal of investment properties (net of tax)	12b	(1.1)		(1)p
Movement in fair value of financial instruments	12b	7.0		10p
Deferred tax credit		(3.0)		(4)p
EPRA diluted		0.5		1p
Performance fee clawback (net of back charge and management incentives)		26.8		38p
Adjusted EPRA diluted		27.3		39p

The Group had 439,970 share options that could potentially have diluted basic earnings per share in the future, but were not included in the calculation of diluted earnings per share for 2007 because they were antidilutive for the period presented.

12 Earnings per share continued

12b Reconciliation of earnings figures included in EPS calculation to the income statement

	Note	Year to 30 December 2008 Revaluation movements and provisions £m	Year to 30 December 2008 Loss on disposal £m	Year to 30 December 2008 Movement in fair value of financial instruments £m	Year to 30 December 2007 Revaluation movements £m	Year to 30 December 2007 (Loss)/profit on disposal £m	Year to 30 December 2007 Movement in fair value of financial instruments £m
Share of loss of associates	18d	**(325.6)**	**(29.6)**	**(27.5)**	(146.5)	(2.7)	(5.1)
Share of loss of joint ventures	18e	**(18.6)**	**(6.2)**	**(7.2)**	(3.1)	2.4	(0.3)
Wholly owned		**(31.7)**	**(6.5)**	**(13.1)**	(14.8)	1.8	(1.6)
Tax effect		**–**	**11.8**	**–**	–	(0.4)	–
Total per EPS calculation	12a	**(375.9)**	**(30.5)**	**(47.8)**	(164.4)	1.1	(7.0)

13 Property assets

13a Wholly-owned property assets

	Note	Freehold investment property assets £m	Leasehold investment property assets £m	Sub-total investment property assets £m	Long leasehold owner occupied property £m	Freehold trading property asset £m	**Total property assets £m**
Cost or valuation							
As at 31 December 2006		494.0	17.4	511.4	16.0	94.4	**621.8**
Exchange adjustments		38.4	–	38.4	–	–	**38.4**
Acquisitions		70.6	–	70.6	–	–	**70.6**
Additions		13.0	–	13.0	–	1.5	**14.5**
Properties acquired in business combinations		60.9	–	60.9	–	–	**60.9**
Depreciation		–	–	–	(0.1)	–	**(0.1)**
Disposals		(1.0)	–	(1.0)	–	–	**(1.0)**
Revaluation movement recognised in income	8	(14.1)	(0.7)	(14.8)	–	–	**(14.8)**
Revaluation movement recognised in equity	27	–	–	–	(0.3)	–	**(0.3)**
As at 30 December 2007		661.8	16.7	678.5	15.6	95.9	**790.0**
Exchange adjustments		27.2	–	27.2	–	–	**27.2**
Additions		0.2	–	0.2	–	0.4	**0.6**
Disposals and transfers		(664.3)	2.4	(661.9)	–	–	**(661.9)**
Impairment of trading property	2a, 5	–	–	–	–	(23.5)	**(23.5)**
Revaluation movement recognised in income	3a, 8	(24.7)	(4.2)	(28.9)	(2.8)	–	**(31.7)**
Revaluation movement recognised in equity	27	–	–	–	(2.4)	–	**(2.4)**
Head leases treated as finance leases		–	0.2	0.2	0.4	–	**0.6**
As at 30 December 2008		**0.2**	**15.1**	**15.3**	**10.8**	**72.8**	**98.9**

The owner-occupied building represents the Group's head office, which was independently valued at 30 December 2008. The historical cost of the owner-occupied property, which is held on a long leasehold, is £12.9 million (2007: £12.9 million). At 30 December 2008 the gross carrying value of the owner occupied property is £10.8 million (2007: £15.6 million) net of accumulated depreciation of £0.6 million (2007: £0.6 million). The lease has more than 50 years remaining.

The Group has pledged land and buildings with a carrying amount of £98.7 million (2007: £787.5 million) to secure banking facilities granted to the Group. This includes amounts relating to trading properties of £72.8 million (2007: £95.9 million).

13 Property assets continued

13b Property assets

	Note	2008 Valuation £m	2007 Valuation £m
Group properties at fair value		**15.1**	679.1
Plus: head leases treated as finance leases		**0.2**	–
Less: unamortised tenant incentives		**–**	(0.6)
Total investment properties held by the Group		**15.3**	678.5
Owner occupied property at fair value		**10.4**	15.6
Plus: head leases treated as finance leases		**0.4**	–
Trading property assets at the lower of cost and net realisable value		**72.8**	95.9
Total wholly-owned property assets		**98.9**	790.0
Properties held by joint ventures at fair value		**749.5**	172.5
Plus: head leases treated as finance leases		**3.4**	3.3
Less: unamortised tenant incentives		**(14.8)**	(8.2)
Total investment properties held by joint ventures	18e	**738.1**	167.6
Properties held by associates at fair value		**3,147.3**	5,185.8
Plus: head leases treated as finance leases		**138.2**	124.9
Less: unamortised tenant incentives		**(53.6)**	(57.7)
Total investment properties held by associates	18d	**3,231.9**	5,253.0

External valuations at 30 December 2008 were carried out on £3,830.3 million (2007: £6,053.0 million) of the Group's property assets.

The valuations were carried out by independent 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. These external valuers are not connected with the Group. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

Each valuer has made reference in their reports to Guidance Note 5 of those Standards, noting that there was a dearth of comparable transactional evidence in the weeks before the balance sheet date, and those transactions which had been proceeding were doing so at a further significant discount to previously established levels, leading to further volatility in all property markets. Since such "abnormal" market conditions prevailed there is therefore likely to be a greater than usual degree of uncertainty in respect of the valuation figures quoted. Until the number and consistency of comparable transactions increases, this situation is likely to remain. Further discussion of this issue is set out in the risks and uncertainties section and in note 1.

Directors' valuations at 30 December 2008 were carried out on £166.0 million (2007: £0.2 million) of the Group's property assets. The valuations were carried out by Kenneth C Ford BSc FRICS. The valuations were arrived at by reference to market evidence of transaction prices for similar properties. The properties held by FIX UK have not been valued as the Group's investment in FIX UK has been written down to £nil.

13c (Loss)/profit on sale of properties and investments

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Loss on part sale of FIX UK	32a	**(10.1)**	–
Loss on part sale of German portfolio	32b	**(0.4)**	–
Profit on sale of units in joint ventures and associates		**–**	2.6
Other write-downs, impairments and release of provisions		**4.0**	(0.8)
		(6.5)	1.8

The analysis of (loss)/profit on sale of properties and investment by category of financial assets and liabilities is as follows:

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Amortised cost	**1.8**	(0.8)
Loans and receivables	**1.5**	–
Non-financial assets and liabilities	**(9.8)**	2.6
	(6.5)	1.8

14 Goodwill

	Note	30 December 2008 £m	30 December 2007 £m
At the start of the year		**12.2**	12.2
Provision for impairment	2a,3a	**(8.0)**	–
At the end of the year		**4.2**	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 it might be impaired.

Impairment is tested by discounting the expected cash flows generated by the X-Leisure fund over the life of the property management contract, which is coterminous with the life of the fund. The expected life of the property management contract is assumed to be until 31 December 2018. Cash flows are adjusted to take into consideration the likely outcomes of the scenarios modelled. The calculations are particularly sensitive to the assumptions around forecast asset management fees. The rate used to discount the expected cash flows is 8.3%. Management fees receivable, as well as both fixed and variable administration costs, are assumed to grow by 2.4% per annum beyond the period modelled in the Group's forecasts. No account is taken of any future payment or clawback of performance fees.

15 Other non-current assets

15a Plant and equipment

	30 December 2008 £m	30 December 2007 £m
Cost or valuation		
At the start of the year	**3.9**	3.1
Additions	**0.4**	0.9
Disposals	**–**	(0.1)
At the end of the year	**4.3**	3.9
Depreciation		
At the start of the year	**2.4**	2.1
Provided for the year	**0.6**	0.5
Released on disposal	**–**	(0.2)
At the end of the year	**3.0**	2.4
Carrying amounts:		
At the end of the year	**1.3**	1.5

15b Available-for-sale investments

	Note	**30 December 2008 £m**	30 December 2007 £m
Fair value			
At the start of the year		**0.3**	0.2
(Decrease)/increase in fair value		**(0.1)**	0.2
Disposals		**–**	(0.1)
At the end of the year	24a	**0.2**	0.3

Available-for-sale investments comprise the following:

- £235,000 (2007: £241,200) representing the net asset value of units in the Paddington Central III Unit Trust.
- £10,000 (2007: £10,000) representing a 49.99% interest in Best Park Investments Limited, which is treated as an investment as the Group does not exercise any significant influence or control over the entity.

16 Non-current receivables

	Note	**30 December 2008 £m**	30 December 2007 £m
Financial assets			
Loans to joint ventures	24a	**29.1**	6.1
		29.1	6.1
Non-financial assets			
Prepayments		**1.1**	1.1
		30.2	7.2

Interest is payable on loans to joint ventures at normal commercial rates.

17 Current receivables

	Note	**30 December 2008 £m**	30 December 2007 £m
Financial assets			
Trade receivables		**0.7**	3.3
Amounts owed by joint ventures		**1.7**	0.1
Amounts owed by associates		**2.6**	6.2
Other receivables		**1.2**	1.8
Accrued income		**0.4**	1.0
Financial assets carried at fair value through profit or loss – interest rate swaps		–	1.9
	24a	**6.6**	14.3
Non-financial assets			
Tax and social security receivables		**6.0**	–
Prepayments		**1.8**	5.6
		14.4	19.9

The Group's trade receivables largely comprise amounts payable by tenants of the Group's wholly-owned properties. Before accepting a new tenant, a review of its creditworthiness is carried out using an external credit scoring system and other publicly-available financial information. Included in the Group's trade receivable balance are debtors with a carrying amount of £0.7 million (2007: £3.0 million) which are past due at the reporting date for which the Group has not provided, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds collateral of £0.1 million (2007: £0.6 million) over these balances as security deposits held in rent accounts. The average age of these receivables is 34 days (2007: 36 days).

17 Current receivables continued

	30 December 2008 £m	30 December 2007 £m
Analysis of current financial assets		
Not past due	**0.6**	8.7
Past due but not individually impaired:		
Less than one month	**4.2**	1.0
One to three months	**0.5**	1.0
Three to six months	**–**	0.4
Over six months	**1.3**	3.2
	6.6	14.3

18 Investment in associates and joint ventures

18a Share of results

	Note	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Associates		**(368.4)**	(118.1)
Dilution effect of Mall rights issue	2a	**(26.2)**	–
		(394.6)	(118.1)
Impairment of FIX UK		**(8.6)**	–
Joint ventures		**(29.7)**	(1.1)
		(432.9)	(119.2)

18 Investment in associates and joint ventures continued

18b Investment in associates

	Note	**30 December 2008 £m**	30 December 2007 £m
At the start of the year		**599.4**	685.4
Investment in X-Leisure fund		**–**	53.9
Share of net assets in FIX UK retained by the Group		**8.6**	–
Share of results of FIX UK	2b	**(0.2)**	–
Impairment of FIX UK	2a	**(8.4)**	–
Share of results of other associates	18d	**(394.6)**	(118.1)
Dividends and capital distributions received		**(22.5)**	(21.8)
At the end of the year	18d	**182.3**	599.4

The Group's investments in associates include The Mall LP, The Junction LP, X-Leisure LP and The FIX UK LP. Despite the fact that the Group holds less than 20% in the Mall LP and X-Leisure LP, they are accounted for as associates as the Group has significant influence arising from its membership of the General Partner boards.

The FIX UK LP has been treated as an associate from 6 March 2008 which was the date of disposal of 80% of the Group's interest as described in note 32a. The Group exercises significant influence through its representation on the GP board. The Group has made a provision for impairment to write down the carrying value of its investment in the FIX UK LP to £nil, to take into account the estimated fall in property and interest rate swap valuations since the date of disposal as FIX UK did not obtain independent valuations at the balance sheet date. The unrecognised share of losses was estimated to be £2.9 million.

On 27 June 2008, The Mall Fund completed a £286 million rights issue. The Group did not take up its rights and as a consequence its share in the fund fell from 24.24% to 16.72%.

C&R accounting policy adjustments have been made in the current year and the prior year to correctly reflect the treatment of performance fees repayable by the Group to the funds. The results of The Mall LP have been adjusted in the current year to reflect the Group's share of performance fees repayable at its percentage interest before the dilutive effects of the rights issue described above and the results of The Mall LP, The Junction LP and X-Leisure LP were adjusted in the prior year to ensure consistency of accounting in relation to the estimated repayments of performance fees.

18c Investment in joint ventures

	Note	**30 December 2008 £m**	30 December 2007 £m
At the start of the year		**12.0**	67.6
Share of net assets in German portfolio retained by the Group		**44.9**	–
Net assets disposed of on sale of Xscape Milton Keynes and Xscape Castleford to X-Leisure Fund		**–**	(51.3)
Investment in joint ventures		**8.5**	3.3
Dividends and capital distributions receivable		**(2.3)**	(6.5)
Share of results	18e	**(29.7)**	(1.1)
Foreign exchange differences		**1.0**	–
At the end of the year	18e	**34.4**	12.0

The Group's investments in joint ventures include its remaining share in the German portfolio and its investments in Xscape Braehead Partnership, Capital Retail Park Partnership, Manchester Arena Complex Limited Partnership and The Auchinlea Partnership.

The Auchinlea Partnership held the Group's interest in Glasgow Fort. Since the sale of this interest in 2004 the Group has received a total of £8.3 million further profit from its remaining interest in the joint venture. Further profits are potentially receivable, largely dependent on planning consent being obtained for future phases of the development and the letting of units at above target rents. The Group has also given certain rental guarantees for a five-year period and has made provision for the amounts which are expected to be paid in respect of these. The estimate of the Group's share of the fair value of the right to receive these future profits at 30 December 2008 is £0.1 million (2007: £0.2 million). The value reflects an assessment of the considerable uncertainty surrounding the receipt of further amounts and the fact that there is no ready market for such assets. In accordance with accounting standards, this right has been recognised as a financial asset.

18 Investment in associates and joint ventures continued

18d Analysis of investment in associates

	Note	The Mall LP £m	The Junction LP £m	X-Leisure LP £m	**Year to 30 December 2008 Total £m**	Year to 30 December 2007 Total £m
Income statement (100%)						
Revenue		170.8	50.4	53.6	**274.8**	291.5
Property expenses		(34.7)	(1.8)	(7.3)	**(43.8)**	(42.0)
Management expenses		(13.2)	(8.2)	(5.8)	**(27.2)**	(31.5)
Net rents		122.9	40.4	40.5	**203.8**	218.0
Net interest payable		(80.8)	(35.9)	(29.7)	**(146.4)**	(143.8)
Contribution		42.1	4.5	10.8	**57.4**	74.2
Performance fees	4b	–	–	12.4	**12.4**	6.7
C&R accounting policy adjustment		–	–	–	**–**	65.3
Loss on revaluation of investment properties		(987.8)	(288.3)	(244.4)	**(1,520.5)**	(573.9)
Loss on sale of investment properties		(84.5)	(56.7)	–	**(141.2)**	(16.3)
Provision for onerous contract		–	–	(10.3)	**(10.3)**	–
Fair value of interest rate swaps		(91.5)	(40.6)	(23.0)	**(155.1)**	(20.4)
Loss before tax		(1,121.7)	(381.1)	(254.5)	**(1,757.3)**	(464.4)
Tax		–	(0.6)	–	**(0.6)**	–
Loss after tax		(1,121.7)	(381.7)	(254.5)	**(1,757.9)**	(464.4)
Balance sheet (100%)						
Investment property	13b	1,800.3	711.5	720.1	**3,231.9**	5,253.0
Current assets		236.3	60.2	50.5	**347.0**	311.3
Current liabilities		(288.9)	(55.8)	(84.5)	**(429.2)**	(258.2)
Non-current liabilities		(1,242.2)	(504.6)	(485.1)	**(2,231.9)**	(2,820.1)
Net assets (100%)		505.5	211.3	201.0	**917.8**	2,486.0
Group interest at the end of the year		16.72%	27.32%	19.37%		
Group interest at the start of the year		24.24%	27.32%	19.37%		
Group average interest during the year		20.41%	27.32%	19.37%		
Income statement (Group share)						
Revenue	2b	35.4	13.8	10.4	**59.6**	69.8
Net rents	2b	25.5	11.1	7.8	**44.4**	52.3
Net interest payable	2b	(16.8)	(9.9)	(5.7)	**(32.4)**	(34.2)
Contribution	2b	8.7	1.2	2.1	**12.0**	18.1
Performance fees	2a	–	–	2.4	**2.4**	2.2
C&R accounting policy adjustment	2a	–	–	–	**–**	15.9
Deemed disposal from Mall rights issue		(26.2)	–	–	**(26.2)**	–
Loss on revaluation of investment properties	12b	(196.5)	(79.7)	(47.4)	**(323.6)**	(146.5)
Loss on sale of investment properties	12b	(14.1)	(15.5)	–	**(29.6)**	(2.7)
Provision for onerous contract	12b	–	–	(2.0)	**(2.0)**	–
Fair value of interest rate swaps	12b	(11.9)	(11.1)	(4.5)	**(27.5)**	(5.1)
Loss before tax	18b	(240.0)	(105.1)	(49.4)	**(394.5)**	(118.1)
Tax		–	(0.1)	–	**(0.1)**	–
Loss after tax		(240.0)	(105.2)	(49.4)	**(394.6)**	(118.1)
Balance sheet (Group share)						
Investment property		301.0	194.4	139.5	**634.9**	1,264.4
Current assets		39.5	16.4	9.8	**65.7**	76.0
Current liabilities		(48.3)	(15.2)	(16.4)	**(79.9)**	(61.6)
Non-current liabilities		(207.7)	(137.9)	(94.0)	**(439.6)**	(680.0)
Associate net assets		84.5	57.7	38.9	**181.1**	598.8
C&R accounting policy adjustment		1.2	–	–	**1.2**	0.6
Net assets (Group share)	18b	85.7	57.7	38.9	**182.3**	599.4

18 Investment in associates and joint ventures continued

18e Analysis of investment in joint ventures

	Note	German portfolio £m	Others £m	**Year to 30 December 2008 Total £m**	Year to 30 December 2007 Total £m
Income statement (100%)					
Revenue		9.5	10.2	**19.7**	10.8
Property expenses		(0.9)	(1.8)	**(2.7)**	(2.5)
Management expenses		(0.3)	(0.4)	**(0.7)**	(0.3)
Net rents		8.3	8.0	**16.3**	8.0
Net interest payable		(3.6)	(8.8)	**(12.4)**	(7.6)
Contribution		4.7	(0.8)	**3.9**	0.4
Loss on revaluation of investment properties		(18.7)	(22.7)	**(41.4)**	(8.1)
Loss on sale of investment properties and investments		(1.0)	(11.5)	**(12.5)**	–
Income and fair value movements on financial assets		–	(0.2)	**(0.2)**	4.8
Loss on fair value of interest rate swaps		(10.0)	(5.3)	**(15.3)**	(0.7)
Loss before tax		(25.0)	(40.5)	**(65.5)**	(3.6)
Tax		1.6	–	**1.6**	–
Loss after tax		(23.4)	(40.5)	**(63.9)**	(3.6)
Balance sheet (100%)					
Investment property	13b	594.8	143.3	**738.1**	167.6
Current assets		13.7	33.3	**47.0**	27.5
Other financial assets		–	0.2	**0.2**	0.4
Current liabilities		(27.9)	(34.3)	**(62.2)**	(23.1)
Non-current liabilities		(500.8)	(150.3)	**(651.1)**	(140.9)
Net assets (100%)		79.8	(7.8)	**72.0**	31.5
Group interest at the end of the year		50.00%*	30%-50%		
Group interest at the start of the year		0.00%	30%-50%		
Group average interest during the year		50.00%*	30%-50%		
Income statement (Group share)					
Revenue	2b	4.7	4.0	**8.7**	4.5
Net rents	2b	4.1	3.1	**7.2**	3.1
Net interest payable	2b	(1.7)	(3.8)	**(5.5)**	(3.2)
Contribution	2b	2.4	(0.7)	**1.7**	(0.1)
Loss on revaluation of investment properties	12b	(9.3)	(9.3)	**(18.6)**	(3.1)
Loss on sale of investment properties and investments	12b	(0.5)	(5.7)	**(6.2)**	–
Income and movement in fair value of financial assets		–	(0.1)	**(0.1)**	2.4
Loss on fair value of interest rate swaps	12b	(5.0)	(2.2)	**(7.2)**	(0.3)
Loss before tax		(12.4)	(18.0)	**(30.4)**	(1.1)
Tax		0.7	–	**0.7**	–
Loss after tax		(11.7)	(18.0)	**(29.7)**	(1.1)
Balance sheet (Group share)					
Investment property		297.4	60.2	**357.6**	70.3
Current assets		6.9	15.4	**22.3**	12.9
Other financial assets		–	0.1	**0.1**	0.2
Current liabilities		(14.0)	(15.5)	**(29.5)**	(10.5)
Non-current liabilities		(250.4)	(65.6)	**(316.0)**	(60.9)
Net assets (Group share)	18c	39.9	(5.5)	**34.4**	12.0

* After minority interests included in liabilities.

19 Cash and cash equivalents

	Note	30 December 2008 £m	30 December 2007 £m
Cash at bank		**4.0**	36.5
Security deposits held in rent accounts		**0.1**	0.6
	24a	**4.1**	37.1

Analysis by currency

	30 December 2008 £m	30 December 2007 £m
Sterling	**3.7**	22.0
Euro	**0.4**	15.1
	4.1	37.1

20 Current payables

	30 December 2008 £m	30 December 2007 £m
Financial liabilities		
Trade payables	**1.0**	3.6
Accruals	**7.4**	27.7
Payable to associates	**15.3**	42.3
Financial liabilities carried at fair value through profit or loss – interest rate swaps	**7.6**	–
Financial liabilities carried at fair value through profit or loss – forward contracts	**14.2**	–
Other payables	**5.9**	14.9
	51.4	88.5
Non-financial liabilities		
Deferred income	**3.5**	4.9
Other taxation and social security	**0.8**	8.8
	55.7	102.2

The average age of trade payables is 38 days (2007: 114 days).

21 Non-current payables

	Note	30 December 2008 £m	30 December 2007 £m
Financial liabilities			
Accruals		**–**	2.5
Finance leases		**0.6**	–
Minority interest classified as a liability	22	**–**	13.0
	24a,24e	**0.6**	15.5
Non-financial liabilities			
Other payables		**2.2**	2.0
		2.8	17.5

22 Minority interest classified as a liability

The minority interest, arising from the Group's German operations, is classified as a liability. Under the terms of the contract the minority has a put option to sell their share back to the other investors in the portfolio typically after five years from acquisition. The Group's share of the liability representing these minority interests is now included in its investment in joint ventures following the part-disposal of its German investment property portfolio described in note 32b.

	Note	30 December 2008 £m	30 December 2007 £m
At the start of the year at closing rate		**13.0**	10.1
Exchange movement		**0.8**	(0.8)
At the start of the year		**13.8**	9.3
Financing income	7	**(0.3)**	1.9
Dividend received by minority interests		**(1.3)**	(1.4)
Arising on acquisition		**–**	3.2
Reduction resulting from part-disposal of German portfolio	32b	**(12.2)**	–
At the end of the year	21	**–**	13.0

23 Borrowings

23a Borrowings summary

The Group generally borrows on an unsecured basis on the strength of its covenant to maintain operational flexibility. Borrowings are arranged to ensure an appropriate maturity profile and to maintain short-term liquidity. Short, medium and long-term funding is raised principally through syndicated revolving credit facilities from a range of banks and financial institutions. There were no defaults or other breaches of financial covenants under any of the loans during the current year or the preceding year.

	Note	**30 December 2008 £m**	30 December 2007 £m
Unsecured borrowing at amortised cost			
Fixed and swapped bank loans		**27.4**	60.8
Secured borrowing at amortised cost			
Fixed and swapped bank loans		**77.0**	522.6
Variable rate bank loans		**8.2**	41.4
Total borrowings before costs	24f	**112.6**	624.8
Less unamortised issue costs		**(0.1)**	(2.2)
Total borrowings after costs		**112.5**	622.6
Analysis of total borrowings after costs			
Current	24a	**18.7**	0.2
Non-current	24a	**93.8**	622.4
Total borrowings after costs		**112.5**	622.6

Security for secured borrowings as at 30 December 2008 is provided by charges on property of £98.7 million (2007: £787.5 million) as described in note 13a and guarantees by the Company.

23b Maturity

	30 December 2008 £m	30 December 2007 £m
After five years	**–**	159.8
From two to five years	**27.4**	444.6
From one to two years	**66.5**	20.2
Due after more than one year	**93.9**	624.6
Current	**18.7**	0.2
	112.6	624.8

23c Undrawn committed facilities

	30 December 2008 £m	30 December 2007 £m
Expiring after more than two years	**98.2**	135.2

The undrawn amount represents the balance on the Group's central revolving credit facility, though as described in note 24e, based on current covenants only £73.7 million (2007: £135.2 million) was actually available for drawdown at year end. The Articles of the Company also restrict borrowing to 250% of net assets but at year end this did not limit the amount available for drawdown on the facility.

23 Borrowings continued

23d Interest rate and currency profile

2008	Fixed %	Weighted average length of fix Years	Fixed and swapped rate borrowings £m	Floating rate borrowings £m	**30 December 2008 Total £m**
Sterling	93%	2	104.4	8.2	**112.6**

2007	Fixed %	Weighted average length of fix Years	Fixed and swapped rate borrowings £m	Floating rate borrowings £m	30 December 2007 Total £m
Sterling	85%	2	228.3	41.4	269.7
Euro	100%	5	355.1	–	355.1
	94%	4	583.4	41.4	624.8

23e Rates at which interest is charged on borrowings

	Note	**30 December 2008 £m**	30 December 2007 £m
Fixed or swapped rates			
Up to 5%		**–**	213.4
5% to 6%		**–**	277.7
6% to 7%		**104.4**	92.3
	24e	**104.4**	583.4
Floating rates	24e	**8.2**	41.4
	24a	**112.6**	624.8

Floating rate borrowings bear interest based on three month LIBOR.

24 Financial instruments

24a Overview

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the returns to shareholders through the optimisation of the debt and equity balance. The Group is not subject to externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23a, cash and cash equivalents as disclosed in note 19, and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings disclosed in notes 25 and 27.

Gearing ratio

The Board reviews the capital structure on an annual basis but does not set specific targets for the Group's gearing ratios. The overall strategy in 2008 has been to reduce the Group's levels of balance sheet debt and so the gearing ratios at the year end were as follows:

Statutory	Note	**30 December 2008 £m**	30 December 2007 £m
Debt[1]	23a	**112.6**	624.8
Cash and cash equivalents	19	**(4.1)**	(37.1)
Net debt		**108.5**	587.7
Equity[2]		**186.1**	703.0
Debt to equity ratio		**60%**	89%
Net debt to equity ratio		**58%**	84%

Notes to the financial statements continued

For the year ended 30 December 2008

24 Financial instruments continued

See through	30 December 2008 £m	30 December 2007 £m
Debt[1]	**836.2**	1,333.7
Cash and cash equivalents	**(53.2)**	(71.3)
Net debt	**783.0**	1,262.4
Equity[2]	**186.1**	703.0
Debt to equity ratio	**449%**	190%
Net debt to equity ratio	**421%**	180%

1 Before amortisation costs.
2 Equity includes all capital and reserves of the Group attributable to equity holders of the Company.

Significant accounting policies

Details of the significant accounting policies adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies in note 1.

Categories of financial assets/(liabilities)

2008	Note	Derivatives in effective hedges £m	Fair value through profit or loss held for trading £m	Loans and receivables £m	Available for sale £m	Amortised cost £m	**Total carrying value £m**	**Fair value £m**
Financial assets								
Investments	15b	–	–	–	0.2	–	**0.2**	**0.2**
Non-current receivables	16	–	–	29.1	–	–	**29.1**	**29.1**
Current receivables	17	–	–	6.6	–	–	**6.6**	**6.6**
Cash and cash equivalents	19	–	–	4.1	–	–	**4.1**	**4.1**
		–	–	39.8	0.2	–	**40.0**	**40.0**
Financial liabilities								
Current payables	20	(14.2)	(7.6)	–	–	(29.6)	**(51.4)**	**(51.4)**
Current borrowings	23a	–	–	–	–	(18.7)	**(18.7)**	**(18.7)**
Non-current payables	21	–	–	–	–	(0.6)	**(0.6)**	**(0.6)**
Non-current borrowings	23a	–	–	–	–	(93.8)	**(93.8)**	**(93.8)**
		(14.2)	(7.6)	–	–	(142.7)	**(164.5)**	**(164.5)**

2007	Note	Derivatives in effective hedges £m	Fair value through profit or loss held for trading £m	Loans and receivables £m	Available for sale £m	Amortised cost £m	Total carrying value £m	Fair value £m
Financial assets								
Investments	15b	–	–	–	0.3	–	0.3	0.3
Non-current receivables	16	–	–	6.1	–	–	6.1	6.1
Current receivables	17	–	1.9	12.4	–	–	14.3	14.3
Cash and cash equivalents	19	–	–	37.1	–	–	37.1	37.1
		–	1.9	55.6	0.3	–	57.8	57.8
Financial liabilities								
Current payables	20	–	–	–	–	(88.5)	(88.5)	(88.5)
Current borrowings	23a	–	–	–	–	(0.2)	(0.2)	(0.2)
Non-current payables	21	–	–	–	–	(15.5)	(15.5)	(15.5)
Non-current borrowings	23a	–	–	–	–	(622.4)	(622.4)	(620.4)
		–	–	–	–	(726.6)	(726.6)	(724.6)

Movements in finance income and finance costs by category of financial asset and financial liability are shown in notes 6 and 7 respectively.

24 Financial instruments continued

Financial risk management objectives

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business. The Group seeks to minimise the effect of these risks by using derivative financial instruments to manage exposure to fluctuations in interest rates and foreign currency exchange rates. Such instruments are not employed for speculative purposes. The use of any derivatives is approved by the Board, which provides guidelines on the acceptable levels of interest rate risk, credit risk, foreign exchange risk and liquidity risk, and the ranges of hedging required against these risks.

24b Interest rate risk

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. The Group's objective in managing its interest rate risk is to ensure that it always maintains sufficient headroom to cover interest payments from anticipated cash flows and management regularly reviews the ratio of fixed to floating rate debt to assist this process. The Group is exposed to fair value risk from its fixed rate debt and interest rate risk from its floating rate debt, loans to joint ventures, cash and the tax provision disclosed in note 10. 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.

The following table shows the notional principals and remaining terms of the Group's interest rate swap contracts outstanding:

	Average contract fixed rate		Notional principal amount		Fair value	
	30 December 2008 %	30 December 2007 %	**30 December 2008 £m**	30 December 2007 £m	**30 December 2008 £m**	30 December 2007 £m
Less than one year	**6.27**	5.36	**10.5**	119.0	**(0.3)**	1.2
One to two years	**6.51**	–	**109.0**	–	**(6.0)**	–
Two to five years	**6.28**	5.32	**25.0**	288.0	**(1.3)**	2.6
Greater than five years	**–**	6.12	**–**	52.6	**–**	(0.4)
			144.5	459.6	**(7.6)**	3.4

Interest rate risk sensitivity analysis is determined by applying a change in interest rates to financial assets and financial liabilities at the balance sheet date. In order to be representative of the Group's exposure to interest risk, financial liabilities include interest rate swaps held in associates and joint ventures. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. An increase/decrease of 1% in LIBOR would have decreased/increased the Group's annual loss before tax by £20.1 million (2007: £27.0 million) with no impact on other equity reserves (2007: £nil). The Group's sensitivity to interest rates has decreased during the current year following the part disposals of FIX UK and the German portfolio, which reduced the Group's exposure to floating rate loans and interest rate swaps.

24c Credit risk

The Group's principal financial assets are bank and cash balances, short-term deposits, trade and other receivables and investments. Credit risk, being the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group, is primarily attributable to its trade and other receivables, which are principally amounts due from its associates and joint ventures. As a result there is a concentration of credit risk arising from the Group's exposure to these funds but the Group does not consider this risk to be material as it is mitigated by the significant influence that the Group is able to exercise through its holdings in the funds and membership of the General Partner boards.

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 is not exposed to significant credit risk on its other financial assets.

24d Foreign exchange risk

The Group has investments in and loans to a number of joint ventures with property investments in Germany which have the euro as their functional currency, and is therefore exposed to exchange rate fluctuations. The Group has designated two forward contracts as a hedge of its net investment in these German joint ventures. Since the year end, the Group has entered further forward contracts as disclosed in note 36.

The net position of the contracts is for the sale of €57.5 million (2007: sale of €115.0 million) at a fixed exchange rate of 0.7259.
In 2008 the ineffective portion of the hedge resulted in a charge of £0.5 million (2007: charge of £1.5 million) to the income statement.

24 Financial instruments continued

Only the spot element of the forward contracts is designated as the hedging instrument, determined as the undiscounted difference between the spot rate on the trade date and the spot rate on the revaluation date applied to the notional. The unhedged forward element of the fair value is determined as the total fair value less the spot element. Changes in the forward element of the fair value are reported through the income statement as finance income or finance costs as appropriate. During the year, this change in the unhedged element of the fair value was a gain of £0.1 million (2007: £nil) as disclosed in note 6.

Foreign currency risk sensitivity analysis is determined by applying a change in foreign currency rates to outstanding foreign currency denominated items at the reporting date. The following table details the Group's sensitivity to a 10% change in foreign currency rates, where a positive number indicates a decrease in loss before tax or increase in other equity reserves. The Group's sensitivity to foreign currency has decreased during the current year following the part-disposal of the German portfolio.

	30 December 2008 £m	30 December 2007 £m
10% strengthening in sterling against the euro		
Decrease/(increase) in loss before tax	**0.6**	6.2
Increase/(decrease) in other equity reserves	**3.3**	34.6
10% strengthening in the euro against sterling		
(Increase)/decrease in loss before tax	**(0.7)**	(5.7)
(Decrease)/increase in other equity reserves	**(3.1)**	(42.3)

24e Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The day-to-day operations of the Group are largely funded through the items included in the breakdown of recurring profit included in note 2. The majority of income within recurring profit is received quarterly, since the inflows and outflows from net rental income and net interest payable generally coincide with English quarter days, and property management fees are billed to the funds quarterly. As a result, the Group normally has sufficient funds to cover recurring administrative expenses which occur throughout the year.

Liquidity risk therefore arises principally from the need to make payments for non-recurring items, which may include performance fee clawbacks, management incentive schemes, and the close out of derivative financial instruments. Payments may also be necessary against bank debt facilities to prevent covenant breaches on loans related to the Group's wholly-owned properties or to cover losses in the Group's joint ventures, or to repay loans when they fall due.

The Group's objective in managing liquidity risk is to ensure that it has sufficient funds to meet all its potential liabilities as they fall due, both in normal market conditions and when considering negative projections against expected outcomes, so as to avoid the risk of incurring contractual penalties or damaging the Group's reputation. The Group's treasury department maintains a rolling two-year forecast of anticipated recurring and non-recurring cash flows under different scenarios. This is compared to the forecast amounts available for drawdown on the Group's core revolving credit facility to ensure that any potential shortfalls in funding are identified and managed.

The Group's primary means of managing liquidity risk is this £125.5 million (2007: £175.5 million) core revolving credit facility, expiring on 10 February 2011, of which £98.2 million (2007: £135.2 million) was undrawn at the end of the year as shown in note 23c. As at the balance sheet date, however, only £73.7 million (2007: £135.2 million) of this undrawn amount was actually available for drawdown because of the restrictions of the asset cover covenant under the facility.

During the year, the terms of this facility were renegotiated to relax certain covenants and hence provide more flexibility to the Group when managing its liquidity risk. The terms of this facility are being further renegotiated as at the date of this report as mentioned in note 1.

24 Financial instruments continued

The following table shows the maturity analysis of non-derivative financial (assets)/liabilities at the balance sheet date and, where applicable, their effective interest rates.

2008	Note	Effective interest rate %	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	**Total £m**
Financial assets							
Available for sale investments	15b		(0.2)	–	–	–	**(0.2)**
Non-current receivables	16	5.84	–	–	(12.1)	(17.0)	**(29.1)**
Current receivables	17		(6.6)	–	–	–	**(6.6)**
Cash and cash equivalents	19		(4.1)	–	–	–	**(4.1)**
			(10.9)	–	(12.1)	(17.0)	**(40.0)**
Financial liabilities							
Borrowings – fixed and swapped bank loans	23e	6.40	10.5	66.5	27.4	–	**104.4**
Borrowings – variable rate bank loans	23e	7.14	8.2	–	–	–	**8.2**
Current payables			29.6	–	–	–	**29.6**
Non-current payables	21		–	–	–	0.6	**0.6**
			48.3	66.5	27.4	0.6	**142.8**

2007	Note	Effective interest rate %	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Financial assets							
Available for sale investments	15b		(0.3)	–	–	–	(0.3)
Non-current receivables	16	6.00	–	–	(6.1)	–	(6.1)
Current receivables	17		(14.3)	–	–	–	(14.3)
Cash and cash equivalents	19		(37.1)	–	–	–	(37.1)
			(51.7)	–	(6.1)	–	(57.8)
Financial liabilities							
Fixed and swapped bank loans	23e	4.76	–	12.0	444.6	126.8	583.4
Variable rate bank loans	23e	5.94	0.2	8.2	–	33.0	41.4
Current payables			88.5	–	–	–	88.5
Non-current payables	21		–	15.5	–	–	15.5
			88.7	35.7	444.6	159.8	728.8

The following table indicates the dates of contractual repricing of the Group's fixed and swapped bank loans:

Fixed and swapped bank loans	Note	Total £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
2008	23e	**104.4**	**10.5**	**66.5**	**27.4**	**–**
2007	23e	583.4	–	12.0	444.6	126.8

The bank loans, except for £27.4 million (2007: £60.8 million) drawn on the core revolving credit facility, are secured on specific properties owned by the Group.

Notes to the financial statements continued

For the year ended 30 December 2008

24 Financial instruments continued

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash inflows/(outflows) of financial liabilities based on the earliest date on which the Group can be required to pay, including both interest and principal cash flows.

2008	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	**Total £m**
Non-interest bearing	(29.6)	–	–	–	–	–	**(29.6)**
Finance lease liability	–	–	–	–	–	(0.6)	**(0.6)**
Variable interest rate instruments	(22.5)	(69.5)	(27.6)	–	–	–	**(119.6)**
	(52.1)	(69.5)	(27.6)	–	–	(0.6)	**(149.8)**

2007	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
Non-interest bearing	(88.5)	–	–	–	–	–	(88.5)
Variable interest rate instruments	(30.7)	(49.7)	(202.6)	(141.8)	(63.0)	(134.6)	(622.4)
Fixed interest rate instruments	(6.3)	(6.3)	(80.3)	(20.5)	(1.6)	(36.6)	(151.6)
	(125.5)	(56.0)	(282.9)	(162.3)	(64.6)	(171.2)	(862.5)

The following tables detail the Group's remaining contractual maturity for its derivative financial liabilities, all of which are net settled, based on the undiscounted net cash inflows/(outflows). When the amount payable or receivable is not fixed, it has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

2008	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	**Total £m**
Net settled							
Interest rate swaps	(4.1)	(3.4)	(0.1)	–	–	–	**(7.6)**
Foreign exchange forward contracts	(14.2)	–	–	–	–	–	**(14.2)**
	(18.3)	(3.4)	(0.1)	–	–	–	**(21.8)**

2007	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
Net settled							
Interest rate swaps	2.7	0.9	0.4	0.2	(0.1)	(0.1)	4.0
Foreign exchange forward contracts	–	2.4	–	–	–	–	2.4
	2.7	3.3	0.4	0.2	(0.1)	(0.1)	6.4

24 Financial instruments continued

24f Fair values of financial instruments

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

	Note	Notional principal £m	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Financial liabilities not at fair value through income statement						
Euro denominated fixed rate loans		–	–	–	129.0	124.6
Sterling denominated loans	23a	112.6	112.6	112.6	269.7	269.7
Euro denominated swaps		–	–	–	226.1	226.1
Total on balance sheet borrowings			112.6	112.6	624.8	620.4
Minority interest share of borrowings			–	–	(29.0)	(28.6)
Group share of associate borrowings*			441.0	441.0	683.1	683.1
Group share of joint venture borrowings			282.6	284.1	54.8	54.8
Total borrowings			836.2	837.7	1,333.7	1,329.7
Derivative assets/(liabilities) at fair value through income statement						
Sterling interest rate swaps		144.5	(7.6)	(7.6)	0.2	0.2
Euro interest rate swaps		–	–	–	3.2	3.2
Forward contracts		55.6	(14.2)	(14.2)	(1.5)	(1.5)
Total on balance sheet derivatives			(21.8)	(21.8)	1.9	1.9
Group share of sterling interest rate swaps in associates and joint ventures*		466.7	(27.1)	(27.1)	8.4	8.4
Group share of euro interest rate swaps in joint ventures		146.0	(5.0)	(5.0)	–	–
Group share of sterling basis swaps in associates		187.9	0.1	0.1	–	–
Total derivatives			(53.8)	(53.8)	10.3	10.3

* Excluding FIX UK where the Group has written down its investment to £nil.

The fair value of borrowings has been estimated on the basis of quoted market prices. The fair value of the interest rate and basis swaps has been estimated by calculating the present value of future cash flows, using market discount rates. The fair value of the foreign exchange contract has been estimated by applying the quoted forward foreign exchange rate to the undiscounted cash flows at maturity.

Details of the Group's cash and deposits are set out in note 19. Their fair values and those of all other financial assets and liabilities equate to their book values.

25 Share capital

	Number of shares issued and fully paid 2008 Number	Number of shares issued and fully paid 2007 Number	Nominal value of shares issued and fully paid 2008 £000	Nominal value of shares issued and fully paid 2007 £000
Ordinary shares of 10p each				
At the start of the year	71,048,963	72,388,723	7,105	7,239
Repurchase and cancellation of shares	–	(1,442,598)	–	(144)
Issued on exercise of share options	299,970	50,000	30	5
Issued on conversion of CULS	–	52,838	–	5
At the end of the year	71,348,933	71,048,963	7,135	7,105

	Authorised 2008 Number	Authorised 2007 Number
Ordinary shares of 10p each	150,000,000	150,000,000

26 Share-based payments

The Group's share-based payments comprise the SAYE scheme, the 1998 share option schemes, various LTIP schemes, the COIP and the Matching Share Agreement. In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant, calculated using either a Black-Scholes option pricing model or a Monte Carlo simulation except for the 2005-2007 LTIPs which are calculated using a normal distribution model. Any Employers' National Insurance payable on these awards is treated as a cash-settled share-based payment. The total expense recognised under these share-based payment transactions in the year was as follows:

	Note	**Year to 30 December 2008 £m**	Year to 30 December 2007 £m
Equity-settled share-based payment	9,27	**1.2**	0.2
National Insurance on share-based payments		**(0.1)**	(0.6)

Share options – SAYE scheme

In November 2008, shareholders approved the introduction of a share option scheme open to all employees, who may save between £5 and £250 per month over a period of either three or five years in order to purchase Company shares at a price set at the date of grant. The first payments by employees into the scheme were made in January 2009 subject to a cap of £67 per month. Options are normally forfeited if an employee leaves the Group before they vest and the charge to the income statement assumes this lapse rate is 30%, based on historic staff turnover and future expectations. Details of the share options outstanding at the end of the year, none of which were exercisable, are as follows:

	Year to 30 December 2008	
	Number of share options	**Weighted average exercise price**
Granted during the year	**497,257**	**46.0p**
Outstanding at the end of the year	**497,257**	**46.0p**

In 2008, options were granted on 18 December 2008 with a total estimated fair value of £0.1 million. The options outstanding at 30 December 2008 had a weighted average remaining contractual life of 3.59 years.

Share options – 1998 schemes

Details of the share options outstanding at the end of the year are as follows:

	Year to 30 December 2008		Year to 30 December 2007	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at the start of the year	**439,970**	**256.2p**	489,970	251.6p
Exercised during the year	**(299,970)**	**279.7p**	(50,000)	211.5p
Outstanding at the end of the year	**140,000**	**205.8p**	439,970	256.2p
Exercisable at the end of the year	**140,000**	**205.8p**	439,970	256.2p

The weighted average share price at the date of exercise for share options exercised during the year was £4.45 (2007: £15.34). The options outstanding at 30 December 2008 had a weighted average remaining contractual life of 1.26 years (2007: 0.98 years) and a fair value of £2.06 (2007: £2.56) each.

2005-2007 Long-Term Incentive Plans

Details of the shares outstanding at the end of the year under these schemes are as follows:

	Number of shares				
	Opening	Exercised	Cancelled	Lapsed	Closing
2005 awards	333,854	(139,805)	–	(194,049)	–
2006 awards	267,785	–	(10,930)	–	256,855
2007 awards	200,794	–	(8,713)	–	192,081
	802,433	(139,805)	(19,643)	(194,049)	448,936

The weighted average fair value of the above LTIP awards at grant was £13.06 (2007: £10.98).

26 Share-based payments continued

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

1 50% Total return, none of which will vest based on expected 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 %
First quartile	11	–	–
Second quartile	39	–	–
Third quartile	39	0-50	12.0
Fourth quartile	11	50	5.0
Total			17.0

2008 Long-Term Incentive Plan

In November 2008, shareholders approved the introduction of a new LTIP for senior employees, details of which are described in the directors' remuneration report. The first awards under this scheme will be made in 2009.

2008 Co-investment plan/Matching Share Agreement

In November 2008, shareholders approved the introduction of a new co-investment plan ("COIP") for senior employees. Participants may purchase shares using their annual bonus and receive matching shares subject to certain performance conditions. In addition, in March 2008 H Scott-Barrett was granted awards under a separate Matching Share Agreement. Details of the shares outstanding under these schemes at the end of the year are as follows:

	Number of shares					
	Opening	Awarded	Exercised	Cancelled	Lapsed	Closing
Matching Share Agreement	–	450,000	–	(300,000)	–	150,000
COIP	–	596,951	–	–	–	596,951
	–	1,046,951	–	(300,000)	–	746,951

Shares were granted under the Matching Share Agreement on 11 March 2008 with a total estimated fair value of £1.5 million. A number of these shares were subsequently cancelled following H Scott-Barrett's decision to waive his right to any awards under certain performance conditions, resulting in a charge to the income statement in the current year of £0.6 million. Shares were granted under the COIP on 15 December 2008 with a total estimated fair value of £0.1 million.

Fair values of the relevant schemes above are calculated using the following inputs into the Black-Scholes option pricing model:

	SAYE scheme	COIP	CEO share match scheme
Share price at grant date	45.5p	44.75p	553.0p
Exercise price	46.0p	0.0p	0.0p
Expected volatility	84%	84%	37%
Expected life (years)	3.12	3.04	2.99
Risk free rate	2.28%	2.58%	3.78%
Expected dividend yield	11.0%	11.2%	4.9%
Correlation	n/a	29%	30%

Expected volatility is based on the historic volatility of the Group's share price over the three years to the date of grant. The risk free rate is the yield at the date of grant on a gilt-edged stock with a redemption date equivalent to the expected life of the option or the performance period of the relevant scheme. Options are assumed to be exercised at the earliest possible date.

Notes to the financial statements continued

For the year ended 30 December 2008

26 Share-based payments continued

ESOT shareholding

At 30 December 2008, an Employee Share Ownership Trust ("ESOT") held 1,991,760 (2007: 904,905) shares, to enable the Group to meet the outstanding share awards under the schemes described above. The right to receive dividends on these shares has been waived. The market value of these shares at 30 December 2008 was £0.9 million (2007: £3.5 million).

	Number of shares 2008	Number of shares 2007
At the start of the year	**904,905**	1,322,240
Purchased in the year	**1,226,660**	–
Exercised/vested in year	**(139,805)**	(417,335)
At the end of the year	**1,991,760**	904,905

27 Reserves

	Note	Share premium account £m	Revaluation reserve £m	Other reserves £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total £m
As at 31 December 2006		219.5	2.7	9.6	4.3	(6.9)	676.7	905.9
Shares issued at premium		0.2	–	–	–	–	–	0.2
Revaluation of owner-occupied property	13a	–	(0.3)	–	–	–	–	(0.3)
Exchange differences	28	–	–	2.0	–	–	–	2.0
Arising on CULS conversion	28	–	–	(0.6)	–	–	(8.4)	(9.0)
Amortisation of IFRS reserve	28	–	–	(0.1)	–	–	–	(0.1)
Share buy back and cancellation		–	–	–	0.1	–	(17.2)	(17.1)
Amortisation of own shares		–	–	–	–	(1.8)	1.8	–
Credit in respect of share-based payments	26	–	–	–	–	–	0.2	0.2
Dividends paid	11	–	–	–	–	–	(19.1)	(19.1)
Loss for the year		–	–	–	–	–	(166.8)	(166.8)
As at 30 December 2007		219.7	2.4	10.9	4.4	(8.7)	467.2	695.9
Shares issued at premium		0.8	–	–	–	–	–	0.8
Revaluation of owner-occupied property	13a	–	(2.4)	–	–	–	–	(2.4)
Exchange differences		–	–	1.9	–	–	–	1.9
Amortisation of IFRS 1 reserve	28	–	–	(0.1)	–	–	–	(0.1)
Other transfers between reserves	28	–	–	1.1	–	–	(1.1)	–
Amortisation and vesting of own shares		–	–	–	–	(0.3)	0.3	–
Purchase of own shares		–	–	–	–	(0.7)	–	(0.7)
Credit in respect of share-based payments	26	–	–	–	–	–	1.2	1.2
Dividends paid	11	–	–	–	–	–	(15.4)	(15.4)
Loss for the year		–	–	–	–	–	(502.2)	(502.2)
As at 30 December 2008		**220.5**	**–**	**13.8**	**4.4**	**(9.7)**	**(50.0)**	**179.0**

28 Other reserves

	Note	CULS equity reserve[1] £m	Acquisition reserve[2] £m	IFRS reserve[3] £m	Foreign currency reserve £m	Net investment hedging reserve £m	Total £m
As at 31 December 2006		0.6	9.5	0.2	(0.7)	–	9.6
Exchange differences	27	–	–	–	7.6	(5.6)	2.0
Arising on CULS conversion	27	(0.6)	–	–	–	–	(0.6)
Amortisation of IFRS reserve	27	–	–	(0.1)	–	–	(0.1)
As at 30 December 2007		–	9.5	0.1	6.9	(5.6)	10.9
Exchange differences		–	–	–	19.6	(14.3)	5.3
Transfer to income statement on part-sale of German portfolio	32b	–	–	–	(13.7)	9.8	(3.9)
Ineffective portion of hedge		–	–	–	–	0.5	0.5
Amortisation of IFRS reserve	27	–	–	(0.1)	–	–	(0.1)
Other transfers between reserves	27	–	–	–	1.1	–	1.1
As at 30 December 2008		**–**	**9.5**	**–**	**13.9**	**(9.6)**	**13.8**

1 CULS equity reserve – 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.

2 The acquisition reserve relates to the acquisition of the remaining 50% of Morrison Merlin in 2005. Prior to this Morrison Merlin was a joint venture in which Capital & Regional had a 50% interest. The acquisition reserve arose from the difference between the fair value of the Company's existing 50% interest and the carrying value of that interest at the date of acquisition of the outstanding 50%. The reserve will remain in the balance sheet until Morrison Merlin is sold.

3 The IFRS reserve relates to the requirements of IFRS 1. Where cash flow hedge accounting was being applied under a previous GAAP, IFRS 1 requires reserves are debited with the fair value of hedging derivatives at the date of transition for the Group to IFRS (31 December 2004). The entire gain or loss has been taken to equity and recycled to the income statement when the hedged transaction impacts profit or loss or as soon as the hedged transaction is no longer expected to occur.

29 Reconciliation of net cash from operations

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Loss on ordinary activities before financing	**(478.5)**	(131.0)
Adjusted for:		
Share of loss in joint ventures and associates	**432.9**	119.2
Loss on revaluation of investment properties	**31.7**	14.8
Loss/(profit) on sale of properties and investments	**6.5**	(1.8)
Impairment of goodwill	**8.0**	–
Impairment of trading property	**23.5**	
Depreciation of other fixed assets	**0.6**	0.5
Amortisation of short leasehold properties	**–**	0.1
Amortisation of tenant incentives	**–**	0.7
Decrease in receivables	**2.7**	58.5
(Decrease)/increase in payables	**(52.1)**	2.6
Unrealised loss on exchange	**–**	(1.2)
Non-cash movement relating to the LTIP	**1.2**	0.2
Net cash generated from operations	**(23.5)**	62.6

Notes to the financial statements continued

For the year ended 30 December 2008

30 Net assets per share

EPRA has issued recommended bases for the calculation of certain net asset per share information as shown in the following table:

	30 December 2008			30 December 2007
	Net assets £m	Number of shares m	Net assets per share £	Net assets per share £
Basic	**186.1**	**71.3**	**2.61**	9.89
Own shares held	**–**	**(2.0)**		
Fair value of fixed rate loans (net of tax)	**(1.1)**			
Triple net diluted net assets per share	**185.0**	**69.3**	**2.67**	10.04
Exclude fair value of fixed rate loans (net of tax)	**1.1**			
Exclude fair value of derivatives not designated as financial instruments (net of tax)	**35.1**			
Exclude deferred tax on unrealised gains and capital allowances	**4.1**			
EPRA diluted net assets per share	**225.3**	**69.3**	**3.25**	10.08

31 Return on equity

	30 December 2008 £m	30 December 2007 £m
Total recognised income and expense attributable to equity shareholders	**(502.7)**	(165.1)
Opening equity shareholders' funds	**703.0**	913.1
Return on equity	**(71.5)%**	(18.1)%

32 Disposals

32a Disposal – FIX UK

On 6 March 2008 the Group disposed of 80% of its interest in FIX UK, held through the T3 Trade Park Unit Trust. The net assets at the date of disposal and at 30 December 2007 were as follows:

	Note	6 March 2008 £m	30 December 2007 £m
Investment property		**169.8**	169.2
Current assets		**1.0**	2.1
Bank balance and cash		**4.0**	6.4
Current liabilities		**(5.4)**	(6.3)
Non-current liabilities		**(119.6)**	(118.9)
		49.8	52.5
Units redeemed on disposal		**(2.1)**	
Loss on disposal	13c	**(10.1)**	
Provisions released on disposal		**3.4**	
Share of net assets retained by the Group through an associate		**(8.6)**	
Deferred consideration		**(0.2)**	
Total cash consideration		**32.2**	
Net inflow arising on disposal:			
Cash consideration		**32.2**	
Cash and cash equivalents disposed of		**(4.0)**	
		28.2	

The deferred consideration was received after the year end.

32 Disposals continued

32b Disposal – German investment property portfolio

On 6 October 2008 the Group disposed of 50% of its German investment property portfolio, through the sale of 50% of its interests in Capital & Regional (Europe LP) Limited, Capital & Regional (Europe LP 2) Limited, Capital & Regional (Europe LP 3) Limited, Capital & Regional (Europe LP 5) Limited and Capital & Regional (Europe LP 6) Limited, and 49.9% of its interest in Capital & Regional (Europe Holding 4) Limited to Apollo Real Estate Advisors Property Partners ("AREA"). On 30 December 2008, the Articles of Association and voting rights of Capital & Regional (Europe Holding 4) Limited were amended so that the Group's effective interest in this entity also became 50%.

As a result, the Group's holdings in all the entities noted above have been treated as joint ventures from 6 October 2008, with the exception of Capital & Regional (Europe Holding 4) Limited, which continued to be treated as a subsidiary until 30 December 2008 with AREA's 49.9% share shown as a minority interest. The Group has retained a 100% interest in Capital & Regional (Europe Holding 5) Limited, the parent company of Capital & Regional (Europe LP 5) Limited, and so continues to treat it as a subsidiary. The net assets of these entities at the date of effective disposal and at 30 December 2007 were as follows:

	Note	**6 October 2008 £m**	30 December 2007 £m
Investment property		**492.7**	490.0
Current assets		**2.5**	4.9
Bank balance and cash		**14.6**	15.1
Current liabilities		**(9.1)**	(9.4)
Bank loans		**(373.6)**	(353.9)
Minority interests	22	**(12.2)**	(13.0)
Other non-current liabilities		**(24.1)**	(26.8)
		90.8	106.9
Share of net assets retained by the Group through joint ventures*		**(44.9)**	
Share of net assets retained by the Group through a subsidiary		**(0.8)**	
Transfer from foreign currency reserve on disposal	28	**(13.7)**	
Transfer from net investment hedging reserve on disposal	28	**9.8**	
Disposal costs		**4.1**	
Loss on disposal	13c	**(0.4)**	
Non-cash consideration		**(2.0)**	
Total cash consideration		**42.9**	
Net inflow arising on disposal:			
Cash consideration		**42.9**	
Cash and cash equivalents disposed of as at 6 October 2008		**(14.6)**	
Cash and cash equivalents disposed of as at 30 December 2008		**(0.5)**	
		27.8	

* Including Capital & Regional (Europe Holding 4) Limited as this was the date it effectively became a joint venture.

33 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		Other operating leases	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Within one year	**0.1**	0.1	**0.3**	0.4
Between one and five years	**0.2**	0.2	**0.1**	0.3
After five years	**4.8**	6.0	**–**	–
	5.1	6.3	**0.4**	0.7

There were no contingent rents (2007: £nil). During the year the Group made sublease payments of £54,000 (2007: £42,000) and incurred lease payments recognised as an expense of £0.2 million (2007: £0.5 million).

Operating lease payments represent rentals payable by the Group for certain of its office properties and equipment. Leases are negotiated for an average of 110 years (2007: 119 years) and rentals are fixed for an average of three years (2007: four years).

33 Operating lease arrangements continued

The Group as lessor

The Group leases out all of its investment properties under operating leases for average lease terms of 12 years (2007: 12 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	Two to five years £m	Six to ten years £m	11-15 years £m	16-20 years £m	More than 20 years £m	**30 December 2008 Total £m**	30 December 2007 Total £m
Mall	9.9	149.9	459.8	304.0	112.2	63.8	369.9	**1,459.6**	1,793.0
Junction	12.6	53.8	188.0	192.3	130.9	42.1	4.4	**611.5**	757.9
X-Leisure	17.0	51.3	200.0	240.0	207.5	84.5	42.4	**825.7**	840.7
Total associates*		255.0	847.8	736.3	450.6	190.4	416.7	**2,896.8**	3,391.6
German portfolio	7.7	43.5	149.9	94.4	35.7	8.4	–	**331.9**	–
Other joint ventures	16.2	9.4	37.1	40.3	29.7	19.4	8.5	**144.4**	98.2
Total joint ventures		52.9	187.0	134.7	65.4	27.8	8.5	**476.3**	98.2
German portfolio		–	–	–	–	–	–	**–**	262.2
FIX UK		–	–	–	–	–	–	**–**	86.7
Other wholly owned	14.0	7.2	28.2	32.7	19.2	3.2	1.2	**91.7**	99.5
Total wholly owned		7.2	28.2	32.7	19.2	3.2	1.2	**91.7**	448.4
Total		315.1	1,063.0	903.7	535.2	221.4	426.4	**3,464.8**	3,938.2

* Excluding FIX UK where the Group has written down its investment to £nil.

34 Capital commitments

As at 30 December 2008 the Group's share of capital commitments of joint ventures and associates was £14.9 million (2007: £17.9 million). This comprised £10.2 million (2007: £3.6 million) relating to The Mall, £3.8 million (2007: £11.8 million) relating to the joint venture at Cardiff and £0.9 million (2007: £2.5 million) relating to The Junction.

35 Contingent liabilities

During the year the Group received an expert determination in relation to the limit on negative performance fees for the previous two years and has concluded there is no longer a contingent liability in relation to the amounts potentially repayable.

The Group has given certain guarantees relating to interest shortfalls and cost overruns in connection with the joint ventures at Cardiff and Manchester Arena. The fair value of these guarantees is £0.2 million (2007: £0.3 million). The Group's guarantee in respect of its Braehead joint venture expired during the year.

36 Events after the balance sheet date

Junction fundraising

On 20 April 2009 we announced that The Junction fund was raising around £65 million of new equity. AREA Property Partners is proposing to invest £50 million, with the balance to be subscribed by a number of existing unit holders. The proceeds from the fundraising will principally be applied to pay down debt as part of the refinancing package agreed with the fund's lending banks.

Under the proposals the fund's life will be extended to 31 December 2013 and a new governance structure will be introduced in which AREA will take an active management role. CRPM will continue to provide property management services for the remainder of the life of the fund. The basis for calculating property management fees will be changed to a fixed fee which will provide a positive contribution over and above the cost of providing the services. We will also be entitled to a performance fee based on an IRR over the remaining life of the fund. Unit holders will vote on the proposals on 29 April 2009 and if approved the transaction should complete by the end of May 2009.

Units are expected to be issued at a price of around 18p, subject to certain net asset adjustments. This represents a discount of around 40% to the March unit price net of the interest rate swap mark-to-market adjustment of 29.7p. The March unit price before adjusting for the mark-to-market was 40.2p.

36 Events after the balance sheet date continued

The equity issue will, on completion, be accompanied by changes in the fund's banking arrangements designed to increase financial flexibility. These include an increase in the LTV covenant to 90% in the period to 30 September 2010, reducing thereafter, together with a tiered coupon based on LTV, and an extension of the facility to April 2014.

The Junction's banks have agreed to waive the LTV covenant conditions until 1 June 2009 to allow the equity issue and restructuring to proceed.

The Group is likely to participate in the fundraising but probably in a relatively modest amount of around £600,000. The Group's pro rata entitlement would be just under £18 million. Whilst the Group is strongly supportive of the equity raise and changes in structure of the fund, in the light of the Group's current need to conserve cash and continuing uncertainty in the property market it has decided that only a small subscription should be made. A consideration in the amount chosen is that a shareholder vote would be required to allow the Group to subscribe for new units with a value of more than 5% of the Company's market capitalisation at the time of subscription. The reason for this is that AREA is considered to be a related party of the Group as a consequence of its acquisition of 49.9% of Capital & Regional (Europe Holding 4) Limited as part of the part-disposal of its German operations. As a consequence AREA's participation in the equity issue would mean that the Group's subscription would therefore be treated as a related party transaction under chapter 11 of the Listing Rules.

In acknowledgement of this restriction, it has been agreed to grant the Group an option allowing it, within a three-month period of the subscription date, to increase its participation in the fundraising by up to £2 million at the same exercise price as other subscribers. The level of participation at the initial amount of £600,000 would result in the Group's share in The Junction being diluted from 27.3% to around 13.1%.

X-Leisure

On 7 April 2009 the X-Leisure fund completed on the sale of the O2 Centre, Finchley Road for £92.5 million. The proceeds were used to pay down fund debt.

The sale is part of a broader strategy to strengthen the financial base of the X-Leisure fund. The fund is in discussions with investors about a capital increase and is seeking to amend the terms of its banking arrangements to create additional financial flexibility. The fund has separately agreed with the syndicate of banks on its central facility a waiver of the loan-to-value covenant until the end of May 2009 in order to facilitate implementation of this strategy.

Other events after the balance sheet date

On 10 February 2009, the Group entered a forward contract to buy €57.5 million on 30 April 2009 at a fixed exchange rate of 0.87820, which had the effect of fixing the amount of the liability payable under its existing hedge, and entered into a further forward contract to sell €47.0 million on 30 April 2010 at a fixed exchange rate of 0.87505 as a further hedge for its net investment in its German joint venture.

On 26 March 2009, the Company's shareholders agreed to a reduction of capital to create additional distributable reserves through the cancellation of the Company's share premium account, which is now subject to Court approval once the position of the Company's creditors can be satisfactorily agreed.

On 3 April 2009, settlement was reached regarding an outstanding claim in relation to the Braehead joint venture, which was reimbursed for the costs of certain repair works to the cinema ceiling and other resulting loss of income.

On 9 April 2009, The Junction fund completed on the sale of Victory Industrial Park, Portsmouth for £1.65 million.

On 23 April 2009, the Group agreed to sell its share in its Cardiff joint venture to its joint venture partner for £1.2 million. This will release the Group from future capital commitments of approximately £2 million and its guarantees in respect of the joint venture.

Fund valuations

As at 31 March 2009 property valuations and unit prices (under UK GAAP) of The Mall, The Junction and X-Leisure funds were as follows:

	Valuation of properties £m*	Unit value £**	Value of Group units £m
The Mall	1,482.9	0.3651	57.6
The Junction	618.8	0.4020	34.2
X-Leisure	631.9	0.4643	24.1

* Excluding adjustments to property valuations for tenant incentives and head leases treated as finance leases.
** Excluding interest rate swap mark-to-market adjustments.

Notes to the financial statements continued

For the year ended 30 December 2008

37 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, all of which occurred at normal market rates, are disclosed below.

Capital & Regional plc	Interest receivable from/(payable to) related parties 2008 £m	2007 £m	Amounts owed by/(to) related parties 2008 £m	2007 £m
Joint ventures				
Xscape Braehead Partnership	**0.6**	0.1	**12.1**	6.1
Capital Retail Park Partnership	**–**	–	**–**	1.5
Capital & Regional (Europe LP) Limited	**0.1**	–	**3.3**	–
Capital & Regional (Europe LP 2) Limited	**–**	–	**1.8**	–
Capital & Regional (Europe LP 3) Limited	**0.1**	–	**8.8**	–
Capital & Regional (Europe LP 5) Limited	**–**	–	**1.1**	–
Capital & Regional (Europe LP 6) Limited	**–**	–	**1.9**	–

CRPM	Management and performance fees receivable from/(payable to) related parties 2008 £m	2007 £m	Amounts owed by/(to) related parties 2008 £m	2007 £m
Associates				
The Mall Limited Partnership	**11.6**	(22.5)	**(3.8)**	(34.4)
The Junction Limited Partnership	**4.2**	(10.9)	**0.4**	(0.2)
X-Leisure Limited Partnership	**(3.9)**	7.0	**(9.3)**	2.1
The FIX UK Limited Partnership	**0.1**	–	**0.5**	–
Joint ventures				
German portfolio	**0.1**	–	**–**	–
Xscape Braehead Partnership	**0.2**	0.1	**0.1**	–

SNO!zone Limited and SNO!zone Braehead Limited	Rents payable to related parties 2008 £m	2007 £m	Amounts owed by/(to) related parties 2008 £m	2007 £m
Associates				
Xscape Milton Keynes Partnership	**0.7**	0.7	**–**	–
Xscape Castleford Partnership	**0.7**	0.6	**–**	–
Joint ventures				
Xscape Braehead Partnership	**0.7**	0.7	**(2.2)**	–

All rents payable by SNO!zone companies are due to the relevant Xscape Partnerships, which in the case of SNO!zone Limited (operator of the ski slopes at Milton Keynes and Castleford) are wholly-owned by X-Leisure Limited Partnership.

During 2008 the Group purchased IT and communication equipment from Redstone plc and Sage plc, on normal commercial terms. Alan Coppin is a director of Redstone plc and Paul Stobart is a director of Sage plc.

As per IAS 24, key personnel are considered to be the executive directors as they are the persons having the authority and responsibility for planning, directing and controlling the activities of the Group. Their remuneration in the income statement is detailed below.

	Year to 30 December 2008 £m	Year to 30 December 2007 £m
Short-term employment benefits	**1.6**	1.5
Post-employment benefits	**0.2**	0.2
Other long-term benefits[1]	**(1.1)**	(0.9)
Termination benefits	**0.7**	0.2
Share-based payments[2]	**1.1**	0.1
	2.5	1.1

1 Other long-term benefits relate to the CAP, including the effect of those amounts awarded to the directors in 2006 that are expected to be reversed in line with the clawback of the relevant performance fees (as described in note 4b).

2 Share-based payments include amounts awarded to the directors relating to the LTIP, COIP and Matching Share Agreement.

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

We have audited the Group financial statements of Capital & Regional plc for the year ended 30 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of movement in equity shareholders' funds, the consolidated cash flow statement and the related notes 1 to 37. 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 2008.

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.

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 directors' 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 2006 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 judgements 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 2008 and of its loss 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.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The conditions, as explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
23 April 2009

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

We have audited the parent company financial statements of Capital & Regional Plc for the year ended 30 December 2008 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 2008 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 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 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 judgements 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 2008;
- 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.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note A to the financial statements concerning the Company's ability to continue as a going concern. The conditions, as explained in note A to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
23 April 2009

Company balance sheet

Prepared in accordance with UK GAAP
As at 30 December 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	C	**222.2**	845.6
Current assets			
Debtors:			
– due within one year	D	**76.7**	143.3
– due in greater than one year	E	**20.8**	–
Cash at bank and in hand		**0.1**	0.1
		97.6	143.4
Creditors – amounts falling due within one year			
Trade and other creditors		**(140.6)**	(251.6)
Short-term bank loans and overdrafts		**(8.2)**	(15.1)
	F	**(148.8)**	(266.7)
Net current liabilities		**(51.2)**	(123.3)
Creditors – amounts falling due in greater than one year			
Bank loans		**–**	(8.2)
Loan guarantees		**(0.2)**	–
	G	**(0.2)**	(8.2)
Net assets		**170.8**	714.1
Capital and reserves			
Called-up share capital	H	**7.1**	7.1
Share premium account	H	**220.5**	219.7
Capital redemption reserve	H	**4.4**	4.3
Profit and loss account	H	**(61.2)**	483.0
Shareholders' funds		**170.8**	714.1

These financial statements were approved by the Board of directors on 23 April 2009.

Notes to the Company financial statements

For the year ended 30 December 2008

A Accounting policies

Although the Group consolidated financial statements are prepared under IFRS, the Capital & Regional plc Company financial statements presented in this section are prepared under UK GAAP. The main accounting policies have been applied consistently in the current and prior year. The basis of preparation in relation to the directors' consideration of going concern is described in note 1 to the Group financial statements.

B Loss 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 loss for the year attributable to equity shareholders dealt with in the financial statements of the Company was £528.8 million (2007: profit of £0.6 million).

The Company had no direct employees during the year (2007: nil).

C Investments

	Subsidiaries £m	Joint ventures and associates £m	Assets held for sale £m	Total £m
As at the start of the year	845.0	0.4	0.2	845.6
Additions	2.8	21.3	–	24.1
Disposals	(99.8)	–	–	(99.8)
Impairment of investments	(547.9)	0.2	–	(547.7)
As at the end of the year	**200.1**	**21.9**	**0.2**	**222.2**

Investments are stated at cost less provision for impairment. Impairment is calculated based on a comparison of the estimated recoverable amount and value in use of each investment. Value in use is calculated based on estimates of the cash flows from the underlying funds and joint ventures and, in the case of CRPM, estimated asset management fee income less estimated fixed and variable expenses. A list of principal subsidiaries, associates and joint ventures is given in note J.

D Debtors – amounts falling due within one year

	2008 £m	2007 £m
Amounts owed by subsidiary entities	**76.5**	137.0
Amounts owed by joint ventures	**–**	6.2
Other debtors	**0.2**	0.1
	76.7	143.3

E Debtors – amounts falling due in greater than one year

	2008 £m	2007 £m
Amounts owed by joint ventures	**20.8**	–
	20.8	–

Amounts owed by subsidiary entities, associates and joint ventures are stated at cost less provision for impairment.

F Creditors – amounts falling due within one year

	2008 £m	2007 £m
Amounts owed to subsidiaries	**139.4**	248.9
Bank loans	**8.2**	15.1
Taxation	**0.5**	0.2
Guarantees	**0.3**	1.2
Other creditors	**0.2**	0.8
Accruals and deferred income	**0.2**	0.5
	148.8	266.7

Details of the Group's borrowings are given in note 23a to the Group financial statements. The Company's borrowings are all secured and comprise sterling denominated bank loans.

G Creditors – amounts falling due in greater than one year

	2008 Total £m	2007 £m
From two to five years	**0.2**	8.2
Due after more than one year	**0.2**	8.2

H Reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
As at the start of the year	7.1	219.7	4.3	483.0	714.1
Premium on issue of shares	–	0.8	–	–	0.8
Dividends paid	–	–	–	(15.4)	(15.4)
Retained loss for the year	–	–	0.1	(528.8)	(528.7)
As at the end of the year	**7.1**	**220.5**	**4.4**	**(61.2)**	**170.8**

The Company's authorised, issued and fully paid up share capital is described in note 25 to the Group financial statements.

I Fair value of financial liabilities

	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Non-current borrowings	**–**	**–**	8.2	8.2
Current borrowings	**8.2**	**8.2**	16.3	16.3
Total borrowings	**8.2**	**8.2**	24.5	24.5

Notes to the Company financial statements continued

For the year ended 30 December 2008

J 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[2]	Management	100%	100%
The Mall Jersey Property Unit Trust[3]	Investment	16.72%	16.72%[1]
The Junction Jersey Property Unit Trust[3]	Investment	27.32%	27.32%
X-Leisure Jersey Property Unit Trust[3]	Investment	19.37%	19.37%[1]
Trade Park Unit Trust[3]	Investment	20%	20%
The Auchinlea Partnership[2]	Investment	50%	50%
Capital & Regional Abertawe Limited[2]	Investment and management	100%	100%
Capital & Regional Hemel Hempstead Limited[3]	Investment and management	100%	100%
Capital & Regional (Europe LP) Limited[3]	Investment and management	50%	50%
Capital & Regional (Europe LP 2) Limited[3]	Investment and management	50%	50%
Capital & Regional (Europe LP 3) Limited[3]	Investment and management	50%	50%
Capital & Regional (Europe LP 4) Limited[3]	Investment and management	50%	50%
Capital & Regional (Europe LP 5) Limited[3]	Investment and management	50%	50%
Capital & Regional (Europe LP 6) Limited[3]	Investment and management	50%	50%
Capital & Regional Earnings Ltd[2]	Investment and management	100%	100%
Capital & Regional Income Ltd[2]	Investment and management	100%	100%
Capital & Regional Holdings Ltd[2]	Investment and management	100%	100%
Capital & Regional Capital Partner Ltd[3]	Investment and management	100%	100%
Capital & Regional Overseas Holdings Ltd[4]	Investment and management	100%	100%
Capital & Regional Units LLP[2]	Investment and management	100%	100%
Capital & Regional Jersey Limited[4]	Investment and management	100%	100%
Capital & Regional UK Limited[2]	Investment and management	100%	100%
Capital & Regional UK Investments Limited[2]	Investment and management	100%	100%
Xscape Braehead Partnership[2]	Investment and management	50%	50%
Manchester Arena Complex Limited Partnership[2]	Investment and management	30%	50%[5]
Capital Retail Park Partnership[2,6]	Development, investment and management	50%	50%
Snozone Limited[2]	Trading	100%	100%
Snozone (Braehead) Ltd[2]	Trading	100%	100%
Morrison Merlin Limited[2]	Trading	100%	100%

1 The Group is regarded as having significant influence through its membership of and role on the General Partner Board.
2 Incorporated/registered and operating in Great Britain.
3 Incorporated/registered and operating in Jersey.
4 Incorporated in Jersey and operating in Great Britain.
5 The Group 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.
6 Agreement was reached to sell the 50% investment in Capital Retail Park Partnership on 23 April 2009.
* 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 18d and note 18e to the Group financial statements.

The Company has taken advantage of s231(5) and (6) of the 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.

Five-year review

for the periods 31 December 2004 to 30 December 2008

	UK GAAP 31 December 2004 £m	UK GAAP 30 December 2005 £m	IFRS 30 December 2006 £m	IFRS 30 December 2007 £m	**IFRS 30 December 2008 £m**
Balance sheet					
Property assets	83.0	425.8	621.8	790.0	**98.9**
Other fixed assets	12.5	0.7	1.2	9.0	**31.7**
Intangible assets	12.2	12.2	12.2	12.2	**4.2**
Investment in joint ventures	46.7	49.8	67.6	12.0	**34.4**
Investment in associates	477.1	583.7	685.4	599.4	**182.3**
Other current assets/(liabilities)	8.2	21.7	(5.9)	(99.3)	**(72.9)**
Cash at bank	4.4	40.1	35.5	37.1	**4.1**
Bank loans greater than one year	(117.8)	(395.7)	(456.8)	(622.4)	**(93.8)**
Convertible Unsecured Loan Stock	(20.4)	(3.0)	(1.3)	–	**–**
Other long-term liabilities	(11.4)	(27.6)	(46.6)	(35.0)	**(2.8)**
Net assets	494.5	707.7	913.1	703.0	**186.1**
Financed by					
Called up share capital	6.4	7.1	7.2	7.1	**7.1**
Share premium account	167.4	216.9	219.5	219.7	**220.5**
Revaluation reserve	247.2	0.4	2.7	2.4	**–**
Other reserves	1.1	14.1	7.0	6.6	**8.5**
Retained earnings	72.4	469.2	676.7	467.2	**(50.0)**
Capital employed	494.5	707.7	913.1	703.0	**186.1**
Return on equity (%)					
Return on equity	37.0%	40.5%	31.6%	(18.1)%	**(71.5)%**
Return on equity before exceptional items	39.0%	40.5%	31.6%	(18.1)%	**(71.5)%**
Increase/(decrease) in NAV per share + dividend	36.6%	40.8%	30.8%	(14.2)%	**(62.2)%**
Share price increase/(decrease) + dividend	72.1%	25.0%	81.0%	(73.0)%	**(77.4)%**
Period end share price (pence)	695p	868p	1542p	392p	**45p**
Total return					
Total return	136.0	203.1	223.9	(165.1)	**(502.7)**
Total return before exceptional items	143.2	203.1	223.9	(165.1)	**(502.7)**
Net assets per share (pence)					
Basic	793p	997p	1261p	989p	**261p**
Triple net diluted	710p	985p	1272p	1004p	**267p**
EPRA diluted	–	1006p	1275p	1008p	**325p**
Triple net diluted net assets per share growth (%)	36.3%	38.7%	29.1%	(21.1)%	**(73.4)%**
Gearing (%)	22.0%	50.2%	50.0%	88.0%	**60.5%**
Gearing (%) on a see through basis	126.0%	126.0%	125.0%	190.0%	**449.2%**
Income statement					
Group turnover	62.4	94.2	132.1	34.0	**65.4**
Gross profit	55.4	83.5	116.6	14.9	**23.7**
Profit/(loss) on ordinary activities before financing	68.8	216.9	274.5	(131.0)	**(478.5)**
Net interest payable	(34.5)	(18.2)	(23.6)	(36.0)	**(37.8)**
Exceptional items	(8.2)	–	–	–	**–**
Profit/(loss) on ordinary activities before taxation	26.1	198.7	250.9	(167.0)	**(516.3)**
Taxation	(5.9)	4.0	(28.6)	0.2	**14.1**
Profit/(loss) after tax	20.2	202.7	222.3	(166.8)	**(502.2)**
Recurring pre tax profit	16.6	23.1	32.3	32.7	**27.6**
Fully taxed recurring dividend cover (x)	–	1.25	1.19	1.19	**5.57**
Interest cover (x)	1.63	1.86	2.14	1.17	**1.21**
Earnings per share (pence)					
Basic	32.2p	294p	317p	(236)p	**(715)p**
Diluted	28.4p	284p	311p	(236)p	**(715)p**
EPRA diluted	–	33p	46p	1p	**(77)p**
Dividends per share	14p	18p	26p	27p	**5p**
Dividend cover (x)	2.2	4.8	1.8	–	**–**

Glossary of terms

Capital allowances deferred tax provision is the full provision made in accordance with IAS 12 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 adjusted fully diluted NAV per share.

CRPM is Capital & Regional Property Management Limited, a subsidiary of Capital & Regional plc, which earns the management and performance fees arising from certain of the Group's associates and joint ventures.

Contribution is the Group's share of net rents less net interest arising from its joint ventures, associates and wholly owned entities, including unhedged foreign exchange movements.

CULS is the Convertible Subordinated Unsecured Loan Stock.

EPRA adjusted fully diluted NAV per share includes the effect of those shares potentially issuable under employee share options and excludes own shares held. Any unrealised gains and capital allowances deferred tax provisions, surplus on the fair value of borrowings net of tax and surplus on the fair value of trading properties are added back.

EPRA earnings per share (EPS) is the (loss)/profit after tax excluding gains on asset disposals and revaluations and their related tax, movements in the fair value of financial instruments, intangible asset movements and the capital allowance effects of IAS 12 where applicable, less tax 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 shares potentially issuable under employee share options and excluding own shares held. NAV is adjusted for the fair value of debt and the fair value gain on 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 unit or 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 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.

Fixed management expenses are the day-to-day running costs of the Group, including salaries and office expenses.

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

Initial yield is the annualised net rent 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 trading properties), investments in joint ventures and associates, other investments and net current assets.

Like for like (LfL) figures exclude the impact of property purchases and sales on year to year comparatives.

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 or internal valuers). In accordance with usual practice, the Group's 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 rents are the Group'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 the Group'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 gross rental income excluding the effects of tenant incentives.

Property under management (PUM) is the valuation of properties for which CRPM is the asset manager, plus the German portfolio.

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 Contribution plus management fees and SNO!zone income, less SNO!zone expenses and fixed management expenses.

Recurring pre-tax profit per share is the recurring pre-tax profit divided by the weighted average number of shares less own shares held.

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, to which the initial yield will rise once the rent reaches the estimated rental value.

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

See through income statement is the pro forma proportionately consolidated income statement of the Group and 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 expressed as a percentage of opening equity shareholders' funds.

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

Triple net fully diluted NAV per share includes the dilutive effect of share options and adjusts all items to market value, including trading properties and fixed rate debt.

SIC 15 "Operating lease – incentives" debtors are the values of lease incentives given to tenants, which under accounting rules are deducted from property valuation and shown as debtors. 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, CEO share matching scheme, COIP, SAYE and CAP which is spread over the performance period.

Portfolio information

Portfolio under management at fair value*

	30 December 2008 £m	30 December 2007 £m	30 December 2006 £m	30 December 2005 £m	31 December 2004 £m
Investment and trading properties†	**88**	775	606	414	91
Associates	**3,147**	5,186	5,522	4,499	3,706
Joint ventures	**750**	174	329	226	226
Total	**3,985**	6,135	6,457	5,139	4,023

* Excluding adjustments to property valuations for tenant incentives and head leases treated as finance leases.
† Trading properties are shown at the lower of cost and net realisable value.

Fund portfolio information (100% figures)

As at December 2008

	The Mall	The Junction	X-Leisure	German Portfolio
Physical data				
Number of core properties	21	11	19	50
Number of lettable units	2,200	196	360	193
Lettable space (sq ft – '000s)	7,529	2,876	3,681	5,081
Valuation data				
Properties at market value (£m)*	1,692	734	721	595
Revaluation in the year (£m)*	(988)	(288)	(244)	(43)
Initial yield (%)	7.15%	6.20%	6.68%	6.51%
Equivalent yield (%)	8.44%	7.12%	7.68%	n/a
Geared return (%)	(65.41)%	(57.05)%	(48.20)%	(32.44)%
Property level return (%)	(33.18)%	(26.10)%	(21.90)%	(5.16)%
Reversionary (%)	17.1%	7.4%	3.1%	n/a
Loan to value ratio (%)	66.1%	68.9%	69.7%	78.7%
Lease data	Years	Years	Years	Years
Average lease length to break	9.24	13.23	15.97	7.66
Average lease length to expiry	9.87	12.63	16.98	7.66
Passing rent of leases expiring in:	£m	£m	£m	£m
2009	14.04	0.84	1.61	1.22
2010	6.04	0.10	0.65	0.81
2011-2013	34.66	2.02	0.92	13.74
ERV of leases expiring in:				
2009	17.69	0.93	2.02	n/a
2010	6.47	0.49	0.67	n/a
2011-2013	36.77	2.26	0.92	n/a
Passing rent subject to review in:				
2009	21.70	11.07	8.47	n/a
2010	19.72	9.44	12.05	n/a
2011-2013	32.66	23.55	28.50	n/a
ERV of passing rent subject to review in:				
2009	21.92	12.83	8.95	n/a
2010	22.17	9.61	12.32	n/a
2011-2013	35.49	25.19	30.63	n/a
Rental data				
Passing rent (£m)	148.93	47.01	53.00	36.00
Estimated rental value (£m per annum)	174.33	54.35	58.97	n/a
Rental increase (ERV) (%)	(0.85)%	(3.73)%	1.73%	n/a
Vacancy rate (%)	5.61%	6.58%	3.84%	1.80%
Like-for-like net rental income (100%)				
Current year net rental income	£m	£m	£m	£m
Properties owned throughout 2007/2008	120.0	39.9	36.8	30.8
Acquisitions	2.1	1.1	10.2	5.1
Disposals	8.7	3.9	–	–
Total net rental income	**130.9**	**44.9**	**47.0**	**35.9**
Prior year net rental income				
Properties owned throughout 2007/2008	127.4	39.2	37.2	30.6
Acquisitions	0.8	0.6	7.8	2.5
Disposals	17.9	7.1	0.2	–
Total net rental income	**146.1**	**46.9**	**45.2**	**33.1**
Other data				
Unit price (£1.00 at inception)	£0.5892	£0.7750	£0.8303	n/a
Group share	16.72%	27.32%	19.37%	48.79%

* Excluding adjustments to property valuations for tenant incentives and head leases treated as finance leases.

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2009 financial calendar

Annual General Meeting	22 June 2009
Interim results	August 2009
2009 Annual results	March/April 2010

Designed and produced by 85FOUR

Printed in England by Cousin

Cousin is a carbon neutral company with ISO 14001 accreditation: it recycles all solvents used in the printing process, making any waste ph neutral, and also hold FSC status.

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