CAPITAL & REGIONAL

Annual Report and Accounts for the year ended 30 December 2017
Stock Code: CAL

# Communities & Retailers

# WELCOME TO THE CAPITAL & REGIONAL ANNUAL REPORT 2017

Capital & Regional is a UK focused retail property REIT specialising in community shopping centres that dominate their catchment, serving the non-discretionary and value orientated needs of their local communities.

It has a strong track record of delivering value enhancing retail and leisure asset management opportunities across a *c.*£1 billion portfolio of tailored in-town community shopping centres. Capital & Regional is listed on the main market of the London Stock Exchange and has a secondary listing on the Johannesburg Stock Exchange.

Capital & Regional owns seven shopping centres in Blackburn, Hemel Hempstead, Ilford, Luton, Maidstone, Walthamstow and Wood Green. It also has a 20% joint venture interest in the Kingfisher Centre in Redditch. Capital & Regional manages these assets through its in-house expert property and asset management platform.

## Capital & Regional strategy

**Redefine**
community shopping centres

**Reposition**
assets and retail mix

**Refocus**
management team

**Enhance**
shareholder value

**Redefine** – Redefine and own the Community shopping centre category in the UK, consistent with global best practice

**Reposition** – Actively remerchandise centres to increase exposure to growth and online resilient categories and differentiate from competition. Tailored to community requirements with focus on local, value, relevance, quality and total experience

**Refocus** – Agile management, data driven, decentralised to accelerate decision making and delivery

**Enhance** – Right offer driving footfall, dwell time and ultimately retailer sales, C&R income and shareholder returns

## Highlights

### Net Rental Income

| +£1.2m | +2.4% |
|---|---|
| 2017 | £51.6m |
| 2016 | £50.4m |

### Adjusted Profit[1]

| +£2.3m | +8.6% |
|---|---|
| 2017 | £29.1m |
| 2016 | £26.8m |

### Adjusted Earnings per share[1]

| +0.28 | +7.3% |
|---|---|
| 2017 | 4.10p |
| 2016 | 3.82p |

### IFRS Profit/(Loss) for the period

| | |
|---|---|
| 2017 | £22.4m |
| 2016 | £(4.4m) |

### Total dividend per share

| +0.25p | +7.4% |
|---|---|
| 2017 | 3.64p |
| 2016 | 3.39p |

### Net Asset Value (NAV) per share

| -1p | -1.5% |
|---|---|
| 2017 | 67p |
| 2016 | 68p |

### EPRA NAV per share

| -1p | -1.5% |
|---|---|
| 2017 | 67p |
| 2016 | 68p |

### Group net debt[2]

| +5.9m | +1.5% |
|---|---|
| 2017 | £404.0m |
| 2016 | £398.1m |

### Net debt to property value[2]

| | |
|---|---|
| 2017 | 46% |
| 2016 | 46% |

All metrics are for wholly-owned portfolio unless otherwise stated.

1. Adjusted Profit and Adjusted Earnings per share are as defined in the Glossary. Adjusted Profit incorporates profits from operating activities and excludes revaluation of properties and financial instruments, gains or losses on disposal, exceptional items and other defined terms. A reconciliation to the equivalent EPRA and statutory measures is provided in Note 9 to the financial statements.
2. December 2016 figures are proforma, adjusted for the refinancing of Mall assets completed on 4 January 2017, Ipswich disposal completed on 17 February 2017 and Ilford acquisition completed on 8 March 2017.

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C&R

For further information see capreg.com

# OUR PORTFOLIO

## Wholly-owned assets

### The Mall, Blackburn

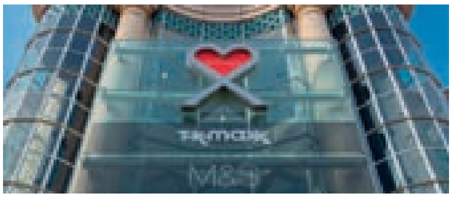
- Leasehold covered shopping centre on three floors
- 600,000 sq ft
- 122 lettable units

**Principal occupiers**:
Primark, Debenhams, H&M, Next, Wilko, Pure Gym

### The Marlowes, Hemel Hempstead

- Freehold covered shopping centre and high street parades
- 350,000 sq ft
- 109 lettable units

**Principal occupiers:**
Wilko, New Look, Sports Direct, River Island



### The Exchange, Ilford

- Predominantly freehold covered shopping centre on three floors
- 300,000 sq ft
- 79 lettable units

**Principal occupiers:**
Debenhams, Next, H&M, TK Maxx, M&S

### The Mall, Luton

- Leasehold covered shopping centre on two floors, with over 65,000 sq ft of offices
- 900,000 sq ft
- 170 lettable units

**Principal occupiers:**
Primark, Debenhams, H&M, M&S, TK Maxx, Wilko

### The Mall, Maidstone

- Freehold covered shopping centre on three floors with over 40,000 sq ft of offices
- 500,000 sq ft
- 107 lettable units

**Principal occupiers:**
TJ Hughes, Boots, Sports Direct, Wilko, Next, Iceland, Maidstone Borough Council

### The Mall, Walthamstow

- Leasehold covered shopping centre on two floors
- 260,000 sq ft
- 69 lettable units

**Principal occupiers:**
TK Maxx, Sports Direct, Lidl, Asda, Boots, The Gym


### The Mall, Wood Green

- Freehold partially open shopping centre on two floors
- 540,000 sq ft
- 109 lettable units

**Principal occupiers:**
Primark, Wilko, H&M, Boots, TK Maxx, Travelodge, Cineworld

## Joint venture assets

### Kingfisher Shopping Centre, Redditch

- C&R owns 20% in JV with Oaktree Capital Management
- Freehold covered shopping centre on two principal trading levels
- 900,000 sq ft
- 174 lettable units

**Principal occupiers:**
Vue Cinema, H&M, The Range, Primark, Next, Debenhams, TK Maxx

## Snozone Leisure business

- 100% subsidiary
- Largest indoor ski slope operator in the UK
- Operating at Milton Keynes, Castleford and a dry indoor slope in Basingstoke
- In existence since 2000 and has taught over 2 million people to ski or snowboard


## Key Characteristics about Our Malls

**High Footfall -**
**78m Shopper visits per year**

**Scale and dominance of retail offer**

**Strong and improving demographics**

**London/ South-East bias**

**Convenience – town centre locations**

**Extensive accretive asset management opportunities**
(including leisure, residential and office)

**Affordable rents**
- Average rent c. £15 psf
- Occupancy Cost Ratio of c. 12.6%

# CHAIRMAN'S STATEMENT

**Hugh Scott-Barrett**
**Chairman**

> **"C&R is reporting another strong set of results with Adjusted Profit, which reflects the underlying performance of the business, increasing by 8.6% to £29.1 million."**

C&R is reporting another strong set of results. Adjusted profit, which reflects the underlying performance of the business, has risen by 8.6% from £26.8 million to £29.1 million. Given the very challenging retail environment we have seen for much of the year, this result is an endorsement of the resilience of the existing portfolio together with the impact of key asset management initiatives at Walthamstow and Wood Green, in particular, which positively impacted income in 2017. Profit for the period, at £22.4 million, compares with a loss in 2016 of £4.4 million which reflected a revaluation loss and an £11 million charge in relation to implementing the new debt structure.

Both Net Asset Value per share and EPRA Net Asset Value per share of 67 pence compare with 68 pence as at 30 December 2016. This modest decline reflects the strong performance of our assets based in and around London offset by some yield expansion in those outside of the Greater London area.

## Strategy

The appointment of a new Chief Executive has afforded the opportunity for a root and branch review of strategy. Lawrence Hutchings has provided the Board with recommendations on how this should evolve and on how execution can be enhanced in light of the fast changing and challenging retail landscape. This has been debated extensively and endorsed by the Board. The management team subsequently communicated the strategy to investors in December 2017.

C&R is well placed to benefit from increasing polarisation within the shopping centre market which is driving consumers to separate visits to premium destinations for their "wants", and to convenient local venues, which focus on their regular value and essential non-discretionary spending, for their "needs". The Group's community malls have benefitted from the rebasing of rents since the global financial crisis. This makes them appealing to retailers, who can generate a high proportion of their profits from this segment due to the attractive dynamic between rental levels and sales performance. To be successful, community malls still need to deliver a quality product tailored to the needs of the individual communities that they serve. Furthermore, creativity and investment are required to deliver a superior experience as the occupier mix continues to evolve, to further reflect categories which perform best in physical stores in an increasingly omnichannel environment. C&R's management platform remains a source of real differentiation given the ever more critical need for intensive management of these community malls to continually renew, adapt and implement changes. The success of pilot projects in Ilford and Maidstone demonstrates how responsive consumers can be to this approach and the disproportionately large impact even quite minor changes can have.

## Responsible Business

We continued our record of year-on-year energy improvements reducing our total consumption by more than 10% in 2017. Our expertise not only helps to reduce our environmental impact but also helps us lower our own costs and maintain a very competitive service charge for our retailer customers.

We have also stepped up the training of our operational teams to ensure that they remain as prepared as possible for any potential threat. Our "go to critical plans" were successfully implemented for periods during the year in response to national security concerns, with our centre teams working closely with local emergency services.

The award of an 11th consecutive Royal Society for the Prevention of Accidents ("ROSPA") Gold award again underlines our focus on health and occupational safety standards across our shopping centres.

Community engagement remains at the heart of our business and our commitment was demonstrated through a number of initiatives during the year, including the launch of a new dedicated community hub at Maidstone as part of the pilot project.

## Dividend

The Board is recommending a final dividend of 1.91 pence per share taking the full year dividend to 3.64 pence per share. This represents an increase of 7.4% over the 2016 full year dividend of 3.39 pence per share, in line with previous guidance. The dividend is comfortably covered by underlying earnings with a pay-out ratio of 88.8% compared to 88.7% in 2016. Our strategic asset management masterplans, now implemented across our portfolio following our successes at Ilford and Maidstone, underpin our objective of delivering annual dividend growth in a range of 5–8% over the medium term.

## People

I would like to thank all our staff for their hard work during what has been an exciting but challenging year for the business while managing the evolution in strategy. I would also like to congratulate the Snozone team who were awarded the Best Sporting Venue at the UK School Travel awards, beating Manchester United's museum and stadium tours, Twickenham Stadium, Wimbledon Lawn Tennis Association and the National Football Museum to this prestigious award.

## Board

There have been a number of changes in the composition of the Board during the year, reflecting the significant amount of time the Board had devoted in the previous 12 months to ensuring a successful senior management succession plan was in place. John Clare stepped down as chairman on 13 June 2017 after seven years on the Board. John played a key role in leading C&R through a series of changes that were transformational for the Group's prospects. Ken Ford stepped down as an Executive Director on 9 May 2017 and left the Group on 31 December 2017 after over 20 years of committed service. Ken was one of the architects of C&R and the Group's position as a leading owner of community shopping centres. I would like to thank both John and Ken on behalf of the Board for their contribution over many years.

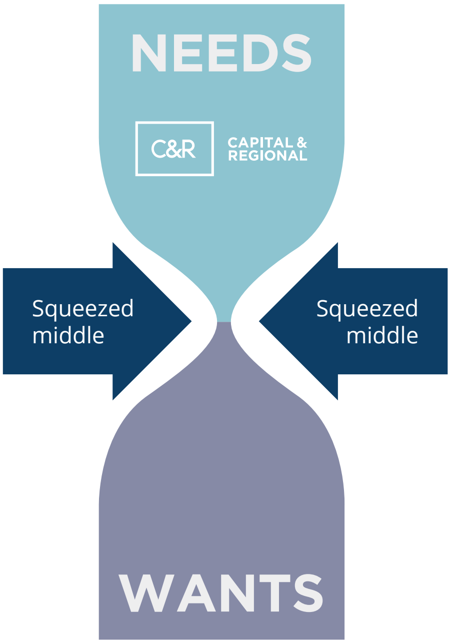
We were very pleased to welcome Lawrence Hutchings to the Board as Chief Executive on 13 June 2017. Lawrence brings extensive retail property expertise from his time at Hammerson and, more recently, Blackstone in Australia. He has quickly made a very positive impact in terms of the repositioning of the business, facilitating in the process my transition to Non-executive Chairman.

**Hugh Scott-Barrett**
Chairman

# THE RETAIL BACKDROP

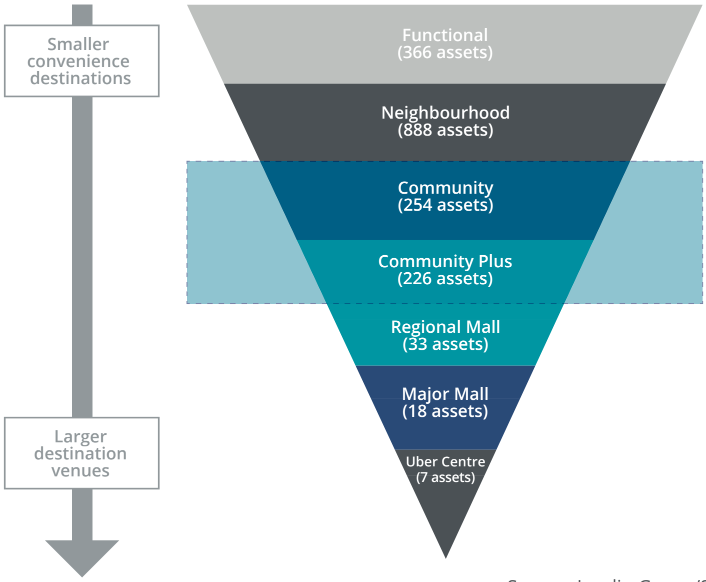
## Polarisation of the retail sector

Polarisation is a structural trend affecting many industries. In retail this is reflected in consumers separating their visits between premium destinations for their "wants", and to convenient local venues, which focus on their regular value and essential non-discretionary spending, for their "needs".



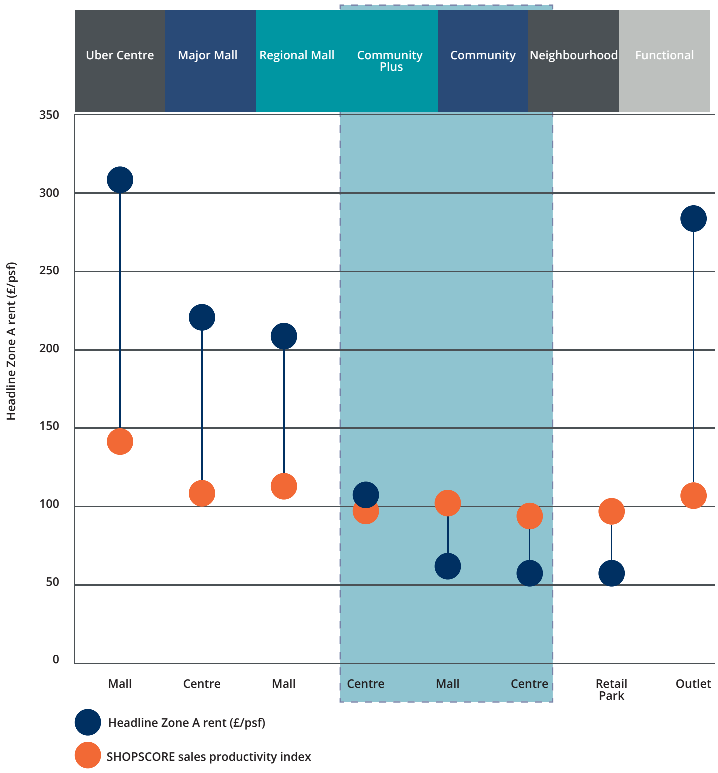

## The critical role of Community shopping centres

Our "Community" shopping centres, which are positioned in highly convenient and accessible locations and characterised by a high conversion and frequency of visits, are focused on this "needs" based end of the spectrum.




Source: Javelin Group/SHOPSCORE

The following graph highlights the critical role played by Community centres for occupiers as their mix of affordable occupancy costs (illustrated by Zone A rents) and high footfall traffic driving sales enable them to act as the engine room for retailers' profits.




Source: Javelin Group/SHOPSCORE


RETHINK

# OUR STRATEGY

| Redefine | Reposition | Refocus | Enhance |
|---|---|---|---|
| community shopping centres | assets and retail mix | management team | shareholder value |

## Redefine

Our objective is to redefine and own the community shopping centre category in the UK consistent with global best practice. We define and assess our community shopping centre offer across three key aspects:

- Physical attributes – including the location, size and dominance of the centre and its accessibility in terms of local transport links and parking provision
- Products and services – including the retail mix, the provision of grocery, leisure and services offerings and the quality of facilities
- Differentiation – being the ways in which a centre stands out as more than just a retail destination including the strength of community links, how well tailored the offer is to the locality, how it contributes and measures on sustainability and in being a local employer of choice.

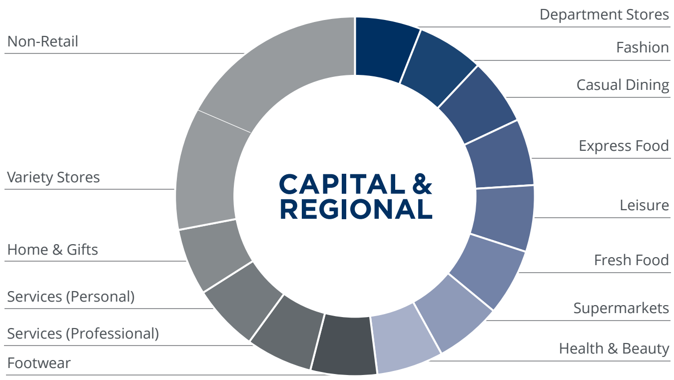
## Reposition

Central to our strategy is repositioning our centres. We believe retailers and communities are clear in their expectations for what they want to see from their Community Centres with a strong mix of everyday essentials including:

- Grocery, pharmacy and general merchandise;
- Catering options covering express food, great coffee and casual dining;
- Personal services including health, beauty, dry cleaners, shoe repairs; and
- Everyday value fashion, leisure and children's wear.

All need to be tailored to the specific community's needs and aspirations.

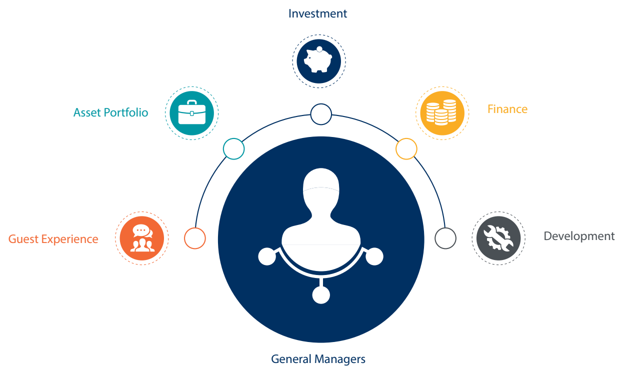
This needs to be supported with exceptional centre services, for example parents' parking, change facilities and kids' play. We are competing for our guests' time against other physical destinations and online options so making the experience as convenient and pleasurable as possible is critical. We believe when we get this proposition right, when it is highly relevant to the community, then we drive footfall and dwell time, which drives retailers' sales.




Illustrative tenant mix for Community Shopping Centres

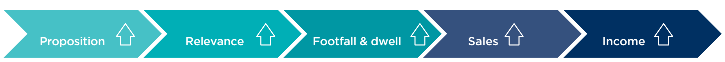
## Refocus

We have refocused our business and resources with a revised business structure that puts our centres at the heart of what we do facilitating accelerated responsiveness and optimal decision making.




## Enhance

As has been evidenced from our Pilot Projects (see Case Studies) the right offer drives footfall and dwell time, boosting retailer sales and ultimately letting tension, improving rental income, property values and consequently, C&R revenue and shareholder returns.



# OUR PEOPLE

Rebecca is entering her sixth year working at The Mall, Walthamstow having previously held senior retail positions for Toys R Us, Gap and Specsavers. Whilst holding the role of local Marketing Manager Rebecca attended the prestigious Oxford Summer School and on her return a succession plan was implemented. This has supported her ambitions of progression within C&R, culminating in her recent promotion to General Manager. Rebecca is a Walthamstow resident and is embedded in the town's vibrant and rapidly evolving community, priding herself on her local connections and positioning the centre as a key community hub.

**Rebecca Bird**
General Manager, The Mall, Walthamstow

# OUR BUSINESS MODEL

## Our core strength is acquiring, enhancing and managing community shopping centres.

With our expert team, our strong retailer relationships and our extensive community connections, we seek to generate sustainable income and capital value growth by combining active asset management with operational excellence.

### RELATIONSHIPS AND RESOURCES

**Expert Team**

**Strong Relationships with Retailers**

**Our Extensive Community Connections**


### IDENTIFY ASSETS

There are a number of assets that meet our potential investment criteria. Typically these will be assets that are underperforming in their catchment but have significant asset management opportunities. Wherever possible we will leverage our deep industry relationships to secure off-market transactions.

### REPOSITION & REMERCHANDISE

Our approach to managing centres is summarised as follows:

- Understand full catchment potential – research/benchmarking, input from Centre teams, engagement with retailers and local communities
- Assess product offering against local community needs and expectations – identify any gaps in offer or amenities
- Execution – engage specialist teams to ensure accelerated delivery with focus on optimal performance
- Establish strategic asset masterplans – comprehensive 3–5 year repositioning plans for each centre profiling Capex spend and evolution of tenant mix. Regularly reviewed in a continual process to ensure ongoing relevance and that assets continue to meet guests' expectations as they evolve over time
- Review and refine – post implementation reviews to inform future decision making, respond quickly to changes

### THE RESULT

Attractive retail and leisure environment

Improved guest experience

Increased footfall and spend

Driving Retailer sales, letting tension and **Income and Capital Value Growth**

Each asset is held in order to generate sustainable income growth supporting our progressive dividend policy. When asset masterplans have been successfully executed and future returns are expected to become less accretive we actively seek opportunities to recycle capital to allow us to reinvest into assets with greater growth potential.

# OUR PEOPLE

Stewart has been with C&R for over 17 years. He is currently part of the team responsible for financial and management reporting but has previously worked in property management finance within the Group's previous fund investments. As a qualified accountant with an MSc in Surveying, Stewart brings a strong mix of financial and property expertise. Stewart has a particular focus on analytics, providing and interpreting research to support the business in driving improved and accelerated data driven decision making.

**Stewart McKellar**
Financial Controller

# PILOT PROJECTS

**In Q4 of 2017 we initiated pilot projects to evidence our assertion that better meeting the local community's needs will drive increased footfall.**

## The Exchange, Ilford

In October 2017 we commenced a programme of improvements at the Exchange Ilford, designed to help position the centre to best serve the local community, and to raise standards throughout the scheme after we acquired it in March 2017. Works began with the internal refurbishment and a de-cluttering exercise, improving the environmental and operational standards across all areas including front and back of house.

Guest surveys, focus groups and mystery shopper research helped us identify what the local guests wanted from their shopping experience. Our data-driven approach was supported by consultation with our retailer customers and external data suppliers such as CACI to verify our approach. Research showed that the family shopper group were under provided for at the centre and represented a large growth potential. A spacious, free to use, kids' play area was introduced which has proved to be hugely popular. Existing toilets and baby-change facilities have been refurbished while the creation of larger parent and child facilities is currently under way. A dedicated parents parking zone was created, giving direct access to the Kids' Freeplay and family-focused lower shopping level and improving the overall guest journey and experience.

A host of other improvements were rapidly put in place including guest pause points which include new seating, mobile charge points and improved way finding throughout the centre, repositioned grab and go food offers, as well as extended opening hours which have been hugely popular. The work was supported by a focused marketing campaign designed to generate high reach within the local community using new digital channels.

The changes have had a dramatic effect, with Q4 year on year footfall growing by 5.5%, far outperforming the national average fall of 3.3%. This has continued into 2018 with footfall increasing by 7.7% for the first two months of the year. Guest Net Promotor Score, a key measure of customer satisfaction, grew by 63 points while mystery shopper scores improved from 76% to 92%.

### Joe Swindells

Head of Asset Development

Joe joined C&R in August 2017 and brings to the business expertise and experience in successfully leading significant development and asset management projects in retail, residential and commercial markets. Joe leads the development and project team responsible for delivery of the business's capital expenditure across the portfolio and strategic development opportunities in line with the strategy to redefine and own the Community shopping centre category in the UK. Joe played a leading role in the Ilford pilot project and is looking forward to working on the further development of the family zone and enhancement of the rest of the scheme as part of the asset masterplan.


# The Mall, Maidstone

The Mall, Maidstone was selected to be part of our strategic pilot programme in Q4 2017. Based on in-depth research and guest feedback, a host of changes and improvements were rapidly implemented, designed to add new facilities to better serve the local community, provide great entertainment and an improved shopping experience for our key target guest groups.

Works included the transformation of unused retail space to create a dedicated parent and child facility which has had a dramatic effect on guest satisfaction levels, generating one of the largest positive social media reactions we've seen. The family-focused improvements also included the installation of interactive game units and a large format "Selfie-zone" to provide theatre within the centre.

A new guest lounge and information point was created along with a "Community Hub" which provides free social space within the centre for local groups and organisations, giving them a platform within the community to increase their awareness of the services they offer.

Q4 footfall at Maidstone was up by +1.1% year on year, versus the national retail index which was down 3.3% for the same period. Guest satisfaction levels improved hugely as a result of the works with the Net Promotor Score increasing by 66 points and mystery shopper scores increasing from 84% to 98%.

## Gareth Holland

Retail Asset Manager

Gareth has been with C&R for over 12 years, having previously been a leasing consultant with a national agency working on shopping centres across the UK. He has the responsibility to drive specific asset management initiatives across three centres, including Maidstone, to implement the renewed focus on delivering community malls that serve their local catchment and beyond. Gareth is excited about the future and the drive to establish each mall as a local town hub and delivering a bespoke centre tailored to its community needs. It is apparent from the success of our pilot projects that our retail customers are already seeing the benefits of this approach.

# Digital Connections

In 2017, we expanded our use of digital thinking and explored new channels beyond our typical range of activity across our websites, social media channels, email communications and online advertising.

We trialled the concept of digital interactive spaces within our centres utilising Play9 and NexusEngage installations. This proved to be a successful method of turning empty retail space into interactive experiences for our guests. Play9 transformed previously void space in Luton and Maidstone into a fantastic interactive area for families, accumulating over 100,000 game plays in the first three months and catering to our shoppers visiting with children. With the NexusEngage units installed in Ilford and Maidstone, we received great feedback from our guests and saw an impressive 70,000+ plays with 45,000+ gifts/vouchers distributed which had a direct positive impact on our retail customers' trade.

To complement our pilot activity at Maidstone and Ilford, we looked at new digital advertising channels – Weve and Blis – to localise our marketing efforts. Weve and Blis allowed us to connect with local members of our local community through SMS, MMS messages and display advertising through geographical targeting techniques. With footfall tracking analytics, we were then able to see if the audience we reached then visited the centre as a result. In a four week period, this activity resulted in more than 3.5 million impressions and approximately 8,000 additional shopper visits.

## Grace Azcarate

Digital Marketing Executive

With four years of digital marketing experience, Grace joined C&R in 2016 to oversee digital campaigns and initiatives across the portfolio. She is enthusiastic and eager to trial new technologies and advertising channels. To complement her background, she analyses customer and guest research to create a tailored digital experience for our local communities. Grace belongs to the Revo NextGen committee and is also an active member of the C&R Wellbeing Committee which is dedicated to promoting the health and wellness of staff through education, support and initiatives.

# KEY PERFORMANCE INDICATORS

| KPI | Why we use this as an indicator | Performance |
|---|---|---|
| **Adjusted Profit**[1] | Adjusted Profit seeks to track the recurring profits of the business which is the key driver for dividend payments. | 2017 £29.1m<br>2016 £26.8m |
| **Adjusted Earnings**[1] **per share** | | 2017 4.1p<br>2016 3.8p |
| **Dividend per share** | This is the cash return to be delivered to investors in respect of the year under review. | 2017 3.64p<br>2016 3.39p |
| **EPRA net assets per share** | This is a measure of the movement in the underlying value of assets and liabilities underpinning the value of a share. | 2017 67p<br>2016 68p |
| **Net debt to property value**[2] | We aim to manage our balance sheet effectively with the appropriate level of gearing. | 2017 46%<br>2016 46% |
| **Net Rental Income** | This is the key driver of Adjusted Profit. | 2017 £51.6m<br>2016 £50.4m |
| **Footfall (wholly-owned)** | Footfall is an important measure of a centre's popularity with customers. Occupiers use this measure as a key part of their decision-making process. | C&R +0.1%<br>Index -2.8% |
| **Occupancy (wholly-owned)** | We aim to optimise the occupancy of our centres as attracting and retaining the right mix of occupiers will enhance the trading environment. | 2017 97.3%<br>2016 95.4% |

Notes

1. Adjusted Profit and Adjusted Earnings per share are as defined in the Glossary and Note 1 to the Financial Statements. Adjusted Profit incorporates profits from operating activities and excludes revaluation of properties and financial instruments, gains or losses on disposal, exceptional items and other defined terms. A reconciliation to the equivalent EPRA and statutory measures is provided in Note 9 to the financial statements.
2. Net debt divided by property valuation. 2016 is adjusted for refinancing of Mall assets on 4 January 2017, Ipswich disposal on 17 February 2017 and Ilford acquisition on 8 March 2017.

| How this links to our strategy | Progress during the year |
|---|---|
| We target delivering underlying profits to support dividend per share growth of between 5% and 8% per annum in the medium-term. | An increase of 8.6% in Adjusted Profit or 7.3% on a per share basis reflected growth in Net Rental Income, lower interest costs following the refinancing of the Mall assets and a £1.0 million reduction in net central operating costs. |
| We target delivering dividend per share growth of between 5% and 8% per annum in the medium-term. | 3.64p represented an increase of 7.4% over 2016 and therefore at the top end of our target range. Over the last two years we have averaged 8% dividend growth per annum. |
| We aim to maximise the value of our assets. Our Capital expenditure investment programme is planned to deliver a capital return over and above the income enhancement. | EPRA NAV fell by 1p due to a small revaluation loss and the slightly higher number of shares in issue as a result of the Scrip dividend and vesting of the Company's Long Term Incentive Plan. |
| Having the appropriate level of gearing is important to effectively manage our business through the property cycle. Our target range is 40%–50% with the objective of reducing to the lower end in the medium-term. | Net debt to property value remained stable at 46%. |
| We target delivering dividend per share growth of between 5% and 8% per annum in the medium-term. | The increase in Net Rental Income reflected underlying growth of 1.9% on the wholly-owned portfolio together with the Ilford acquisition and full year impact of Hemel Hempstead, net of Camberley, sold in 2016. |
| Footfall performance provides an indication of the relevance and attractiveness of our centres, influencing occupier demand and future letting performance. | Footfall at the Group's UK shopping centres significantly outperformed the national ShopperTrak index by 2.9%. |
| Occupancy has a direct impact on the profitability of our schemes and also influences footfall and occupier demand. | Strong letting activity during the year resulted in an improvement in occupancy to 97.3%. |

# CHIEF EXECUTIVE'S STATEMENT

**Lawrence Hutchings**
**Chief Executive**

**"While retailing continues to evolve and is undoubtedly facing cyclical and structural headwinds, we have full confidence that our repositioning programme and rebased affordable occupancy costs will continue to allow our retailer customers to trade profitably in high footfall locations that are the engine room for their profits."**

It is a pleasure to be writing this statement, my first as Chief Executive of C&R after taking up the role in June 2017. I would like to take this opportunity to thank our former CEO, Hugh Scott-Barrett, for all his support and guidance during my transition into the role. Hugh's continued involvement as chairman is welcome from my perspective.

We have been busy delivering on our 2017 business plans, where we have seen strong momentum in income and leasing with our accretive Capex projects, and implementing our new strategy. This was launched successfully in December 2017 and is designed to ensure that we capitalise fully on the continued evolution in physical retailing.

We believe that our centres are well placed to take advantage of important and ongoing changes in how we live, work, socialise and access goods and services, be it through the physical, online or combined "omnichannel" platforms.

Our renewed focus on better tailoring and aligning our retail and services to the local communities which we serve, coupled with ensuring that our centres are easier and more pleasurable to access and visit, will deliver continued income growth through improved footfall, sales, tenant demand and rents.

The success of the pilot projects completed in Q4 last year reinforces our confidence in our ability to redefine the community shopping centre in the UK, through our asset management masterplans which are fundamental to our ability to continue delivering underlying recurring income growth.

## Income growth continues to deliver performance

Net rental income within the wholly-owned portfolio grew 2.4% from £50.4 million to £51.6 million, or 1.9% on a like-for-like basis. Delivery of our capital expenditure ("Capex") programme, which includes unlocking the potential of the former BHS stores, saw the Group invest £17.5 million of Capex during the year which helped drive income growth, and included:

- Travelodge at Wood Green – £6.4 million total project spend (£4.2 million in 2017);
- Conversion of the former BHS unit at Walthamstow into units for Lidl, The Gym and further leisure and retail space – £4.3 million total project investment (£3.9 million in 2017); and
- A new Wilko store in Blackburn formed from the former BHS – £1.0 million total project spend, all of which was undertaken in the year under review.

With average rents currently at *c.* £15 psf, we will see further growth in income as the repositioning Capex is deployed during 2018 and 2019 to improve the productivity of our floor space while maintaining the rental affordability that makes our centres so attractive to retailers. We continue to adopt a conservative approach in assessing the return from our Capex projects and in the majority of cases exclude any "halo" impact across other parts of the centres from the works. These often involve new anchor retailers and significant changes to customer proposition which further increase the appeal of the centres to their communities.

## Cost management and operating efficiencies

This focus on income is supported by a renewed approach to cost management as announced at our half year results. We are targeting efficiency savings of at least £1.8 million from our central cost base by the end of 2018, representing a saving of approximately 20% of the total 2016 central overhead. Pleasingly we have delivered over 60% of these savings as of year end, with the balance in varying stages of realisation. We believe that there are further efficiencies in our overhead as the operational restructuring is implemented and with decentralisation empowering the centre teams.

## Leasing demand supports our strategy

Leasing activity has continued apace in 2017, with 79 new leases and renewals and 32 rent reviews together totalling £9.6 million in annual income, underlining demand for our centres from non-discretionary and value orientated retailers, service providers, hotels, cinemas, supermarkets and food catering. Importantly, our new leasing and renewals were completed at an average spread of 10.3%[1] over previous passing rent and 8.4%[1] over valuation ERVs. Occupancy improved to 97.3% from 95.4% at December 2016.


## Asset recycling

We remain committed to recycling where we believe that we have optimised the asset through active repositioning and are able to generate more accretive returns from either new acquisitions or additional capital investment in the rest of the portfolio.

As planned, the pace of asset recycling was slower in the second half of the year, after the successful sales of Camberley in late 2016 and the Buttermarket in Ipswich in February 2017. The proceeds of these sales supported the acquisition of The Marlowes, Hemel Hempstead in early 2016 and the Exchange, Ilford in March 2017.

We believe that there will be increased potential for investment opportunities and that pricing may become more attractive to acquire assets as the importance of active, income driven, strategic, long-term management becomes more critical to the success of our type of assets. Our internal management structure and dedicated team of retail professionals provide us with a real competitive advantage, allowing us to unlock income growth from well-located community shopping centres that meet our criteria.

## Balance sheet strength

The Group continues to benefit from the balance sheet restructuring and refinancing undertaken in January 2017, which covers five of the Group's seven wholly-owned centres, as well as the subsequent new debt facility for Ilford and the renewal of the Group's Revolving Credit Facility. The Group's all-in cost of debt is now just 3.25%, allowing us to benefit from historically low interest rates, which have subsequently increased. It also provides us with the stability of a 6.7 year term increasing to 7.3 if all options are exercised.

Our capital expenditure programme is unique amongst our peers in that it comprises a majority of smaller projects, which are often capable of being completed within a 12–18 month period. This provides us with maximum flexibility to dynamically manage the balance sheet to react quickly to changes in market conditions and to new opportunities.

## Outlook

While retailing continues to evolve and is undoubtedly facing cyclical and structural headwinds, we have full confidence that our repositioning programme and rebased affordable occupancy costs will continue to allow our retailer customers to trade profitably in high footfall locations that are the engine room for their profits.

Our weighting to the London and Greater London economy, with its strong population growth and density, is creating demand from non-retail uses including residential, hotel and leisure with on flow benefits to our core retail business and customers. We are committed to maximising the value of the Group's assets through strategic asset masterplans and delivering on behalf of our shareholders.

We are steadfast in our endeavours to improve the lives of the communities that we serve, through providing best in class environments for retail goods, leisure services, social interaction and facilitating click and collect fulfilment. In short we believe that the intersection of where product and services meet people remains very important.

The Board has announced a 7.4% increase in total dividend for 2017 and, while fully aware that recent occupier failures present some challenges to short-term results, believes that both the momentum we have carried through into 2018 and our strategic asset management masterplans, now established across our entire portfolio following the initial results seen at Ilford and Maidstone, underpin our objective of delivering annual dividend growth in a range of 5% to 8% over the medium term.

Finally, I would like to reinforce Hugh's thanks and appreciation to all our staff both at the support office in London and in our centres. A significant amount has been achieved during the past nine months in delivering these results whilst creating and implementing our new strategy. These are the first exciting steps on our journey to be the best in class owner managers of community shopping centres.

**Lawrence Hutchings**
Chief Executive

1. For lettings and renewals (excluding development deals) with a term of five years or longer and which did not include a turnover element.

# OPERATING REVIEW

Highlights of letting activity across the portfolio in 2017 include:

- At Walthamstow, lettings were made to Smiggle, Gökyüzü Turkish restaurant and Lidl, which opened very successfully just after the year end, in January 2018. At Wood Green, new lettings were completed to River Island, Blue Inc, Five Guys and Pak cosmetics, while Aldo and Superdrug renewed.
- At Blackburn, Specsavers took a new unit and River Island, Scotts, Superdrug, The Perfume Shop and Thorntons renewed. Genus and Superdrug took new leases at Maidstone and Card Factory signed a five year term at Ilford. At Luton, Kiko and Scotts opened new units from a split of the former USC unit, while KFC took a 10 year lease in the new food court and FootLocker renewed for a further five year term.
- The outperformance of new lettings and renewals versus ERV demonstrates the continued affordability and attractiveness of our schemes and this evidence will be supportive of rental tones in the future.
- Since 30 December 2017, the positive letting momentum has continued with 19 new lettings and renewals in the first two months of the year. This includes new lettings to Smiggle at Blackburn and 3G at Walthamstow, together with the leasing of four floors of a vacant office block in Luton, where £5 million of refurbishment expenditure will deliver an income return in excess of 9%.

The core strength and expertise of C&R lies in its ability to create and deliver specialist asset management improvements across its *c.*£1.0 billion portfolio of UK community shopping centres, which is underpinned by a strong London and South East bias. Key characteristics of our assets are their dominance in their locality, coupled with their ability to offer occupiers attractive, affordable and high footfall space which caters for the non-discretionary and value-orientated needs of the local community.

## New lettings, renewals and rent reviews

There were 79 new lettings and renewals in the period at a combined average premium of 10.3%[1] to previous passing rent and an 8.4%[1] premium to ERV.

| | Year ended 30 Dec 2017 |
|---|---|
| **New Lettings** | |
| Number of new lettings | **47** |
| Rent from new lettings (£m) | **£2.7m** |
| Comparison to ERV[1] (%) | **+8.7%** |
| **Renewals settled** | |
| Renewals settled | **32** |
| Revised rent (£m) | **£1.7m** |
| Comparison to ERV[1] (%) | **+8.1%** |
| **Combined new lettings and renewals** | |
| Comparison to previous rent[1] | **+10.3%** |
| Comparison to ERV[1] | **+8.4%** |
| **Rent reviews** | |
| Reviews settled | **32** |
| Revised passing rent (£m) | **£5.2m** |
| Uplift to previous rent (%) | **+1.2%** |

1. For lettings and renewals (excluding development deals) with a term of five years or longer which do not include a turnover rent element.

## Delivery of specialist asset management initiatives

During 2017 we invested £17.5 million of capital expenditure. A number of major projects were concluded over the period including:

- At Wood Green, the new 78 bedroom Travelodge opened in October 2017 following a £6.4 million investment project with early trading very encouraging.
- At Walthamstow, Lidl and The Gym both launched successfully around the turn of 2018. Gökyüzü, a new Turkish restaurant for a local operator which has traded very successfully at our Wood Green centre for a number of years, opened in February 2018 and two further retail units totalling 5,000 sq ft have also been created. All of the above have been formed out of the former BHS store.
- At Blackburn, Wilko opened in September 2017 at the refurbished former BHS unit. Sports Direct also continues to trade from the unit, now via a direct lease.

The above units will deliver a combined annual rent of £1.6 million from a total Capex spend of approximately £12 million. 2018 NRI will benefit by approximately £0.8 million from the full year impact of these lettings.

In December 2017 we received a resolution to grant planning consent subject to satisfactory s106 agreement for the proposed extension at Walthamstow. Our plans include the addition of 80,000 sq ft of new retail and leisure space and approximately 500 new homes, as well as improved public spaces and community facilities. A development agreement is in place with the London Borough of Waltham Forest and we anticipate progressing to full planning consent in the first half of 2018.

In Hemel Hempstead we received planning consent in October 2017 for our transformational plans to create a leisure hub with up to six new restaurant units, anchored by a cinema for which terms have been agreed with a leading operator. Work is well advanced on renewing the atrium roof, the cost of which is being met by the previous owner.

## Future Capex plans

As part of our strategic asset masterplans we have reviewed our planned Capex investment and assessed additional opportunities across our portfolio. In total we have identified more than 50 individual projects totalling over £100 million which we believe will deliver in aggregate an income return of at least 9%.

We expect to deploy Capex at a typical rate of approximately £15-25 million per annum. The depth of opportunities across the portfolio enables us to focus investment on those with the strongest impact and thereby provides flexibility, allowing us to respond dynamically to any changes in occupier demand or further evolution of shopper dynamics. Key projects in 2018 include the new office letting at Luton, the leisure hub at Hemel Hempstead and further improvement of the family zone in Ilford.

## Rental income and occupancy

| | **30 Dec 2017** | 30 Dec 2016 |
|---|---|---|
| Contracted rent (£m) | **64.1** | 55.8 |
| Passing rent (£m) | **61.0** | 53.0 |
| Occupancy (%) | **97.3** | 95.4 |

The increase in contracted and passing rent reflects the acquisition of the Exchange Centre, Ilford in March 2017 and like-for-like growth of 3.1% and 3.0% respectively. At 30 December 2017 there was £3.1 million of contracted rent where the tenant is in a rent free period, of which £3.0 million will convert to passing rent in 2018. The strong letting activity during the year has resulted in an improvement in occupancy to 97.3% at the year end.

## Insolvencies

| | **Year ended December 2017** | Year ended December 2016[2] |
|---|---|---|
| Insolvencies (units) | **15** | 18 |
| Passing rent of insolvencies (£m) | **0.7** | 2.4 |

2. Comparatives exclude the impact of The Mall, Camberley which was disposed of in November 2016.

The number of insolvencies in 2017 was similar to 2016, but the value was much reduced owing to the impact of BHS last year. The most significant insolvency was Blue Inc, involving five units with a total rent of £0.3 million. As at 30 December 2017 five of the 15 units affected by insolvency had been re-let and eight were continuing to trade as usual.

To 8 March 2018 there were three national occupier insolvencies or restructurings that impact upon the portfolio since the year end. Based on information available to date it is expected that their combined impact on 2018 Adjusted Profit will be approximately £0.7 million.

## Operational performance

There were 76 million visits to our centres during 2017[3]. For the second half of 2017, our seven wholly-owned shopping centres achieved a 0.5%[4] increase in footfall compared to a National Index figure of -2.9%. Footfall for the year as a whole increased by 0.1%[4], again significantly ahead of the National Index which showed a decline of 2.8%.

In the second half of 2017, we undertook repositioning pilot projects at Maidstone and Ilford and these two assets recorded particularly strong performances, with Maidstone increasing by 2% in the fourth quarter of 2017, versus 2016, and Ilford increasing by 5.5%.

The positive momentum has continued into the start of 2018 with footfall for the wholly-owned portfolio up 3.1% in the two months to the end of February 2018, compared to the National Index which was -2.9%.

Car park usage has been stable and car park income was £10.2 million, an increase of 7.2% on a like-for-like basis. Our Collect+ service continues to expand with in excess of 42,000 packages handled in the year, an increase of 24% year on year.

3. 78 million on an annualised basis allowing for a full 12 months of the Exchange Centre, Ilford.
4. Excluding entrances impacted by development work.

# OPERATING REVIEW

CONTINUED


## Other assets and operations

### The Kingfisher Centre, Redditch (C&R ownership 20%, net investment of £7.4 million at 30 December 2017)

The Range successfully opened in July 2017 in the former BHS unit. Other significant lettings during the year included Smiggle, HMV and Trespass, although the scheme was impacted by the insolvency of Linens Direct as well as the closure of Argos. The property was valued at £142.9 million at 30 December 2017, reflecting a net initial yield of 6.75%.

### Snozone

Snozone enjoyed another strong trading year with revenue increasing 2% to £10.4 million (2016: £10.2 million) and profit up 10% to just over £1.5 million (2016: £1.4 million).

During 2017 Snozone won Best Sporting Venue at the UK School Travel awards, beating Manchester United's museum and stadium tours, Twickenham Stadium, Wimbledon Lawn Tennis Association and the National Football Museum to this prestigious award.

In September 2017, Snozone purchased the former "Skiplex" business at Basingstoke for less than £0.1 million, comprising two indoor slopes inside the iFLY indoor skydiving centre. Rebranded as "Skizone" this gives Snozone a foothold south of the M25 from which to grow its data base and auxiliary revenue, as well as creating a hub from which to open similar sized businesses across the south, should opportunities present themselves.

# OUR PEOPLE

Sarah started as General Manager of the Exchange Centre, Ilford in June 2017, having been appointed following the Group's acquisition of the scheme in March 2017. The move represented a return to C&R having previously worked in marketing roles at Wood Green and then Romford, whilst in the Group's ownership, and where Sarah joined from having been General Manager since being promoted from the Deputy Manager position in February 2013. Managing the Ilford pilot projects proved a challenging but hugely rewarding reintroduction to C&R and Sarah and her team are looking forward to further transforming the centre in 2018 with the roll-out of the asset masterplan.

**Sarah deCourcy Rolls**
General Manager, the Exchange Centre, Ilford

# FINANCIAL REVIEW

| | 2017 | 2016 | Change |
|---|---|---|---|
| **Profitability** | | | |
| Net Rental Income[1] | **£51.6m** | £50.4m | +2.4% |
| Adjusted Profit[2] | **£29.1m** | £26.8m | +8.6% |
| Adjusted Earnings per share[2] | **4.10p** | 3.82p | +7.3% |
| IFRS Profit/(loss) for the period | **£22.4m** | £(4.4)m | |
| EPRA cost ratio (excluding vacancy costs) | **25.9%** | 27.4% | -150bps |
| Net Administrative Expenses to Gross Rent | **12.7%** | 13.6% | -90bps |
| **Investment returns** | | | |
| Net Asset Value (NAV) per share | **67p** | 68p | -1p |
| EPRA NAV per share | **67p** | 68p | -1p |
| Dividend per share | **3.64p** | 3.39p | +7.4% |
| Dividend pay-out | **88.8%** | 88.7% | |
| Return on equity | **4.7%** | (0.9)% | |
| **Financing**[3] | | | |
| Group net debt | **£404.0m** | £398.1m | +£5.9m |
| Group net debt to property value | **46%** | 46% | – |
| Average debt maturity[4] | **7.3 years** | 8.0 years | -0.7 years |
| Cost of debt[5] | **3.25%** | 3.25% | – |

1. Wholly-owned assets.
2. Adjusted Profit and Adjusted Earnings per share are defined in the Glossary and Note 1 to the Financial Statements. A reconciliation to the statutory result is provided further below. EPRA figures and a reconciliation to EPRA EPS are shown in Note 9 to the Financial Statements.
3. December 2016 comparative figures in this section are adjusted for the refinancing of Mall assets completed on 4 January 2017, Ipswich disposal completed on 17 February 2017 and Ilford acquisition completed on 8 March 2017.
4. Assuming exercise of all extension options.
5. Assuming all loans fully drawn.

The above results are discussed more fully in the following pages.

## Use of Alternative Performance Measures (APMs)

Throughout the results statement we use a range of financial and non-financial measures to assess our performance. The significant measures are as follows:

| Alternative performance measure used | Rationale |
|---|---|
| **Like-for-like amounts** | Like-for-like amounts are presented as they measure operating performance as distinct from the impact of acquisitions or disposals. In respect of property, the like-for-like measures, unless otherwise stated, relate to property which has been owned throughout both periods so that income can be compared on a like-for-like basis. For the purposes of comparison of capital values, this will also include assets owned at the previous period end but not throughout the prior period. |
| **Adjusted Profit** | Adjusted Profit is presented as it is considered by Management to provide the best indication of the extent to which dividend payments are supported by underlying profits.<br><br>Adjusted Profit excludes revaluation of properties, profit or loss on disposal of properties or investments, gains or losses on financial instruments, non-cash charges in respect of share-based payments and exceptional one-off items.<br><br>The key differences from EPRA earnings, an industry standard comparable measure, relates to the exclusion of non-cash charges in respect of share-based payments and adjustments in respect of exceptional items where EPRA is prescriptive.<br><br>A reconciliation of Adjusted Profit to the equivalent EPRA and statutory measures is provided in Note 9 to the financial statements. |

## Profitability

*Components of Adjusted Profit and reconciliation to IFRS Profit*

| Amounts in £m | Year to 30 December 2017 | Year to 30 December 2016 |
|---|---|---|
| Net rental income | | |
| Wholly-owned assets | **51.6** | 50.4 |
| Kingfisher, Redditch[1] | **1.6** | 1.7 |
| Buttermarket, Ipswich[2] | **–** | 0.5 |
| | **53.2** | 52.6 |
| Net interest | **(19.6)** | (20.3) |
| Snozone profit (indoor ski operation) | **1.5** | 1.4 |
| Central operating costs net of external fees | **(5.9)** | (6.9) |
| Tax charge | **(0.1)** | – |
| **Adjusted Profit** | **29.1** | 26.8 |
| **Adjusted Earnings per share (pence)**[3] | **4.10p** | 3.82p |
| Reconciliation of Adjusted Profit to statutory result | | |
| **Adjusted Profit** | **29.1** | 26.8 |
| Property revaluation (including Deferred Tax) | **(6.3)** | (14.5) |
| Loss on disposals | **–** | (2.6) |
| Gain/(Loss) on financial instruments | **1.1** | (2.5) |
| Refinancing costs | **(0.5)** | (11.0) |
| Other items[4] | **(1.0)** | (0.6) |
| **IFRS Profit/(loss) for the period** | **22.4** | (4.4) |

1. See note 14d to the Financial Statements.
2. See note 14e to the Financial Statements.
3. EPRA figures and a reconciliation to EPRA EPS are shown in Note 9 to the Financial Statements.
4. Includes £0.9 million for the non-cash accounting charge in respect of share-based payments (2016: £0.5 million).

Adjusted Profit and Adjusted Earnings per share showed strong increases of 8.6% and 7.3% respectively, reflecting growth in NRI (see breakdown below), lower interest costs following the refinancing of the Mall assets and a £1.0 million reduction in net central operating costs, reflecting the benefit of completed and ongoing cost initiatives. Gross central costs fell from £9.6 million in 2016 to £8.4 million in 2017, a reduction of £1.2 million. A further reduction of at least a further £0.6 million of costs per annum is targeted for 2018.

## Wholly-owned assets Net rental income

| Amounts in £m | Year to 30 Dec 2017 | Year to 30 Dec 2016 | |
|---|---|---|---|
| Like-for-like (Blackburn, Luton, Maidstone, Walthamstow, Wood Green) | **43.5** | 42.7 | +1.9% |
| Hemel Hempstead – acquired February/March 2016 | **3.7** | 3.5 | |
| Camberley (sold November 2016) and other disposals | **–** | 4.2 | |
| Ilford – acquired 8 March 2017 | **4.4** | – | |
| **Net rental income (NRI)** | **51.6** | 50.4 | +2.4% |

# FINANCIAL REVIEW

CONTINUED

## Net Asset Value

NAV at £481.4 million and EPRA NAV at £482.6 million increased marginally (December 2016: £477.6 million and £481.5 million respectively) with retained profit offsetting the small fall in valuations net of Capex (see below). On a per share basis Basic NAV and EPRA NAV fell by 1p to 67p due to a slightly higher number of shares in issue as a result of the Scrip dividend and vesting of the Company's Long Term Incentive Plan.

## Property portfolio valuation

| | 30 December 2017 | | 30 December 2016 | |
|---|---|---|---|---|
| **Property at independent valuation** | **£m** | **NIY %** | £m | NIY % |
| Blackburn | **121.3** | **6.65%** | 124.1 | 6.53% |
| Hemel Hempstead | **54.0** | **6.88%** | 54.6 | 7.07% |
| Ilford | **82.4** | **6.54%** | 78.0[1] | 6.70%[1] |
| Luton | **214.0** | **6.35%** | 207.0 | 6.35% |
| Maidstone | **76.0** | **6.70%** | 80.0 | 6.78% |
| Walthamstow | **107.7** | **5.25%** | 103.3 | 5.25% |
| Wood Green | **231.2** | **5.25%** | 225.1 | 5.25% |
| Wholly-owned portfolio | **886.6** | **6.06%** | 872.1 | 6.08% |

1. Ilford at acquisition price on 8 March 2017.

The valuation of the wholly-owned portfolio at 30 December 2017 was £886.6 million, reflecting a net initial yield of 6.06%.

This is marginally below the 30 December 2016 valuation of £794.1 million after allowing for capital expenditure in the period of £17.5 million and the £78.0 million acquisition of The Exchange Centre, Ilford in March 2017 (excluding acquisition costs of *c.*£1.0 million). Yields on the Group's London and South East assets proved resilient and were largely unchanged over the period, with the decline in Maidstone reflecting the unlet BHS unit. Blackburn saw a small fall in valuation due to outward market yield shift partially offset by an increase in valued income.

## Financing

### *Net interest*

| **Amounts in £m** | **Year to 30 Dec 2017** | Year to 30 Dec 2016 |
|---|---|---|
| Wholly-owned assets | | |
| Net Interest on loans | **14.0** | 14.0 |
| Amortisation of refinancing costs | **1.0** | 1.4 |
| Notional interest charge on head leases[2] | **3.4** | 3.6 |
| | **18.4** | 19.0 |
| Kingfisher, Redditch (Group share) | **0.9** | 0.8 |
| Buttermarket, Ipswich (Group share) | **–** | 0.1 |
| Central | **0.3** | 0.4 |
| Net Group interest | **19.6** | 20.3 |

2. Notional interest charge with offsetting opposite and materially equal credit within other property operating expenses.

The decrease in interest reflects the lower interest cost and amortisation charge following the refinancing of the Mall assets that completed on 4 January 2017 and the acquisition of Ilford in March 2017.

### *Group debt*

| 30 December 2017 | Debt[1] £m | Cash[2] £m | Net debt £m | Loan to value[3] % | Net debt to value[3] % | Average interest rate % | Fixed % | Duration to loan expiry Years | Duration with extensions Years |
|---|---|---|---|---|---|---|---|---|---|
| Four Mall assets | **255.0** | (8.4) | **246.6** | 48% | 46% | 3.36 | 100 | 7.6 | 8.6 |
| Luton | **107.5** | (5.8) | **101.7** | 50% | 48% | 3.14 | 100 | 6.0 | 6.0 |
| Hemel Hempstead | **26.9** | (1.1) | **25.8** | 50% | 48% | 3.32 | 100 | 4.1 | 5.1 |
| Ilford | **39.0** | (2.4) | **36.6** | 47% | 44% | 2.76 | 100 | 6.2 | 6.2 |
| Group RCF | **–** | (6.7) | **(6.7)** | – | – | 3.40 | – | 4.1 | 4.1 |
| **On balance sheet debt** | **428.4** | (24.4) | **404.0** | 48% | 46% | 3.25 | 94 | 6.7 | 7.3 |

1. Excluding unamortised issue costs.
2. Excluding cash beneficially owned by tenants.
3. Debt and net debt divided by investment property at valuation.

The refinancing activity completed in the early part of 2017 has delivered an attractive funding cost of 3.25% that is fixed and secured over a weighted average 6.7 year maturity, extending to 7.3 years if all extensions are exercised. Our target range for net debt to property value remains 40%–50% with an intention to reduce it to the lower end of that range in the medium term.

### *Covenants*

The Group was compliant with its banking and debt covenants at 30 December 2017 and throughout the year. Further details are disclosed in the “covenant information” section on page 119.

## South African secondary listing

The Company maintains a primary listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange (JSE) in South Africa. At 30 December 2017, 60,477,452 of the Company’s shares were held on the JSE register representing 8.4% of the total shares in issue.

## Dividend

The Board is proposing a final dividend of 1.91 pence per share, taking the full-year dividend to 3.64 pence per share, representing a 7.4% increase from 2016. The Board has reaffirmed its guidance that the Company will target year on year dividend growth in the range of 5% to 8% per annum over the medium term.

The key dates proposed in relation to the payment of the 2017 final dividend are:

- Confirmation of ZAR equivalent dividend and PID percentage — 10 April 2018
- Last day to trade on Johannesburg Stock Exchange (JSE) — 17 April 2018
- Shares trade ex-dividend on the JSE — 18 April 2018
- Shares trade ex-dividend on the London Stock Exchange (LSE) — 19 April 2018
- Record date for LSE and JSE — 20 April 2018
- Annual General Meeting — 9 May 2018
- Dividend payment date — 16 May 2018

The amount to be paid as a PID will be confirmed in the announcement on 10 April 2018. If a Scrip dividend alternative is offered, subject to the requisite regulatory approvals, the deadline for submission of valid election forms will be 20 April 2018. South African shareholders are advised that the final dividend will be regarded as a foreign dividend. Further details relating to Withholding Tax for shareholders on the South African register will be provided within the announcement detailing the currency conversion rate on 10 April 2018. Share certificates on the South African register may not be dematerialised or rematerialised between 18 April 2018 and 20 April 2018, both dates inclusive. Transfers between the UK and South African registers may not take place between 10 April 2018 and 20 April 2018, both dates inclusive.

**Charles Staveley**
Group Finance Director

# MANAGING RISK

## Risk management process

There are a number of risks and uncertainties which could have a material impact on the Group's future performance and could cause results to differ significantly from expectations.

Ahead of every half year and year end the Group undertakes a comprehensive risk and controls review involving interviews with relevant management teams. The output of this process is an updated risk map and internal control matrix for each component of the business which is then aggregated into a Group risk map and matrix which is reviewed by executive management, the Audit Committee and the Board and forms the basis for the disclosures made below. This process clearly outlines the principal risks, considers their potential impact on the business, the likelihood of them occurring and the actions being taken to manage, and the individual(s) responsible for managing, those risks to the desired level.

This risk matrix is also used in performing our annual assessment of the material financial, operational and compliance controls that mitigate the key risks identified. Each control is assessed or tested for evidence of its effectiveness. The review concluded that all such material controls were operating effectively during 2017.

## Principal risks at 30 December 2017

Following the risk reviews carried out at 30 June 2017 and 30 December 2017, one further risk has been added to the list of principal Group risks as disclosed in the 2016 Annual Report, being Reputational Risk. Reputational Risk is defined as the potential impact on the Group's reputation from adverse events or publicity, and has been added reflecting a general business environment in which corporates are under increasing and magnified focus from both mainstream and social media.

Otherwise it was concluded that the nature of the Group's risks had not significantly changed, although the ongoing economic and political uncertainty in the UK, most prominently due to the result of the EU referendum, continues to impact some of the wider market risks that the Group is subject to.

The risks noted 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.

| Risk | Impact | Mitigation |
|---|---|---|
| **Property risks** | | |
| **Property investment market risks** | | |
| • Weakening economic conditions and poor sentiment in commercial real estate markets could lead to low investor demand and an adverse movement in valuation | • Small changes in property market yields can have a significant effect on valuation<br>• Impact of leverage could magnify the effect on the Group's net assets | • Monitoring of indicators of market direction and forward planning of investment decisions<br>• Review of debt levels and consideration of strategies to reduce if relevant |
| **Impact of the economic environment** | | |
| • Tenant insolvency or distress<br>• Prolonged downturn in tenant demand and pressure on rent levels | • Tenant failures and reduced tenant demand could adversely affect rental income, lease incentive, void costs, cash and ultimately property valuation | • Large, diversified tenant base<br>• Review of tenant covenants before new leases signed<br>• Long-term leases and active credit control process<br>• Good relationships with, and active management of, tenants<br>• Void management though temporary lettings and other mitigation strategies |
| **Valuation risk** | | |
| • Lack of relevant transactional evidence | • Property valuations increasingly subjective and open to a wider range of possible outcomes | • Use of experienced, external valuers who understand the specific properties<br>• Use of more than one valuer<br>• Valuations reviewed by internal valuation experts and key assumptions challenged |
| **Threat from the internet** | | |
| • The trend towards online shopping may adversely impact consumer footfall in shopping centres | • A change in consumer shopping habits towards online purchasing and delivery may reduce footfall and therefore potentially reduce tenant demand and the levels of rents which can be achieved | • Strong location and dominance of shopping centres (portfolio is weighted to London and South East England)<br>• Strength of the community shopping experience with tailored relevance to the local community<br>• Concentration on convenience and value offer which is less impacted by online presence<br>• Increasing provision of "Click & Collect" within our centres<br>• Digital marketing initiatives<br>• Monitoring of footfall for evidence of negative trends<br>• Monitoring of retail trends and shopping behaviour |

# MANAGING RISK

CONTINUED

| Risk | Impact | Mitigation |
|---|---|---|
| **Concentration and scale risk** | | |
| • By having a less diversified portfolio the business is more exposed to specific tenants or types of tenant | • Tenant failures could have a greater impact on rental income<br>• Reduced purchasing power could impact the ability to drive economies of scale and the feasibility of certain investment decisions regarding the operating platform | • Regular monitoring of retail environment and performance of key tenants<br>• Maintaining flexibility in operating platform<br>• Further diversification considered through acquisitions or joint ventures |
| **Competition risk** | | |
| • The threat to the Group's property assets of competing in town and out of town retail and leisure schemes | • Competing schemes may reduce footfall and reduce tenant demand for space and the levels of rents which can be achieved | • Monitoring of new planning proposals<br>• Close relationships with local councils and willingness to support town centres<br>• Continued investment in schemes to ensure relevance to the local community<br>• Investment in traditional and digital marketing |
| **Business disruption from a major incident** | | |
| • Major incident takes place | • Financial loss if unable to trade or impacts upon shopper footfall | • Trained operational personnel at all sites and documented major incident procedures<br>• Updated operational procedures reflecting current threats and major incident testing run<br>• Regular liaison with the police<br>• Key IT applications hosted offsite<br>• Insurance maintained |
| **Development risk** | | |
| • Delays or other issues may occur to capital expenditure and development projects | • May lead to increased cost and reputational damage<br>• Planned value may not be realised | • Approval process for new developments and staged execution to key milestones<br>• Use of experienced project co-ordinators and external consultants with regular monitoring and Executive Committee oversight |
| **Funding and treasury risks** | | |
| **Liquidity and funding** | | |
| • Inability to fund the business or to refinance existing debt on economic terms when needed | • Inability to meet financial obligations when due<br>• Limitation on financial and operational flexibility<br>• Cost of financing could be prohibitive | • Refinancing of debt on the Mall assets in early 2017 improved liquidity and long-term security<br>• Ensuring that there are significant undrawn facilities<br>• Efficient treasury management and forecasting with regular reporting to the Board<br>• Option of asset sales if necessary |

| Risk | Impact | Mitigation |
|---|---|---|
| **Covenant compliance risks** | | |
| • Breach of any loan covenants causing default on debt and possible accelerated maturity | • Unremedied breaches can trigger demand for immediate repayment of loan | • Regular monitoring and projections of liquidity, gearing and covenant compliance<br>• Review of future cash flows and predicted valuations to ensure sufficient headroom |
| **Interest rate exposure risks** | | |
| • Exposure to rising or falling interest rates | • If interest rates rise and are unhedged, the cost of debt facilities can rise and ICR covenants could be broken<br>• Hedging transactions used by the Group to minimise interest rate risk may limit gains, result in losses or have other adverse consequences | • Regular monitoring of the performance of derivative contracts and corrective action taken where necessary<br>• Use of alternative hedges such as caps |
| **Other risks** | | |
| **Execution of business plan** | | |
| • Failure to execute business plan in line with internal and external expectations | • Potential loss of income or value resulting in lower cash flow and property valuation<br>• Reputational damage negatively impacting investor market perception | • Management of projects and the individual shopping centres by experienced and skilled professionals<br>• Strong relationships with retailers and contractors/suppliers<br>• Ongoing monitoring of performance against plan and key milestones |
| **Property acquisition/disposal strategy** | | |
| • Exposure to risks around overpayment for acquisitions<br>• Portfolio not effectively managed through the investment cycle, with sales and de-leveraging at the appropriate time | • Overpayment may result in acquisitions not delivering forecast returns<br>• The Group may not be able to take advantage of investment opportunities as they arise<br>• Covenants may move adversely when cycle changes | • Regular monitoring of the property market and the use of professional advisers<br>• Impact of cycle reflected in business planning |
| **Reputational risk** | | |
| • Adverse events or publicity, including social media, may lead to reputational damage | • Negatively impact investor market perception<br>• May reduce shopper footfall and demand from tenants for space | • Close Board/Management oversight of major issues and decision making<br>• Effective pre-planning of announcements and applications<br>• Monitoring of public opinion through focus groups and review of press and social media<br>• Use of PR advisers and Media training for Management |

# MANAGING RISK

CONTINUED

| Risk | Impact | Mitigation |
|---|---|---|
| **Tax risks** | | |
| • Exposure to non-compliance with the REIT regime and changes in the form or interpretation of tax legislation<br>• Potential exposure to tax liabilities in respect of historic transactions undertaken | • Tax related liabilities and other losses could arise | • Monitoring of REIT compliance<br>• Expert advice taken on tax positions and other regulations<br>• Maintenance of a regular dialogue with the tax authorities |
| **Regulation risks** | | |
| • Exposure to changes in existing or forthcoming property or corporate regulation | • Failure to comply could result in financial penalties, loss of business or credibility | • Training to keep Management aware of regulatory changes<br>• Expert advice taken on complex regulatory matters |
| **Loss of key management** | | |
| • Dependence of the business on the skills of a small number of key individuals | • Loss of key individuals or an inability to attract new employees with the appropriate expertise could reduce effectiveness | • Key management are paid market salaries and competitive incentive packages<br>• New LTIP awards made in 2017<br>• Succession planning for key positions is undertaken as evidenced by CEO transition in 2017 |
| **Historic transactions** | | |
| • Historic sales have included vendor warranties and indemnities and as such, the Group has potential exposure to future claims from the purchaser | • Warranty and indemnity related liabilities and other losses could arise | • Use of professional advisers to achieve properly negotiated agreements in terms of scope, extent of financial liability and time frame<br>• Monitoring of ongoing exposure |

## Viability statement

In accordance with the 2014 revision of the Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Board conducted this review for a three year period to December 2020. This was selected reflecting that the Group's annual budget and business planning process covers a three year period and all of the Group's debt financing is secured and fully available for the duration of the period.

The three year budget and business plan review considers the Group's cash flows, dividend cover and other key financial ratios over the period. It includes sensitivity analysis to consider adverse scenarios, that could be caused by the principal risks and uncertainties outlined on pages 26 to 30. This incorporated the impact on covenant compliance of a significant fall in property valuations or property income. The three-year review also makes certain assumptions about funding acquisitions, or additional capital expenditure initiatives through capital recycling or raising funding through other means.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020.

## Going Concern

Under the UK Corporate Governance Code, the Board needs to report whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

- the Group's latest rolling forecast, in particular the cash flows, borrowings and undrawn facilities;
- the headroom under the Group's financial covenants;
- options for recycling capital and or alternative means of additional financing for funding new investments; and
- the principal Group risks that could impact on the Group's liquidity and solvency over the next 12 months and/or threaten the Group's business model and capital adequacy.

The Group's risks and risk management processes are set out on pages 26 to 30.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.


YOUR
SCORE
140
TIME
LEFT
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# RESPONSIBLE BUSINESS

## Introduction

Our commitment to running our business responsibly is important to C&R; it underpins the way we operate and is an integral part of who we are and what we do.

Our aim is to be socially responsible so that C&R is not only a great place to work but it has a positive impact on our guests, retailer customers and the wider community while minimising our environmental impact.

Our Responsible Business strategy is supported by explicit targets and remains focused on four key areas:

## The Marketplace

Our aim is to engage with our local guests, customers, suppliers and stakeholders, to understand their needs and identify ways of improving our collective responsible business performance. We recognise the positive impact our retail customers and suppliers can have on our sustainability efforts and continue to work in partnership to deliver our goals to create vibrant retail spaces.

### *Highlights from 2017*

- Retained the ROSPA Gold Award for 11th consecutive year
- Our Mallmaintain contract achieved an average Brand Standard Performance Management score of 97%
- All welfare facilities at the centres have been enhanced for our soft service teams

### *Priorities for 2018*

- Retain ROSPA Gold Award
- Deliver the development of a new challenging Compliance and Facilities Management audit, which will be topic based, and achieve an average score great than 95%
- To ensure that the biannual Operational Standards assessment demonstrate continuous improvement at each centre by improving the overall guest and customer experience

## CHRISTMAS WASTE NOT WANT NOT WORKSHOP – THE MARLOWES, HEMEL

For Christmas 2017 The Marlowes went green with Santa's Waste-not workshop. Teaming up with local schools, retailers and suppliers they created a workshop made fully of reused and recycled elements for a unique and creative Santa experience. As part of the setup they reached out to two local schools to collect bottles and cans which were then used to create their displays. In total over 70 bags of recycling were collected with additional collections encouraged from our retailer customers.

Launched as part of Hemel's Light Switch On, Santa's Waste-not workshop ran every weekend up to Christmas with children able to meet Santa and make recycled decorations as well as test out their pedal power on our 8m Christmas tree, powered entirely by a set of bikes. In total just under 2,000 children visited Santa in his workshop with many guests commenting it was the "best Santa they had seen".

## Environmental Sustainability

We work hard to ensure that our local communities which we serve are better places to be for all. Our commitment is to reduce our impact on the environment in the three key areas of waste, water and energy. In addition, we continue the focus on reducing the carbon footprint of our properties. We have long recognised that any development activity should mirror this and have proactively ensured we minimise energy consumption and mitigate the effects of climate change throughout the design and refurbishment of our centres.

### *Highlights from 2017*

- Retained the Global Real Estate Benchmark (GRESB) Green Star Status
- Reduced $CO_2$ emissions by 12% and water consumption by 6%
- Retained the Best in Carbon Management Award in October 2017
- Diverted 98% of waste from landfill and 96% recycled back to the supply chain
- Launched Evora environmental reporting platform across all centres to assist in monitoring, reporting and targeting usage reductions

### *Priorities for 2018*

- Reduce $CO_2$ by 4%
- Reduce our water consumption by 1%
- Retain GRESB Green Star rating
- Establish a robust strategy across the car parks for electrical vehicle charging using smart technologies

### *Report on Greenhouse Gas Emissions*

We have followed the Greenhouse Gas Protocol for reporting $CO_2$ emissions for the 2017 calendar year. The reporting boundary has been defined using the operational control approach, reporting emissions for operations in which Capital & Regional have control. It does not account for GHG emissions from operations in which it owns an interest but has no operational control. Energy use from metered sources identified as fully controlled by third parties (e.g. tenants) have also been excluded.

Scope 1 emissions account for total gas consumption. Emissions from emergency equipment (e.g. standby generators) have been deemed de minimis and therefore are not included in the reported figures. Scope 2 emissions account for the total electricity purchased.

Actual invoice data has been used for reporting wherever possible, however some estimated data has been used where required. It should be noted that the Scope 1 and Scope 2 reporting figures are absolute values. The information in this report represents the best information available at the time of issue.

The data presented below has been independently verified by Hurley Palmer Flatt who are satisfied, based on the information provided, that the reported figures are representative of performance.

| Scope 1 & 2 Mandatory Reporting* | 2017 | 2016** |
|---|---|---|
| **Emissions** | | |
| Scope 1 $tCO_2e$ | **1,161** | 1,201 |
| Scope 2 $tCO_2e$ | **8,833** | 10,985 |
| **Intensity** | | |
| Scope 1 and 2 $kgCO_2e/sqft$ | **2.05** | 2.48 |

* Scope 1: Direct GHG emissions from controlled operations (natural gas consumption)
Scope 2: Indirect GHG emissions from the use of purchased electricity, heat or steam (electricity consumption).

** 2016 figures have been restated where material changes were subsequently identified.

**The five centres we have had since 2012 now use 43% less electricity. The 4.5 million kWh saved over five years is enough to provide free power at our Maidstone and Wood Green Centres and the cost saving over five years is in excess of £1,250,000.**

# RESPONSIBLE BUSINESS

CONTINUED

## People

Being a responsible business cannot be achieved without the support and active engagement of our colleagues. They are fundamental to the delivery of our business vision which is to define and lead Community Shopping, through our passionate creation of vibrant retail spaces and exceptional customer and guest experience. Our aim is to ensure that we promote a progressive company culture which is a combination of who we are, how we work together and the pride we generate. Our aim is to engage, develop and reward our people, retaining our reputation as an employer of choice within the sectors in which we operate. We want to provide relevant, engaging training for all our employees in order that they can make their fullest contribution to our success and deliver exceptional customer service. We set out to provide a working environment which supports the wellbeing and health of all our people, taking account of the diversity of our workforce and reflecting our values and ethics.

### *Highlights from 2017*

- Retained our focus on Continuous Improvement as part of the Working Smarter initiative which has driven efficiencies across the business
- Successfully launched the new Management Training programme achieving an average positive evaluation of 90%
- All centres participated in the Revo Achievement in Customer Excellence Awards (ACE) and achieved an average Mystery Shopper rating of 81%, +4% improvement on last year and compared to the industry average of 77%
- Achieved 89% return rate on C&R Pulse, our in-house Staff Engagement Survey
- Launched our advanced Customer Service Training Programme including our 10 Golden Rules of guest engagement
- Launched our Wellbeing Committee across the business

### *Priorities for 2018*

- Launch a new Guest Experience Training Programme which will be evaluated by the mystery shopper results and the Guest Net Promoter scores
- To deliver a revised policy and audit procedures compliant with GDPR legislation
- To launch our new training and development training programme to assist our teams in delivering our refreshed business strategy
- All centres to enter the Revo Achievement in Customer Excellence Awards (ACE) and achieve an average rating of at least 77%
- To launch our new communication platform CARTER (Capital & Regional Team Engagement Resource)

## Continuous Improvement

Our Continuous Improvement (Ci) initiative has empowered our teams to challenge how we do things and to review and improve the way we work leading to service excellence for our guests, customers and internal teams.

Example projects delivered:

- Batch processing of supplier invoices: streamlined more efficient scanning and automated matching of invoices.
- Purchase order system: removed silo management of data, automation of processes leading to scalable business benefits and enhanced cost monitoring visibility.
- Electronic tenant invoicing: improved communication with our customers, reduced cost and paper, improved efficiency and enhanced revenue management.

## The Community

Fundamental to our strategy is the key role our centres play in the ongoing development of the communities and environments in which we operate. We work closely with key stakeholders to ensure that we listen, engage and use feedback to develop or refine our approach. We aim to provide safe, welcoming, clean and attractive shopping and leisure venues where our guests choose to shop, work and socialise. We seek to make a positive contribution to each local community by being a responsible, socially aware and a proactive partner.

### *Highlights from 2017*

- Through Mall Cares we raised over £312k for our local charities in 2017, +11% on 2016
- The Mall Luton launched the Strategic Community Safety Group together with the town centre partners to enable improved focus on business related crime
- The launch of the Community Hub in The Mall, Maidstone
- Launch of The Mall Monster Friends Club
- We handled 42,000 Collect+ parcels in 2017, a 24% increase on 2016

### *Priorities for 2018*

- To create as part of the roll-out of asset masterplans an inclusive and accessible shopping experience to enhance social connections and support the wider community
- To continue to work with our local Mall Cares charities and at least match 2017 fundraising
- Implement the Net Promotor Surveys across all centres on a quarterly basis

### Blackburn sleep out

Jason Cothliff and Carley McKenna from The Mall, Blackburn took part in the Nightsafe charity sleep out in early December 2017. They joined other fundraisers in sleeping on King William Street, outside the Mall, to raise money for Nightsafe and highlight the plight of homeless people during the harsh winter months. The pair only had a cardboard box, sleeping bag and warm clothing to protect them from the elements during a cold December night.

Nightsafe supports homeless youngsters and ongoing projects such as an emergency night shelter, housing projects, outreach flats, an activity day centre, a volunteer mentor project and an outreach support service, which all support young people within the local community to set up a home.

### The Mall Luton Volunteers

The Mall Luton Team helped to clean, paint and set up a new store called Level Trust before it opened on 7 August 2017. The store supports school aged children who are suffering from poverty and allows families to bring in second-hand uniforms and swap them for the uniform they need for the return to school after the summer holidays.

# DIRECTORS

## Executive Directors

### Lawrence Hutchings

***Chief Executive appointed 2017***

Chairman of Disclosure Committee and member of Responsible Business Committees

Lawrence joined the Group in 2017 following four years at Blackstone in Australia, two as Managing Director, and has over 20 years' experience in the property industry. Prior to Blackstone, Lawrence was at Hammerson PLC for four years, the last three as Managing Director – UK Retail, before which he spent almost seven years at Henderson Global Investors, latterly as Director (Property) European Retail.

### Charles Staveley

***Group Finance Director appointed 2008***

Member of Disclosure Committee

Charles joined the Group in 2007 and was appointed Group Finance Director in 2008. He qualified as a Chartered Accountant with Arthur Andersen and previously held senior finance roles with Colt Telecommunications, Novar plc, and Textron Inc. He also has Board responsibility for the Snozone business.

## Non-Executive Directors

### Hugh Scott-Barrett

***Chairman appointed 2008***

Chairman of Nominations Committee, Member of Disclosure Committee

Before moving to become Non-Executive Chairman, Hugh was Chief Executive of Capital & Regional from 2008 to 2017. He was previously a member of ABN AMRO's managing board serving as Chief Operating Officer and Chief Financial Officer and before that worked at SBC Warburg and Kleinwort Benson. He was educated both in Paris and at Oxford University. Hugh is the Chairman of GAM Holding AG, a Swiss asset management company, and a non-executive director of RBR Group Limited, a privately owned leisure group.

## Non-Executive Directors

**Tony Hales CBE**
***Non-Executive* appointed 2011***

Senior Independent Director, Chairman of Remuneration Committee, member of Audit and Nomination Committees

Tony is currently Chairman of the Greenwich Foundation, Senior Independent Director of International Personal Finance plc and chairs NAAFI Pension Fund Trustees. Tony was previously Chief Executive of Allied Domecq plc, a Non-Executive Director of HSBC Bank plc and Chairman of Workspace Group plc and British Waterways.

**Wessel Hamman**
***Non-Executive appointed 2015***

Wessel is Chief Executive of Clearance Capital Limited, a Real Estate investment management firm which he co-founded in 2008. Wessel also serves as a Non-Executive Director of Sirius Real Estate Limited. Wessel qualified as a Chartered Accountant at KPMG in South Africa.

**Ian Krieger**
***Non-Executive* appointed 2014***

Chairman of Audit Committee, member of Nomination and Remuneration Committees

Ian is the Audit Committee Chairman and Senior Independent Director at both Premier Foods plc and Safestore Holdings plc and a Non-Executive Director of Primary Health Properties PLC where he is due to be appointed chair of the Audit Committee from 18 April 2018. He is also a Trustee and Chairman of the Finance Committee at Nuffield Trust and Chair of Anthony Nolan. Ian was previously a senior partner and vice-chairman at Deloitte.

**Louis Norval**
***Non-Executive appointed 2009***

Louis was a co-founder, Executive Chairman and Chief Executive of Attfund Limited (one of the largest private property investment companies in South Africa) until the company was sold to Hyprop Investments Limited (a REIT listed on the Johannesburg Stock Exchange) in 2011. Louis is also Managing Director of the Parkdev Group of Companies, Executive Chairman of Homestead Group Holdings Limited and serves on the board of a number of other companies including Hyprop Investments Limited. He graduated in BSc (QS) (with distinction) from the University of Pretoria.

**Guillaume Poitrinal**
***Non-Executive appointed 2016***

Guillaume served as Chief Executive of Unibail-Rodamco, one of Europe's largest commercial property companies, from 2005 until 2013 having joined in 1995. Guillaume is the founder and Chairman of ICAMAP Investments S.àr.l, a specialised investment fund focusing on property stocks.

**Laura Whyte**
***Non-Executive* appointed 2015***

Chairman of Responsible Business Committee, member of Audit, Nomination and Remuneration Committees

Laura had a long and successful career with John Lewis Partnership where she served on the Management Board for over ten years, firstly as Registrar and latterly as HR Director. Laura is also a Non-Executive Director of the Defence People and Training Board of the Ministry of Defence, where she is also a member of the People Committee, a Non-Executive Director of the British Horseracing Authority and an Executive Trustee of Women in Retail.

* Independent (as per the UK Corporate Governance Code).

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN'S INTRODUCTION

**Hugh Scott-Barrett**
**Chairman**

I am pleased to present Capital & Regional's corporate governance report for 2017.

The primary operational focus of C&R in 2017 has been on the continued delivery of the capital investment plan across our portfolio of assets to drive our income focus and underpin our targeted dividend growth of 5% to 8% per annum. The Board's activities during the year have reflected this with a number of visits to sites and review of investment initiatives and business plans for all our centres.

The Board has also managed a significant amount of personnel changes over the last 18 months with both Mark Bourgeois and Ken Ford resigning as Executive Directors, John Clare retiring as the Group's Non-executive Chairman and Lawrence Hutchings taking over from myself as Chief Executive. The appointment of a new Chief Executive has provided an opportunity for a root and branch review of strategy. Lawrence Hutchings has provided the Board with recommendations on how strategy should evolve and on how execution of strategy can be enhanced in light of the fast changing retail landscape. The strategy was debated extensively and endorsed by the Board and subsequently communicated to investors at the Capital Markets Day in December 2017.

The Board is mindful of the revisions to the UK Corporate Governance proposed by the Financial Reporting Council and have commenced the process of assessing the impact and how the Company will respond once the final legislation has been agreed.

**Hugh Scott-Barrett**
Chairman

## Compliance statement

### *Compliance with the UK Corporate Governance Code*

The Company has throughout the year ended 30 December 2017, complied with the provisions of the 2014 UK Corporate Governance Code ("the Code") as they apply to smaller (i.e. non FTSE 350) companies with the exception that Hugh Scott-Barrett was not considered independent on his appointment as Chairman of the Company on 13 June 2017, having previously served as Chief Executive. The rationale for the decision is explained in the Nomination Committee section of this report.

### *Compliance with the Disclosure and Transparency Rules*

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, except for those required under DTR 7.2.6 which are contained in the Directors' Report.

## Role of the Board

The Board has a collective responsibility to promote the long-term success of the Company for its shareholders. Its role includes reviewing and approving key policies and decisions, particularly in relation to strategy and operating plans, governance and compliance with laws and regulations, business development including major investments and disposals and, through its Committees, financial reporting and risk management.

The Board's agenda is managed to ensure that shareholder value and governance issues play a key part in its decision making and there is a schedule of key matters that are not delegated.

The responsibilities, which the Board does delegate, are given to committees that operate within specified terms of reference. The Executive Directors take operational decisions and also approve certain transactions within defined parameters. An Executive Committee, formed of the Executive Directors and other members of senior management as required on specific issues, meets on a regular basis and deals with all major decisions not requiring full Board approval or authorisation by other Board committees. Minutes of these meetings are circulated to the Board. If decisions are not unanimous the matter is referred to the Board for approval.

The Company also maintains a Disclosure Committee, formed of the Chairman, Chief Executive and Group Finance Director, to which it has delegated responsibility for monitoring the Company's requirements for disclosure of Inside Information. The Committee meets as and when required by specific events. The Committee is quorate with two members. Where the Committee concludes that specific restrictions on share dealings need to be enforced this is immediately communicated to the Board and other relevant individuals. Minutes of all Disclosure Committee meetings are also circulated to the Board.

Board meetings are scheduled to coincide with key events in the Company's financial calendar, including interim and final results and the AGM. Other meetings during the year will review the Company's strategy and budgets for the next financial year and the Company's key risks and financial and operating performance.

## Board Committees

| | |
|---|---|
| **Audit Committee**<br>Meets at least three times per year<br>Further information on pages 43 to 44 | **Chairman** – Ian Krieger<br>**Members** – Tony Hales, Laura Whyte |
| **Disclosure Committee**<br>Meets as required | **Chairman** – Lawrence Hutchings<br>**Members** – Hugh Scott-Barrett, Charles Staveley |
| **Nomination Committee**<br>Meets at least once a year<br>Further information on page 42 | **Chairman** – Hugh Scott-Barrett<br>**Members** – Tony Hales, Ian Krieger, Laura Whyte |
| **Remuneration Committee**<br>Meets at least twice per year<br>Further information on pages 45 to 60 | **Chairman** – Tony Hales<br>**Members** – Ian Krieger, Laura Whyte |
| **Responsible Business Committee**<br>Meets at least twice per year<br>Further information on pages 32 to 35 | **Chairman** – Laura Whyte<br>**Members** – Lawrence Hutchings |

Terms of reference for all Committees are available on the Company's website.

# CORPORATE GOVERNANCE REPORT

CONTINUED

## Board balance and independence

Details of the directors including their qualifications, experience and other commitments are set out on pages 36 to 37. The Board currently comprises of the Chairman, two Executive Directors and six Non-Executive Directors.

The Board reviews the independence of its Non-Executive Directors on an annual basis. Louis Norval and Wessel Hamman are not considered independent as they act as representatives of the Parkdev Group of companies, a significant shareholder of the Company. Guillaume Poitrinal is not considered independent as while his appointment is in a personal capacity he is the Chairman of ICAMAP Investments S.àr.l, a significant shareholder in the Company. The Board has concluded that all other Non-Executive Directors continue to demonstrate their independence.

The Company has well established differentiation between the roles of Chairman and Chief Executive and written terms of reference are available on the Group's website. As further detailed in the Nominations Committee section, following Hugh Scott-Barrett's move to Chairman, Tony Hales, as Senior Independent Director, has undertaken regular reviews to ensure the distinction of roles and responsibilities remains appropriate.

In the Company's view, the breadth of experience and knowledge of the Chairman and the Non-Executive Directors and their detachment from the day-to-day issues within the Company provide a sufficiently strong and experienced balance with the executive members of the Board.

## Information and professional development

The Board schedules five meetings each year as a minimum, and arranges further meetings as the business requires. Prior to Board meetings, each member receives, as appropriate to the agenda, up-to-date financial and commercial information, management accounts, budgets and forecasts, details of potential or proposed acquisitions and disposals, cash flow forecasts and details of funding availability

Induction training is given to new directors and consists of an introduction to the Board and senior management, visits to our shopping centres, an induction pack, a briefing on governance requirements and access to independent advisers. Ongoing training requirements are reviewed on a regular basis and undertaken individually, as necessary.

## Board and committee meetings

The number of meetings of the Board and its Committees during 2017, and individual attendance by Directors, is set out below.

*Board meeting attendance in 2017*

| | Scheduled | Total |
|---|---|---|
| **Number of meetings** | **6** | **6** |
| J Clare (resigned 13 June 2017) | 3/3 | 3/3 |
| H Scott-Barrett | 6/6 | 6/6 |
| L Hutchings (appointed 13 June 2017) | 3/3 | 3/3 |
| K Ford (resigned 9 May 2017) | 2/2 | 2/2 |
| C Staveley | 6/6 | 6/6 |
| T Hales | 6/6 | 6/6 |
| W Hamman | 6/6 | 6/6 |
| I Krieger | 6/6 | 6/6 |
| L Norval | 6/6 | 6/6 |
| G Poitrinal | 5/6 | 5/6 |
| L Whyte | 6/6 | 6/6 |

*Other committee meeting attendance*

| | Audit Committee | Remuneration Committee | Nomination Committee | Responsible Business Committee |
|---|---|---|---|---|
| **Number of meetings** | **3** | **3** | **2** | **4** |
| J Clare | | | 1/1 | |
| H Scott-Barrett | | | 1/1 | 2/2 |
| L Hutchings | | | | 2/2 |
| I Krieger | 3 | 3 | 1 | |
| T Hales | 3 | 3 | 2 | |
| L Whyte | 3 | 3 | 2 | 4 |

Hugh Scott-Barrett was a member of the Responsible Business Committee until 13 June 2017 when he was replaced by Lawrence Hutchings.

## Board evaluation

A formal process is undertaken for the annual evaluation of the performance of the Board, its Committees and each Director. This process is led by the Chairman and each Director completes a detailed questionnaire covering:

- performance of themselves as an individual and of the Board together as a unit;
- performance of the Chairman;
- processes which underpin the Board's effectiveness (including consideration of the balance of skills, experience, independence and knowledge of the persons on the Board);
- strategy; and
- performance of the Board's subcommittees.

The completed questionnaires are collated by the Company Secretary and presented to the Board for a subsequent discussion. This year's review found that the performance of the Board and its Committees continued to be effective in dealing with both day-to-day and ongoing strategic issues; and that the Board and Committee structure ensured that the governance requirements of the business were met.

The Chairman also meets as necessary, but at least once each year, with the Non-Executive Directors without the Executive Directors present. The Non-Executive Directors meet without the Chairman in order to appraise his performance on an annual basis. This meeting is chaired by the Senior Independent Director. The Chairman evaluates the performance of the Chief Executive having received input from the other Directors. The Chief Executive evaluates the performance of the other Executive Directors. Subsequently, the results are discussed by the Remuneration Committee and relevant consequential changes are made if required.

## Shareholder relations

The Company encourages regular dialogue with its shareholders at the AGM, corporate functions and property visits. The Company also attends road shows, participates in sector conferences and, following the announcement of final and interim results, and throughout the year, as requested, holds update meetings with institutional investors. All the Directors are accessible to all shareholders, and queries received verbally or in writing are addressed as soon as possible.

Announcements are made to the London Stock Exchange, the Johannesburg Stock Exchange and the business media concerning business developments to provide wider dissemination of information. Registered shareholders are sent copies of the annual report and relevant circulars. The Group's website (capreg.com) is kept up to date with all announcements, reports and shareholder circulars.

## Financial and Business reporting

Please refer to:

- page 65 for the Board's statement on the Annual report and accounts being fair, balanced and understandable;
- page 30 for the statement on the status of the Company and the Group as a going concern; and
- the Strategic report on pages 2 to 35 for an explanation of the Company's business model and the strategy for delivering the objectives of the Company.

## Risk management and internal control

The Board is responsible for maintaining a sound system of internal control and risk management. 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.

An ongoing process is in place for identifying, evaluating and managing risk and the Board is satisfied that this accords with relevant corporate governance guidance. Key features of the Group's system of internal control are as follows:

- Defined organisational responsibilities and authority limits. 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 and operating reporting to the Board including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing. Year end and Interim financial statements are reviewed by the Audit Committee and discussed with the Group's Auditor, Deloitte, before being submitted to the Board for approval;
- Review and approval of the Group's risk matrix twice a year by senior management, the Audit Committee and the Board as detailed in the Managing Risk section of the Strategic Report;
- Anti-bribery and Corruption policies which are communicated to all staff and for which compliance reviews are conducted on an annual basis; and
- The Group's whistleblowing policy – see the Audit Committee report for further details.

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.

During the year the Board through the Audit Committee reviewed the effectiveness of the material financial, operational and compliance controls that mitigate the key risks (as disclosed in the Managing Risk section). This review concluded that all such material controls were operating effectively. A statement of the Directors' responsibilities regarding the financial statements is on page 65.

# CORPORATE GOVERNANCE REPORT

CONTINUED

## Nomination Committee

The Nomination Committee meets as required to select and recommend to the Board suitable candidates for both Executive and Non-Executive appointments. On an at least annual basis, the Nomination Committee also considers succession planning for the Board.

In the second half of 2016 the Committee, arising from its annual review of succession planning, commenced the search for a new Chief Executive and Chairman. This process culminated in the announcement on 8 February 2017 that, effective from 13 June 2017, Lawrence Hutchings would be appointed as Chief Executive with Hugh Scott-Barrett taking over as Non-Executive Chairman from John Clare who would retire from the Board. The appointment of Lawrence Hutchings followed an extensive and competitive process, which was supported by a leading independent executive search firm which is not connected with the Company in any other way.

While fully cognisant of the UK Code of Corporate Governance recommendations, it was the unanimous conclusion of the Committee that in the specific circumstances, Hugh Scott-Barrett was the most appropriate candidate for the role of Non-Executive Chairman. The Committee and wider Board considered that the need for experience and continuity at the current stage of the Company's development was critical given the retirement of John Clare, the loss of Mark Bourgeois and the planned stepping down of Ken Ford in relatively quick succession. This, combined with Hugh's important relationships and excellent attributes for the position, meant the Board concluded that Hugh's appointment would be strongly in the interests of the Company and its shareholders.

Tony Hales, who led the process as Senior Independent Director (SID), also conducted a consultation with major shareholders prior to the Board approving the appointments and this continued subsequent to the announcement. From this process the Board noted the governance points raised by some shareholders and the requirement for the SID to ensure, on behalf of the Board, the constructive and appropriate relationship between Chairman and CEO. Reflecting this during the first year of the new arrangements the SID has been meeting at least quarterly with both individuals. Tony Hales and the rest of the Board, to whom Tony has reported on the process, are satisfied the relationship is working appropriately and effectively for the benefit of the Company and its shareholders. Tony has also maintained a dialogue with major shareholders to update them on the processes and reviews that have been undertaken.

### *Diversity*

The Nomination Committee, and the Board, recognises the importance of diversity, is supportive of the Davies Report recommendations and seeks to ensure that all available suitable candidates are taken into account when drawing up shortlists of candidates for possible appointments. The priority of the Committee and the Board is to ensure that the Group continues to have the strongest and most effective Board possible, and therefore all appointments to the Board are made on merit against objective criteria.

Whilst the Group falls below the current threshold for reporting under the Gender Pay Gap Regulations a review is in process to understand the Group's position and, if any issues are identified, to determine the actions required to appropriately address them.

# AUDIT COMMITTEE REPORT

**Ian Krieger**
**Chairman of Audit Committee**

The Audit Committee is chaired by Ian Krieger, a Chartered Accountant who has recent and relevant financial experience as required by the Code. The other members of the Committee are Tony Hales and Laura Whyte. Charles Staveley, the Group Finance Director, attended each of the three Audit Committee meetings by invitation as did other senior members of Finance and representatives from Deloitte LLP, the Company's external Auditor. The Company's Chairman and Chief Executive also attended meetings during the year by invitation.

## Responsibilities

The Committee's role is to assist the Board in discharging its duties and responsibilities for financial reporting, internal control and the appointment and remuneration of an independent external Auditor. The Committee is responsible for reviewing the scope and results of audit work and its cost effectiveness, the independence and objectivity of the Auditor and the Group's arrangements on whistleblowing.

## Report on the Committee's activities during the year

The Committee has a schedule of events which detail the issues to be discussed at each of the meetings of the Committee in the year. The schedule also allows for new items to be included into the agenda of any of the meetings.

During the year, the Committee met three times and discharged its responsibilities by:

a. reviewing the Group's draft annual report and financial statements and its interim results statement prior to discussion and approval by the Board;
b. reviewing the continuing appropriateness of the Group's accounting policies;
c. reviewing Deloitte LLP's plan for the 2017 Group audit and approving their terms of engagement and proposed fees;
d. reviewing reports on internal control matters prepared by management;
e. considering the effectiveness and independence of Deloitte LLP as external Auditor and recommending to the Board their reappointment;
f. reviewing management's biannual Risk Review report and the effectiveness of the material financial, operational and compliance controls that help mitigate the key risks;
g. reviewing the effectiveness of the Group's whistleblowing policy;
h. reviewing and updating the Group's policy for the award of non-audit work to its external Auditor;
i. considering management's approach to the viability statement in the 2017 Annual Report;
j. meeting with the responsible individuals from the Group's independent valuers, CBRE Limited and Knight Frank LLP to review and challenge their valuations of the Group's investment properties; and
k. carrying out an annual performance evaluation exercise and noting the satisfactory operation of the Committee.

The Audit Committee has reviewed the contents of this year's annual report and accounts and advised the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

# AUDIT COMMITTEE REPORT

CONTINUED

## Significant issues considered in relation to the financial statements

During the year, the Committee considered key accounting matters and judgements in respect of the financial statements relating to:

- **Investment property valuation –** At 30 December 2017 the value of the Group's investment property assets was £915.2 million including its 20% share of the Kingfisher Centre, Redditch (see Note 10b of the financial statements for further details). The valuation of investment property is inherently judgemental and involves a reliance on the work of independent professional qualified valuers. During 2017 the Audit Committee met with the valuers, considered their independence and qualifications and reviewed and challenged the valuations for both the year end and interim results dates to understand the basis for them and the rationale for movements in the context of both the individual properties and the general property investment market.
- **Going concern and covenant compliance –** The Committee reviewed, challenged and concluded upon the Group's going concern review and consideration of its viability statement including giving due consideration to the appropriateness of key judgements, assumptions and estimates underlying the budgets and projections that underpin the review and a review of compliance with key financial covenants.
- **Impairment of inter-company investments and receivables –** Management perform an annual review of inter-company investments and receivables to determine the values to be maintained in the Plc Company only and individual subsidiary balance sheets. The Committee considered the movement over the year and the key assumptions, particularly where balances were held with reference to value in use as opposed to net assets of the underlying entity.

## Oversight of the external Auditor

The Committee carried out a review of the effectiveness of the external audit process and considered the reappointment of Deloitte LLP. The review covered amongst other factors, the quality of the staff, the expertise, the resources, and the independence of Deloitte LLP. The Committee reviews the audit plan for the year and subsequently considers how the Auditor performed to the plan. They consider the quality of written and oral presentations and the overall performance of the lead audit partner.

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 Auditor. The Group does not impose an automatic ban on the Group's external Auditor undertaking non-audit work, other than for those services that are prohibited by regulatory guidance. Instead the Group's aim is always to have any non-audit work involving the Group's external Auditor 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 Group's policy on the use of its external Auditor for non-audit services, which was reviewed during the year, precludes the external Auditor from being engaged to perform valuation work, accounting services or any recruitment services or secondments. The policy also stipulates that for any piece of work likely to exceed £20,000 at least one other alternative firm provide a proposal for consideration.

The only fees paid to Deloitte LLP during 2016, other than for their year-end audit, was £40,528 for their review of the Group's interim statements for the six months to June 2017 and £2,000 for an agreed upon procedures report to verify information relating to the vesting of the Company's 2014 LTIP scheme award.

## Auditor rotation and tender process

In accordance with best practice and professional standards, the external Auditor is required to adhere to a rotation policy whereby the audit engagement partner is rotated at least every five years. The 2017 audit was the fifth and final year of Georgina Robb's tenure as lead audit engagement partner. Matthew Hall has been selected to take over from Georgina Robb as the lead audit engagement partner for Deloitte.

Deloitte LLP have been Auditor of Capital & Regional plc since 1998 and the audit was last put out to tender in 2009 where Deloitte were reappointed. Considering this and the Committee's commitment to put the audit out to tender at least every 10 years, a tender process will commence during 2018 for the audit of the year ending 30 December 2018. It is planned that Deloitte LLP, who under EU guidance for mandatory Auditor rotation can serve as Auditor until the year ending 30 December 2023, will be invited to tender along with two further firms.

## Internal Audit

The Group does not have a dedicated stand-alone internal audit function but manages an ongoing process of control reviews performed either by staff, independent of the specific area being reviewed, or by external consultants when deemed appropriate. During the year the Committee reviewed reports on Payroll, adherence to the Group's Travel and Expenses policy, Cyber Security, Fire Risk and the Group's policies to manage compliance with the Market Abuse Regulation.

While the Committee will continue to review the position at present it continues to believe that the current size and complexity of the Group does not justify establishing a stand-alone internal audit function.

## Whistleblowing

The Group has in place a whistleblowing policy which encourages employees to report any malpractice or illegal acts or omissions or matters of similar concern by other employees or former employees, contractors, suppliers or advisers. The policy provides a mechanism to report any ethical wrongdoing or malpractice or suspicion thereof.

**Ian Krieger**
Chairman of Audit Committee

# DIRECTORS' REMUNERATION REPORT

INTRODUCTION

**Tony Hales CBE**

**Chairman of Remuneration Committee**

## Information not subject to audit:

## Annual Statement

Dear Shareholder

On behalf of the Board I am pleased to present the Directors' Remuneration Report for the year ended 30 December 2017.

We last presented our remuneration policy to shareholders at our Annual General Meeting in 2016 when we received strong support with a vote in favour of 89.5%. This policy covers the three year period until the AGM in 2019 and we applied it consistently during 2017.

## Board Changes

As shareholders will be aware, there were significant Board changes during the year. Ken Ford stepped down from the Board as an Executive Director on 9 May 2017 and on 13 June 2017, John Clare stepped down from his position of Non-Executive Chairman. Also on 13 June 2017, Hugh Scott-Barrett ceased to be the Chief Executive and took on the role as Non-Executive Chairman. Hugh was succeeded as Chief Executive by Lawrence Hutchings. These changes obviously impacted the remuneration of the individuals concerned, however, the Committee ensured that remuneration packages were in line with the policy agreed by shareholders.

No exit payments were made to any of the individuals. Ken Ford continued to be employed by the Company on a full-time basis until 31 December 2017 on the same terms as he was employed as a Director. Hugh Scott-Barrett's appointment as Chairman was on a fixed fee of £135,000 per annum. Hugh did not receive a bonus or LTIP award for 2017, for the period he was Chief Executive. For the purposes of the LTIP Hugh Scott-Barrett and Ken Ford were treated as good leavers with their awards pro-rated relevant to the date of change of role and ceasing to be employed respectively.

The committee was pleased to welcome Lawrence as Chief Executive. His remuneration terms are in line with our policy and are fully disclosed in the report.

## Company Performance and Bonus Targets

2017 was another good year of operational performance by the business with the Company recording Adjusted Profit growth of 8.6%, an increase of 7.3% on a per share basis. The Company's strategy continues to focus on strong earnings driving a sustainable and growing dividend for shareholders, and this goal also drives the remuneration policy. For the full year for 2017 shareholders will benefit from an increase in dividend of 7.4%, subject to approval at the AGM.

In setting annual bonus targets the Committee puts a weighting of 80% on Company financial and operating targets with the emphasis on metrics that support dividend growth including Adjusted Profit, Net Rental Income and cost control. 20% of bonus reflects personal objectives. Further detail is provided in the report.

# DIRECTORS' REMUNERATION REPORT

CONTINUED

## Long Term Incentive Plan (LTIP)

During the year the performance period for the 2014 LTIP award ended and 35.26% of the awards have qualified for vesting and will be able to be exercised at the end of the holding period. This is the second LTIP award to have qualified since the scheme was introduced in 2008 and the result reflects a strong period of performance where Total Shareholder Return was 37.61%, significantly outperforming the FTSE 350 Real Estate and FTSE All Share Indices. We intend to make a further LTIP award in 2018 using the same structure as previous awards. Full details are provided within the report.

During 2018 we plan to perform a review of all of our incentive arrangements to ensure alignment with the Group's strategy and that, as a package, they continue to provide the appropriate balance of incentivisation and challenge. The results of this will help inform the process for renewing our Remuneration Policy ahead of the 2019 AGM for which we will conduct a shareholder consultation in advance of publishing any changes to policy.

## Executive Director Salary Increases

Executive Director salary increases, applied from 1 January 2018, were 2%, in line with the increase awarded to all employees. The same 2% increase has been applied to the base fees paid to the Chairman and Non-Executive Directors.

## Committee Aims

Our aim as a Committee continues to be to ensure we recruit and retain talented individuals who are motivated to deliver outperformance for shareholders receiving a fair base pay with potential for significant rewards on delivering strong shareholder returns.

**Tony Hales CBE**
Chairman of Remuneration Committee

# DIRECTORS' REMUNERATION REPORT

POLICY

## Directors' Remuneration Policy

This part of the report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Act").

## The Remuneration Committee

The Committee met three times during 2017 as well as holding informal meetings and other correspondence to discuss wider remuneration issues. In addition to the Committee members (see page 39), the Chief Executive and other Non-Executive Directors are invited to attend meetings as required, except in circumstances where their own remuneration is being discussed.

The Remuneration Committee agrees the framework for the remuneration of the Chairman and the Executive Directors. The Committee approves salaries and sets the levels, conditions and performance objectives for the annual bonus and share awards for Executive Directors. It also makes recommendations to the Board on matters which require shareholder approval.

The Committee use independent remuneration consultants PwC to provide advice on an ad hoc basis although no fees were charged for 2017.

The terms of reference of the Committee are available at **www.capreg.com/about-us/people/board-committees**

## Summary of performance and remuneration year ended 30 December 2017

| | **2017** | 2016 |
|---|---|---|
| Net Rental Income[1] | **£51.6m** | £50.4m |
| Adjusted Profit[2] | **£29.1m** | £26.8m |
| Adjusted Earnings per share[2] | **4.10p** | 3.82p |
| IFRS Profit/(loss) for the period | **£22.4m** | £(4.4)m |
| Total dividend per share | **3.64p** | 3.39p |
| | | |
| Net Asset Value (NAV) per share | **67p** | 68p |
| EPRA NAV per share | **67p** | 68p |
| | | |
| Group net debt[3] | **£404.0m** | £398.1m |
| Net debt to property value[3] | **46%** | 46% |

1. Wholly-owned assets.
2. Adjusted Profit is as defined in the Glossary. It incorporates profits from operating activities and excludes revaluation of properties and financial instruments, gains or losses on disposal, exceptional items and other defined terms. A reconciliation of this, and Adjusted Earnings per share, to the statutory result is provided in the Financial Review. EPRA figures and a reconciliation to EPRA EPS are shown in Note 9 to the Financial Statements. The EPRA measures used throughout this report are industry best practice performance measures established by the European Public Real Estate Association. They are defined in the Glossary to the Financial Statements.
3. 2016 figures are proforma, adjusted for the refinancing of Mall assets completed on 4 January 2017, Ipswich disposal completed on 17 February 2017 and Ilford acquisition completed on 8 March 2017.

# DIRECTORS' REMUNERATION REPORT

POLICY

## Remuneration philosophy and principles

Our principles continue to be to maintain a competitive remuneration package that will attract, retain and motivate a high quality team, avoid excessive or inappropriate risk taking and align their interests with those of shareholders. These principles are designed to:

- Drive accountability and responsibility;
- Provide a balanced range of incentives which align both short-term and long-term performance with the value/returns delivered to shareholders;
- Apply demanding performance conditions to deliver sustainable high performance; setting these conditions with due regard to actual and expected market conditions and business context;
- Ensure that a large part of potential remuneration is delivered in shares in order that executives are expected to build up a shareholding themselves and therefore they are directly exposed to the same gains or losses as all other shareholders;
- Take account of the remuneration of other comparator companies of similar size, scope and complexity within our industry sector;
- Keep under review the relationship of remuneration to risk, the members of the Remuneration Committee are also that of the Audit Committee; and
- Ensure that the incentive structure does not raise any environmental, social or governance risks through compliance with our Responsible Business ethics and standards of operating.

## How the Committee sets remuneration

<table>
<tr><td>Salary</td><td rowspan="3">Fixed compensation</td><td rowspan="3">Median</td><td rowspan="5">Total = Median or above for above Median performance</td></tr>
<tr><td>Pension</td></tr>
<tr><td>Benefits</td></tr>
<tr><td>Bonus</td><td rowspan="2">Performance based compensation</td><td rowspan="2">Median or above for above Median performance</td></tr>
<tr><td>Share Awards</td></tr>
</table>

The Committee benchmarks remuneration against our selected comparator group companies (see page 51) and seeks to ensure that Directors' fixed compensation is around the median in the comparator group.

The Committee view is that by putting an emphasis on performance related compensation, executives are encouraged to perform to the highest of their abilities. The performance based compensation is targeted to be at median or above, for above median performance, within the comparator group to ensure that outstanding relative performance is appropriately rewarded. The overall effect is that our total compensation is at median or above, for above median performance.

| Purpose & link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Base salary**<br>**Median**<br>• To aid recruitment, retention and motivation of high quality people<br>• To reflect experience and importance of role | Reviewed annually effective 1 January to reflect:<br>• general increases throughout the Company or changes in responsibility or role; and<br>• benchmarking against comparator group to ensure salaries are about the median level and market competitive. | n/a | n/a |
| **Pension**<br>**Median**<br>• To help recruit and retain high quality people<br>• To provide an appropriate market competitive retirement benefit | The Company does not operate a pension scheme, all pension benefits are paid either to defined contribution pensions schemes of each Executive Director's choice or as a cash supplement.<br>From appointment in June 2017, Lawrence Hutchings received an allowance of 15% of basic salary, in line with other Executive Directors. | n/a | n/a |
| **Benefits**<br>**Median**<br>• To aid recruitment and retention<br>• To provide market competitive benefits | The Company offers a package to Executive Directors including:<br>• private medical insurance;<br>• critical illness cover;<br>• life insurance;<br>• permanent health insurance; and<br>• holiday and sick pay.<br>Benefits are brokered and reviewed annually. | n/a | n/a |
| **Annual bonus**<br>**Median or above**<br>• To incentivise delivery of short-term business targets and individual objectives based on annual KPIs<br>• To recognise performance whilst controlling costs in reaction to the market context or Company events | The bonus plan is reviewed annually to ensure bonus opportunity, performance measures and weightings are appropriate and support the stated Company strategy.<br>Deferral applies such that bonus in excess of 60% of maximum for Executive Directors (50% for the Chief Executive) will be deferred for two years and then converted into shares. At the end of the deferral period an additional payment equivalent to the dividends that would have been earned on the shares will be made.<br>Malus applies to any bonus award up to the date of determination. Clawback provisions apply to the element of any bonus that is deferred into shares for two years from the date of award. | Maximum bonus is 125% of basic salary for Executive Directors/150% for Chief Executive<br>Targets calibrated so maximum pay-out would represent exceptional performance | Measures and weightings may vary from year to year depending on strategic priorities.<br>2017 objectives were weighted at 80% on Group Objectives and 20% on Individual objectives. 2018 objectives will have the same split. |

# DIRECTORS' REMUNERATION REPORT

## POLICY

<table>
<tr><th>Purpose & link to strategy</th><th>Operation</th><th>Opportunity</th><th>Performance metrics</th></tr>
<tr><td>LTIP<br><br>Median or above<br><br>• To reinforce delivery of long-term business strategy and targets<br>• To align participants with shareholders' interests<br>• To retain Directors and senior team over the longer term</td><td>Awards are based on achieving specified targets over a three year performance period.<br><br>An adjustment of the awards may be made in the event of a capital raising or any other event that would have a dilutory impact.<br><br>In the event of a liquidity event the Committee will pro-rate awards for performance and will normally pro-rate for time although it has the discretion not to.<br><br>A holding period applies after the end of the performance period. On exercise, individuals will receive an additional payment equivalent to dividends paid on shares that have qualified for vesting during the holding period.<br><br>Malus and Clawback provisions apply such that the Committee have the discretion to reduce or cancel any awards that have not been exercised, in any of the following situations:<br>• C&R's financial statements or results being negatively restated due to the Executive's behaviour;<br>• A participant having deliberately misled management or the market regarding Company performance;<br>• A participant causing significant damage to the Company; or<br>• A participant's actions amounting to serious / gross misconduct.</td><td>The plan provides annual awards of shares of up to 150% of salary for Executive Directors/200% for the Chief Executive.</td><td>Performance measures apply over a three year period from the date of grant.<br><br>Details of the performance conditions on existing awards and those proposed for an issue in 2018 are on pages 56-57.</td></tr>
<tr><td>Executive shareholding<br><br>• To support alignment of Executive Directors with shareholders</td><td>All Executive Directors are expected to build a shareholding to at least 1 × basic annual salary value (2 × for Chief Executive) based on current market value or the aggregate purchase price of the shares.<br><br>Deferred or other unvested share awards not subject to performance conditions can count towards the guideline.</td><td>n/a</td><td>n/a</td></tr>
<tr><td>Non-Executive Director fees<br><br>Median<br><br>• To reflect experience and importance of role</td><td>The Chairman and Non-Executive Director fees are set by the Board taking into account the time commitment, responsibilities, skills and experience and roles on Board Committees.<br><br>Details of the fees can be found on page 54. Individuals who are members of both the Audit and Remuneration Committees receive an additional fee of £5,000 per annum. The Senior Independent Director receives an additional fee of £5,000 per annum.</td><td>n/a</td><td>n/a</td></tr>
</table>

## Employee Context

The Committee ensures that employees' remuneration across the Company is taken into consideration when reviewing executive remuneration policy although no direct consultation is performed. The Committee reviews internal data in relation to staff remuneration and is satisfied that the level is appropriate.

## Comparator group

In the review of Remuneration Policy that the Company undertook with assistance from PwC in 2016 the below comparator group was used. The relative size of Capital & Regional in comparison to the constituents was factored into the benchmarking exercise performed. In addition to the Companies listed below consideration was also given to the upper quartile benchmarks for the FTSE Small Cap.

The comparator group is used as a guide to set parameters and in this context is only one of a number of factors taken into account when determining the level and elements of remuneration policy.

- A & J Mucklow Group Plc
- Assura plc
- Big Yellow Group Plc
- Capital & Counties Properties Plc
- Countrywide Plc
- Derwent London Plc
- Foxtons Group Plc
- Grainger Plc
- Great Portland Estates Plc
- Hammerson Plc
- Hansteen Holdings Plc
- Helical Bar Plc
- Intu Properties Plc
- Landsec Group Plc
- London & Associated Properties Plc
- LondonMetric Property Plc
- LSL Property Services Plc
- McKay Securities Plc
- Safestore Holdings Plc
- Savills Plc
- Segro Plc
- Shaftesbury Plc
- St. Modwen Properties Plc
- The British Land Company Plc
- U and I Group PLC
- Unite Group Plc
- Workspace Group Plc

## Directors' service agreements and letters of appointment

| Name | Unexpired term of appointment | Date of service agreement | Notice period | Potential termination payment |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| L Hutchings | Rolling contract | 13 June 2017 | 12 months | 12 months' salary and benefits value |
| C Staveley | Rolling contract | 1 October 2008 | 12 months | 12 months' salary and benefits value |
| **Non-Executive Directors** | | **Date of initial appointment** | | |
| H Scott-Barrett | Rolling contract | 9 March 2008[1] | 6 months | None |
| L Norval | Rolling contract | 15 September 2009 | No notice | None |
| T Hales | Rolling contract | 1 August 2011 | No notice | None |
| I Krieger | Rolling contract | 1 December 2014 | No notice | None |
| W Hamman | Rolling contract | 2 June 2015 | No notice | None |
| L Whyte | Rolling contract | 1 December 2015 | No notice | None |
| G Poitrinal | Rolling contract | 1 November 2016 | No Notice | None |

1. Hugh Scott-Barrett's contract was amended on 13 June 2017 when he ceased to be Chief Executive and became the Non-Executive Chairman.

Non-Executive Directors are all appointed on rolling contracts with no notice period save for Hugh Scott-Barrett who as Chairman has a six month notice period. All Directors stand for re-election annually and Board appointments automatically terminate in the event of a Director not being re-elected by shareholders. Copies of the Directors' service agreements are available to view, upon appointment, at the Company's registered office.

# DIRECTORS' REMUNERATION REPORT

POLICY

## Recruitment of Executives

New Executive Directors will receive a remuneration package that will reflect the Company's remuneration policy within the parameters outlined. In certain circumstances, such as an internal promotion, an appointment may be at a salary level discount to reflect experience at that point; the Committee may increase it over time on the evidence of performance achievement and market conditions. All new Executive Directors' service agreements will include mitigation of the payment of notice as standard.

The maximum level of sign on awards paid to new joiners will be 100% of salary. This excludes amounts paid to buy out individuals from existing performance awards. In the event that the Committee proposes to make a significant payment to buy out an individual from their existing awards they will first consult with major shareholders. In addition new Directors may receive share awards on joining although these will not vest in the first year of joining.

## Exit payment policy

When considering termination payments the Committee takes into account the best interests of the Company and the individual's circumstances including the reasons for termination, contractual obligations, bonus and LTIP scheme rules. The Remuneration Committee will ensure that there are no unjustified payments for failure on an Executive Director's termination of employment. The policy in relation to leavers is summarised as follows:

- In normal circumstances the Executive Director will work their notice period and receive usual remuneration payments and benefits during this time. The Remuneration Committee can exercise discretion on the leaver being treated as a good leaver for the purposes of the LTIP scheme.
- In the event of the termination of an Executive Director's contract and the Company requesting the Executive cease working immediately, either a compensation for loss of office payment will be made or a payment in lieu of notice plus benefits may be made. The value of the compensation for loss of office will be equivalent to the contractual notice period, pension and benefits value.
- The Executive Director may also be considered for a performance related pay award upon termination. The financial performance of the Company and meeting of KPIs and targets is the prime driver for determining whether to make an award and the quantum. The Remuneration Committee can exercise discretion on the leaver being treated as a good leaver for the purposes of a pro rata cash bonus award.
- In the event of termination for gross misconduct neither notice nor payment in lieu of notice will be given and the Executive will cease to perform their services with immediate effect.

The Committee will seek to mitigate the cost to the Company. In the event that the Committee exercises the discretion detailed above to treat an individual as a Good Leaver and/or to make a performance related bonus payment, the Committee will provide an explanation in the next remuneration report.

## External Appointments

The Company allows Executive Directors to take up external positions outside the Group, providing they do not involve a significant commitment and do not cause conflict with their duties to the Company. These appointments can broaden the experience and knowledge of the Director, from which the Company can benefit. Executives are allowed to retain all remuneration arising from any external position. Hugh Scott-Barrett served as a Non-Executive Director of GAM Holding AG and The Goodwood Estate Company Ltd while he was Chief Executive. No other Executive Directors held external positions during the year.

## Senior Management

The policy for senior management remuneration is set in line with the policy for the Executive Directors, with a degree of discretion for the Committee to take into account specific issues identified by the Chief Executive, such as the performance of a specific individual or division.

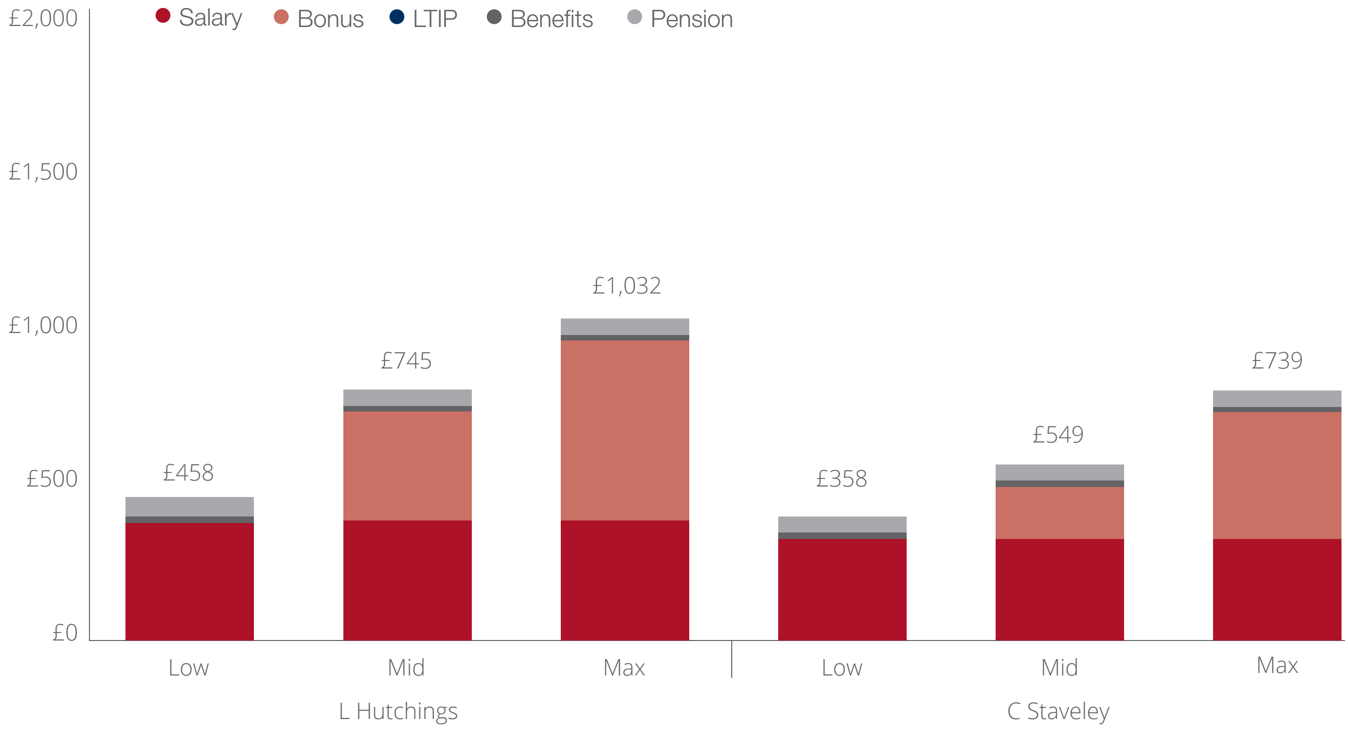
## Total Compensation

The following chart shows the value of each of the main elements of the remuneration package for each of the Executive Directors potentially available in 2018 dependent on performance scenarios:

- The low scenario is based on nil bonus;
- The mid scenario is based on bonus at 50% of maximum; and
- The max scenario is based on bonus at 125% salary for Executive Directors/150% for Chief Executive.

No LTIP awards are expected to vest during the year as the March 2015 LTIP issue did not qualify for vesting as the performance criteria, which were assessed over the three year period ending 6 March 2018, were not met.

*All figures in £'000*




## Consultation and shareholders' views

Shareholder voting on the Directors' remuneration report, which was tabled at the 9 May 2017 AGM, was as follows:

| Resolution | For | Against | Discretionary | Total Shares Voted | For/Discretionary as % of Total Shares Voted |
|---|---|---|---|---|---|
| To approve the Directors' remuneration report for 2016 | 460,364,341 | 6,479,856 | 8,218 | 466,852,415 | 98.61% |

Shareholder voting on the remuneration policy, which was tabled at the 10 May 2016 AGM, was as follows:

| Resolution | For | Against | Discretionary | Total Shares Voted | For/Discretionary as % of Total Shares Voted |
|---|---|---|---|---|---|
| To approve the Directors' remuneration policy | 415,895,797 | 48,741,878 | 28,702 | 464,666,377 | 89.51% |

Where requested, further clarification and discussion can be provided to all shareholders to assist them in making an informed voting decision. If any major concerns are raised by shareholders these can be discussed with the Committee Chairman in the first instance and the rest of the Committee as appropriate.

## Committee evaluation

The Committee reviews its performance with Board members and other participants, including through the annual Board evaluation.

# DIRECTORS' REMUNERATION REPORT

## 2017 REMUNERATION REPORT

## Audited information:

### *Single total figure of remuneration for Directors:*

The table below sets out the remuneration received/receivable in relation to the year ended 30 December 2017.

| £'000 | Salary/Fees | | Taxable benefits (i) | | Other benefits | | Total Bonus (xi) | | Pension | | Total emoluments | | LTIP vesting (xii) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Director** | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| L Hutchings (ii) | **212** | – | **1** | - | **4** | - | **148** | - | **28** | - | **393** | - | **-** | - | **393** | - |
| H Scott-Barrett (Chief Executive) (iii) | **195** | 418 | **3** | 4 | **10** | 14 | **-** | 439 | **38** | 84 | **246** | 959 | **318** | 1,153 | **564** | 2,112 |
| C Staveley | **299** | 292 | **2** | 2 | **6** | 6 | **149** | 238 | **45** | 44 | **501** | 582 | **152** | 606 | **653** | 1,188 |
| K Ford (iv) | **113** | 308 | **2** | 4 | **3** | 8 | **46** | 241 | **17** | 46 | **181** | 607 | **160** | 638 | **341** | 1,245 |
| M Bourgeois (v) | **–** | 201 | **–** | 2 | **–** | 4 | **–** | – | **–** | 30 | **–** | 237 | **–** | – | **–** | 237 |
| **TOTAL** | **819** | 1,219 | **8** | 12 | **23** | 32 | **343** | 918 | **128** | 204 | **1,321** | 2,385 | **630** | 2,397 | **1,951** | 4,782 |
| **Chairman and Non-Executive Directors** | | | | | | | | | | | | | | | | |
| H Scott-Barrett (iii) (Chairman) | **75** | – | **–** | – | **–** | – | **–** | – | **–** | – | **75** | – | **–** | – | **75** | – |
| J Clare (ix) | **56** | 125 | **–** | – | **–** | – | **–** | – | **–** | – | **56** | 125 | **–** | – | **56** | 125 |
| T Hales (vii) | **51** | 45 | **–** | – | **–** | – | **–** | – | **–** | – | **51** | 45 | **–** | – | **51** | 45 |
| W Hamman | **41** | 40 | **–** | – | **–** | – | **–** | – | **–** | – | **41** | 40 | **–** | – | **41** | 40 |
| I Krieger (vi) | **46** | 45 | **–** | – | **–** | – | **–** | – | **–** | – | **46** | 45 | **–** | – | **46** | 45 |
| P Newton (viii) | **–** | 16 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 16 | **–** | – | **–** | 16 |
| L Norval | **41** | 40 | **–** | – | **–** | – | **–** | – | **–** | – | **41** | 40 | **–** | – | **41** | 40 |
| G Poitrinal (x) | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – |
| L Whyte (vi) | **46** | 45 | **–** | – | **–** | – | **–** | – | **–** | – | **46** | 45 | **–** | – | **46** | 45 |
| **TOTAL** | **356** | 356 | **–** | – | **–** | – | **–** | – | **–** | – | **356** | 356 | **–** | – | **356** | 356 |
| **TOTAL ALL** | **1,175** | 1,575 | **8** | 12 | **23** | 32 | **343** | 918 | **128** | 204 | **1,677** | 2,741 | **630** | 2,397 | **2,307** | 5,138 |

(i) Private medical care and critical illness cover.

(ii) L Hutchings was appointed a Director on 13 June 2017.

(iii) H Scott-Barrett stepped down as Chief Executive on 13 June 2017 and became Non-Executive Chairman on the same date.

(iv) K Ford stepped down as a Director on 9 May 2017 but continued to be a full-time employee until 31 December 2017. All remuneration figures shown are up to 9 May 2017 with the total bonus paid of £127,803 pro-rated in the above table.

(v) M Bourgeois resigned from the Board on 1 November 2016, all remuneration figures shown up to that date.

(vi) T Hales, I Krieger and L Whyte receive an additional fee of £5,000 per annum as members of the Audit and Remuneration Committees.

(vii) T Hales receives a further fee of £5,000 as Senior Independent Director.

(viii) P Newton resigned on 10 May 2016.

(ix) J Clare resigned on 13 June 2017.

(x) G Poitrinal does not receive a fee or any remuneration.

(xi) In line with policy, bonus payments above 60% of maximum (50% for the Chief Executive) are deferred into shares for two years. There was no deferral in 2017. The split of the 2016 bonus was as follows:

| £'000 | Cash | Deferred into shares | Total |
|---|---|---|---|
| H Scott-Barrett | 314 | 125 | 439 |
| C Staveley | 220 | 18 | 238 |
| K Ford | 231 | 10 | 241 |

(xii) LTIP Vesting – The LTIP award is calculated with reference to the value of the August 2014 issue at the end of the performance period, at which point it was confirmed how many options would qualify for vesting. The awards will be available for individuals to exercise from 14 August 2018 (50% and 50% from 14 August 2019) and are conditional on them remaining in employment (or being deemed a good leaver). The numbers quoted also include payments made to individuals on exercise of options in lieu of dividends paid during the holding period.

## Basic salary increases for Executive Directors:

| | 2018 | | 2017 | | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **£'000** | **%** | **£'000** | **%** | **£'000** | **%** | **£'000** | **%** | **£'000** | **%** |
| L Hutchings | **383** | 2.0 | **375** | n/a | **n/a** | n/a | **n/a** | n/a | **n/a** | n/a |
| C Staveley | **305** | 2.0 | **299** | 2.0 | **293** | 2.0 | **287** | 2.5 | **280** | – |
| H Scott-Barrett | **n/a** | n/a | **427** | 2.0 | **418** | 2.0 | **410** | 2.5 | **400** | – |
| K Ford | **n/a** | n/a | **315** | 2.0 | **308** | 2.0 | **302** | 2.5 | **295** | – |
| M Bourgeois | **n/a** | n/a | **n/a** | n/a | **241** | 4.3 | **231** | 2.5 | **225** | – |

With effect from his start date of 13 June 2017, Lawrence Hutchings' salary was £375,000 per annum. All other benefits are as per the Remuneration Policy. In addition he was reimbursed for relocation costs of £8,090. Lawrence's bonus for 2017 was pro-rated reflecting his start date part way through the year.

## Non-Executive Director fees

The same 2% increase awarded to staff members and Executive Directors has been applied to Non-Executive base fees of £40,800 per annum with effect from 1 January 2018. No increase will be applied to the additional £5,000 per annum for being a member of the Audit and Remuneration Committees or the additional £5,000 fee per annum paid to the Senior Independent Director.

With effect from his start date of 13 June 2017, Hugh Scott-Barrett's fixed fee as Chairman was £135,000 per annum. This has also been increased by 2% effective from 1 January 2018.

## 2017 bonuses and achievement of objectives:

| | Total % of maximum bonus awarded for 2017 | Bonus paid 2017 £'000 | Maximum achievable £'000 |
|---|---|---|---|
| L Hutchings | 45% | 148[1] | 328[1] |
| C Staveley | 40% | 149 | 393 |
| K Ford | 32.5% | 128 | 373 |

1. The Bonus paid and maximum bonus achievable amounts were both pro-rated from June 2017.

The annual bonus criteria for 2017 were determined with a weighting of 80% for Group Objectives (of which 65% related to financial targets and 15% on business development) and 20% on personal objectives.

### *Group Objectives: Financial Targets (65%)*

| | Threshold | | Maximum | | | |
|---|---|---|---|---|---|---|
| Performance Measure | % of bonus | Required performance (£m) | % of bonus | Required performance (£m) | Actual achieved (£m) | Payout as % of max. |
| Adjusted Profit[1] | 10 | 30.4 | 15 | 31.9 | 29.9 | – |
| Adjusted Earnings per share[2] | 10 | 4.20 | 15 | 4.41 | 4.21 | 10 |
| Property Level Net Rental Income[3] | 15 | 55.0 | 20 | 56.4 | 53.7 | – |
| Growth in Net Rental Income[3] | 5 | +2.5% | 10 | +5.0% | +2.5% | 5 |
| Cost Management (Central Costs) | 5 | 8.4 | 5 | 8.4 | 8.4 | 5 |

Notes:

2. The Adjusted Profit and Adjusted Earnings per share targets are adjusted for one-off restructuring/redundancy costs and Directors' bonuses (including NIC).
3. Property Level NRI is before management fees and on a see-through basis including the Group's proportional share of joint venture assets.

# DIRECTORS' REMUNERATION REPORT

## 2017 REMUNERATION REPORT

### *Group Objectives: Business development (15%)*

The Remuneration Committee determined that management's objectives should also include a focus on the delivery of accretive property acquisitions or investments with the aim of growing the business. In considering performance for the year the Committee took into account the completion of the disposal of the Buttermarket Ipswich joint venture in February 2017 and the successful integration of the Exchange Centre, Ilford which was acquired in March 2017 and concluded that an award of 5% of bonus was appropriate.

### *Personal Objectives (20%)*

Each of the Executive Directors is given a number of personal objectives which account for a maximum of 20% of the overall target set. These objectives are specific to the individual responsibilities and in 2017 covered implementation of the new business strategy, transition and development of the management team, stakeholder engagement, cost management, the integration of the Ilford acquisition, the exit plan for the Buttermarket Ipswich joint venture and advancing strategic plans for the Group's major assets. The Committee determined that against these objectives the following awards, relative to maximum payout, be made: 20% to Lawrence Hutchings, 15% to Charles Staveley and 7.5% to Ken Ford.

## 2018 bonus objectives:

Consistent with 2017 Group objectives will account for 80% of the maximum payout, with the primary focus on measures that support delivery of dividend growth given its critical importance to the Group's strategy. A full split of the relative weighting is provided below. Given their commercial sensitivity, we do not publish specific targets but will report on achievements in the 2018 Annual Report.

| | % of max. |
|---|---|
| Adjusted Profit | 20% |
| Property Net Rental Income | 10% |
| Underlying growth in Net Rental Income | 15% |
| Cost Management | 5% |
| Operating metrics | 10% |
| Implementation of strategy | 20% |
| Personal Objectives | 20% |

## Long-Term Incentive Plan (LTIP):

The number of awards and the performance periods for all outstanding LTIP awards are summarised in the table below. The Company's Clawback provisions apply during the holding period where the level of vesting may be reduced, including to nil.

| Name | Date of Award | No. of awards | % of salary | Threshold/ Maximum vesting share price[3] | Qualified for vesting in the year | End of Performance Period | Holding period |
|---|---|---|---|---|---|---|---|
| L Hutchings | 8.9.17[2] | 1,260,504 | 200 | see note 1 below | – | 19.04.20 | 2 years |
| C Staveley | 14.08.14 | 598,930 | 100 | 60p/85p | 211,182 | 14.08.17 | 50% 1 yr/50% 2 yrs |
| | 06.03.15 | 496,969 | 100 | 65p/90p | – | 06.03.18[4] | 50% 1 yr/50% 2 yrs |
| | 23.08.16 | 615,000 | 125 | see note 1 below | – | 23.08.19 | 2 years |
| | 19.04.17 | 627,300 | 125 | see note 1 below | – | 19.04.20 | 2 years |
| H Scott-Barrett | 14.08.14 | 1,283,422 | 150 | 60p/85p | 452,534 | 14.08.17 | 50% 1 yr/50% 2 yrs[3] |
| | 06.03.15 | 806,474[3] | 150 | 65p/90p | – | 06.03.18[4] | 50% 1 yr/50% 2 yrs[3] |
| | 23.08.16 | 283,068[3] | 150 | see note 1 below | – | 23.08.19 | 2 years[3] |

Notes:

1. The performance conditions for the August 2016 and April 2017 issues are:

| Performance condition | Weighting | Time frame | Nil | Threshold (25%) | Maximum (100%) |
|---|---|---|---|---|---|
| Total Shareholder Return relative to the FTSE 350 Real Estate Index | 1/3 | 3 years from date of grant | Below index | Above index | Index + 12% |
| Average Annual Growth in Adjusted Profit Per Share | 1/3 | 3 financial years from start of year of grant | Below 5% | 5% | 9% (August 2016) 10% (April 2017) |
| Total Property Return relative to the IPD UK Retail Quarterly Property Index | 1/3 | 3 years from year end or half year end immediately preceding grant | Below index | Above index | Index + 1.5% p.a. |

2. L Hutchings' award was granted on 8 September 2017 which was as soon as was practicable following his joining the Company.
3. As a condition of Hugh Scott-Barrett's Good Leaver status he is able to exercise his LTIP awards during the Holding period but is not able to sell the shares, other than to meet tax liabilities on exercise, without the prior agreement of the Remuneration Committee. Hugh Scott-Barrett's awards under the March 2015 and August 2016 issues were reduced pro-rata to 13 June 2017, being the date that he ceased being an Executive Director.
4. The performance period for the March 2015 issue ended on 6 March 2018. Nil awards qualified for vesting as the share price (adjusted for cumulative dividends and distributions paid in the performance period) was below the 65p threshold.
5. Straight-line vesting applies for all LTIP issues in between threshold and maximum vesting.

## *Vesting of August 2014 LTIP issue*

The performance period for the August 2014 LTIP issue ended during the year as noted above 35.26% of the awards qualified for vesting. This is the second LTIP award to qualify for vesting since the scheme was introduced in 2008. In approving the final result the Committee engaged Deloitte LLP, the Company's Auditor, to confirm the relevant inputs and mechanics of the calculation. The Committee also reviewed the relative TSR performance of the Company against three industry peers and the FTSE All Share, FTSE 350 Real Estate and FTSE All Share Real Estate Investment Services. Noting that the Company had significantly outperformed all comparatives, other than one peer, the Committee concluded that the result was a fair reflection of the performance of management and therefore there was no need to utilise its discretionary override. The awards are available for individuals to exercise from 14 August 2018 (50% – 50% from 14 August 2019) and are conditional on them remaining in employment (or being deemed a good leaver).

## *Early vesting of awards*

Where a liquidity event triggers early vesting the Committee will pro rate awards for performance and, other than in exceptional circumstances, for time. In the event of a capital raising or any other such event that would have a dilutive impact upon the awards the Remuneration Committee may, in line with the scheme rules, adjust the awards granted to take account of this.

## *LTIP issue in 2018*

The Committee intends to make a new LTIP issue in 2018. The award will be made to the Chief Executive at a level equivalent to 200% of salary and to Charles Staveley at a level equivalent to 150% of salary. The Committee intend to use the same weighting and structure of award as for the 2017 issue:

| Performance condition | Weighting | Time frame | Nil | Threshold (25%) | Maximum (100%) |
|---|---|---|---|---|---|
| Total Shareholder Return relative to the FTSE 350 Real Estate Index | 1/3 | 3 years from effective date of grant | Below index | Above index | Index + 12% |
| Average Annual Growth in Adjusted Profit Per Share | 1/3 | 3 financial years from start of year of grant | Below 5% | 5% | 10% |
| Total Property Return relative to the IPD UK Retail Quarterly Property Index | 1/3 | 3 years from year end or half year end preceding effective date of grant | Below index | Above index | Index + 1.5% p.a. |

In the case of each measure if performance is between the Threshold (25%) and Maximum (100%) levels vesting will be calculated on a straight-line basis.

In line with all LTIP awards the Remuneration Committee retains discretion to adjust payout if it concludes that performance measures have only been achieved due to actions that deliver short-term benefit at the cost of longer term performance and financial stability.

# DIRECTORS' REMUNERATION REPORT

## 2017 REMUNERATION REPORT

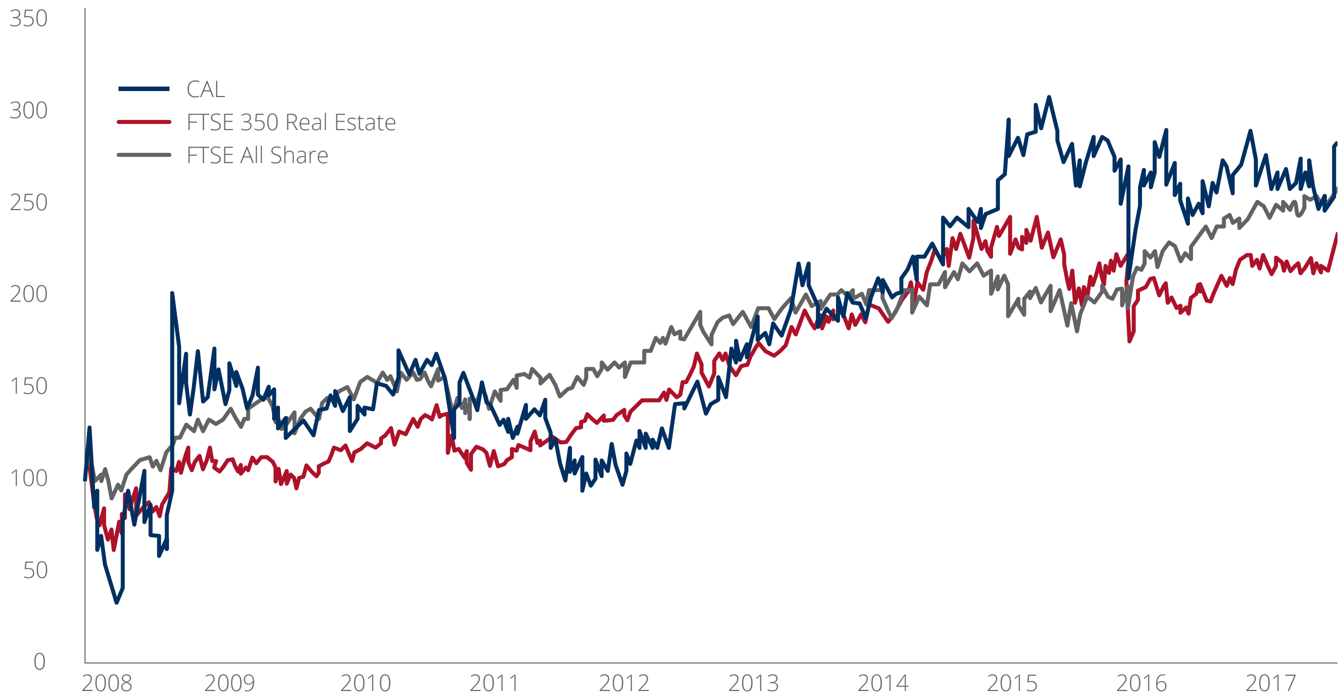
### Exit payments

No discretionary payments were made to Hugh Scott-Barrett on his change of role from Chief Executive to Chairman on 13 June 2017. Hugh did not receive a bonus or LTIP award for 2017 in light of his impending move. For the purposes of the LTIP Hugh was regarded as a good leaver and can exercise awards when they qualify for vesting but any sale of shares before the end of the Holding Period, other than to cover tax liabilities on exercise, is subject to Remuneration Committee agreement. Pro-rating for time was applied to the March 2015 and August 2016 awards such that the proportion of his awards that will be available for potential vesting will only relate to the proportion of the performance period for which he was Chief Executive.

Ken Ford stepped down as an Executive Director of Capital & Regional plc on 9 May 2017. Ken remained an employee of the Group until 31 December 2017 during which time his remuneration arrangements were unchanged. No additional remuneration or payment was made in connection with Ken ceasing to be a Director of the Company. Ken will retain his awards received under the Company's 2008 Long Term Incentive Plan ("LTIP"). For those LTIP awards with a performance period extending beyond 31 December 2017 a pro-rating adjustment will be made to that date. The Holding Periods applicable to the respective LTIP awards, and to options under the Company's Deferred Bonus Share Plan, will be varied such that they will no longer apply from after the first anniversary of Ken leaving full-time employment (i.e. 31 December 2018).

### Performance graph

The graph below illustrates the Company's Total Shareholder Return (i.e. share price growth plus dividends paid) performance compared to the FTSE All Share and FTSE 350 Real Estate indices. The graph shows how the total return on a £100 investment in the Company made on 31 December 2008 would have changed over the nine year period measured, compared with the total return on a £100 investment in the comparable indices.



The table below sets out the total remuneration of the Chief Executive, over the same period as the Total Shareholder Return graph. The quantum of Annual Incentive awards granted each year and long-term incentive vesting rates are given as a percentage of the maximum opportunity available.

| | **2017 £'000** | 2016 £'000 | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 | 2009 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Total remuneration (L Hutchings) | **393** | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Total remuneration (H Scott-Barrett) | **564** | 2,112 | 796 | 833 | 651 | 765 | 536 | 302 | 402 |
| Annual bonus (% of max) (L Hutchings) | **45%** | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Annual bonus (% of max) (H Scott-Barrett) | **–** | 70% | 70% | 85% | 40% | 69% | 71% | – | – |
| LTIP vesting (% of max) (L Hutchings) | **n/a** | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| LTIP vesting (% of max) (H Scott-Barrett) | **35.26%** | 91.85% | – | – | – | – | – | – | – |

## Percentage increase in Chief Executive remuneration versus the wider workforce

| | **CEO** | **Employee group**[1] |
|---|---|---|
| Salary | -3% | 2% |
| All taxable benefits | No change | No change |
| Annual bonuses | -42% | -5% |

The CEO comparison is Hugh Scott-Barrett for 2016 to a combined figure for 2017 comprising Hugh Scott-Barrett's remuneration for the period 1 January 2017 to 12 June 2017 and Lawrence Hutchings' remuneration for the period 13 June 2017 to 31 December 2017.

The ratio of the salary of the Chief Executive to the average employee salary[1] (excluding Directors) was 5.6:1 (£407,000:£72,550).

1. Calculated on a like-for-like basis with reference to employees of Capital & Regional plc and Capital & Regional Property Management.

## Relative importance of spend on pay compared to distributions to shareholders

| | **2017 £m** | 2016 £m | % |
|---|---|---|---|
| Employee costs (per Note 7 of the financial statements) | **13.1** | 13.7 | -4.4% |
| Dividends paid (Total of Interim and Final Dividend for the respective year) | **26.1** | 23.8 | 9.7% |

## Executive share ownership

The minimum shareholding guidelines require Executive Directors to hold ordinary shares with a value equal to a set percentage of salary based on current market value or aggregate purchase price. These guidelines are set at one year's basic salary for Executive Directors and two years for the Chief Executive.

There is no set timescale for Executive Director to reach the prescribed target but they are expected to retain net shares received on the vesting of long-term incentive awards until the target is achieved. Shares that count towards the holding guideline are unfettered and beneficially owned by the Executive Directors and their connected persons.

| **Executive Directors** | **Time from appointment as Executive Director** | **Target % of salary** | **Target currently met?** |
|---|---|---|---|
| L Hutchings | 6 months | 200 | No |
| C Staveley | 9 years 3 months | 100 | Yes |

# DIRECTORS' REMUNERATION REPORT

## 2017 REMUNERATION REPORT

### 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. This excludes unvested LTIP share awards, these are disclosed separately on page 56.

| | **30 December 2017 Shares** | 30 December 2016 Shares |
|---|---|---|
| H Scott-Barrett | **3,489,676** | 2,206,826 |
| L Hutchings | **38,710** | n/a |
| C Staveley | **1,090,860** | 540,475 |
| T Hales | **600,000** | 500,000 |
| W Hamman | **–** | – |
| I Krieger | **103,133** | 100,000 |
| L Norval | **135,899,287** | 137,102,157 |
| G Poitrinal | **53,147,931** | 51,532,964 |
| L Whyte | **73,929** | 57,000 |

Louis Norval is beneficially interested in the shares registered in the name of MStead Limited and PDI Investment Holdings Limited. Wessel Hamman, by virtue of being the other nominated representative Director of the Parkdev Group of companies, is connected to the MStead Limited, PDI Investment Holdings Limited and other related shareholdings but does not personally have a beneficial interest in any of these holdings.

The 53,147,931 shares in which Guillaume Poitrinal is noted as having a beneficial interest in at 30 December 2017 were held by ICAMAP Investments S.àr.l, of whom he is the Chairman.

The following were the only transactions impacting the above shareholdings from 30 December 2017 to 4 April 2018, being the latest practicable date prior to the issue of this report:

- Hugh Scott-Barrett completed transactions on 9 March 2018 that added a net 25,000 shares to his holding.

**Tony Hales CBE**
Chairman of Remuneration Committee

# DIRECTORS' REPORT

## Business review

Information on the Group's business, which is required by section 417 of the Companies Act 2006, can be found in the Strategic Report on pages 2 to 35 which is incorporated into this report by reference. This includes our statutory reporting on greenhouse gas emissions. A report on corporate governance and compliance with the provisions of the UK Corporate Governance Code and Disclosure and Transparency Rules, which forms part of this Directors' Report, is set out on pages 38 to 42.

The results for the year are shown in the Group income statement on page 74. There were no reportable events after the balance sheet date. The use of financial derivatives is set out in Note 18 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 Group undertakes no obligation to update them. Nothing in this annual report should be construed as a profit forecast.

## Dividends

An interim dividend of 1.73 pence per share (2016: 1.62 pence per share) was paid on 26 October 2017, all as a Property Income Distribution (PID). The Directors recommend a final dividend of 1.91 pence per share, making a total distribution for the year ended 30 December 2017 of 3.64 pence per share (2016: 3.39 pence per share).

Subject to approval of shareholders at the Annual General Meeting ("AGM") on 9 May 2018, the final dividend will be paid on 16 May 2018. The key dates are set out as below:

| | |
|---|---|
| • Confirmation of ZAR equivalent dividend and PID percentage | 10 April 2018 |
| • Last day to trade on Johannesburg Stock Exchange (JSE) | 17 April 2018 |
| • Shares trade ex-dividend on the JSE | 18 April 2018 |
| • Shares trade ex-dividend on the London Stock Exchange (LSE) | 19 April 2018 |
| • Record date for LSE and JSE | 20 April 2018 |
| • AGM | 9 May 2018 |
| • Dividend payment date | 16 May 2018 |

The amount to be paid as a PID will be confirmed in the announcement on 10 April 2018. If a Scrip dividend alternative is offered the deadline for submission of valid election forms will be 20 April 2018. South African shareholders are advised that the final dividend will be regarded as a foreign dividend. Further details relating to Withholding Tax for shareholders on the South African register will be provided within the announcement detailing the currency conversion rate on 10 April 2018. Share certificates on the South African register may not be dematerialised or rematerialised between 18 April 2018 and 20 April 2018, both dates inclusive. Transfers between the UK and South African registers may not take place between 10 April 2018 and 20 April 2018, both dates inclusive.

### *Property Income Distributions (PIDs)*

As a UK REIT, Capital & Regional plc is exempt from corporation tax on rental income and gains on UK investment properties but is required to pay Property Income Distributions (PIDs). UK shareholders will be taxed on PIDs received at their full marginal tax rates. A REIT may in addition pay normal dividends.

For most shareholders, PIDs will be paid after deducting withholding tax at the basic rate. However, certain categories of UK shareholder are entitled to receive PIDs without withholding tax, principally UK resident companies, UK public bodies, UK pension funds and managers of ISAs, PEPs and Child Trust Funds. Further information on UK REITs is available on the Company's website, including a form to be used by shareholders to certify if they qualify to receive PIDs without withholding tax.

PIDs paid to shareholders on the South African share registrar are subject to UK withholding tax at 20%. South African shareholders may apply to Her Majesty's Revenue and Customs after payment of the PID for a refund of the difference between the 20% withholding tax and the prevailing UK/South African double tax treaty rate. Other overseas shareholders may be eligible to apply for similar refunds of UK withholding tax under the terms of the relevant tax treaties.

# DIRECTORS' REPORT

CONTINUED

## Directors

The names and biographical details of the present Directors of the Company are given on pages 36 to 37. Lawrence Hutchings was appointed on 13 June 2017. Ken Ford and John Clare's resignations were effective from 9 May 2017 and 13 June 2017, respectively. All other Directors served for the full year.

All current Directors will retire and, being eligible, offer themselves for re-election at the 2018 Annual General Meeting.

Directors' interests in the share capital and equity of the Company at the year-end are contained in the Directors' Remuneration Report on page 60. 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.

In connection with the Parkdev Group of Investors ("Parkdev") acquisition of shares in the Company in 2009 and pursuant to the Relationship Agreement that Parkdev and the Company entered into in 2009, the Company agreed, upon request, to appoint two Non-Executive Directors nominated by Parkdev to the Board for so long as they own 20% or more of the issued ordinary share capital in the Company and one Non-Executive Director to the Board if they own less than 20%, but not less than 15%. Louis Norval and Wessel Hamman are the Parkdev nominated non-executive directors. All other Directors are appointed in a personal capacity.

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

## Listing Rule 9.8.4R disclosures

The following table sets out where disclosures required in compliance with Listing Rule 9.8.4R are located.

| | |
|---|---|
| Interest capitalised and tax relief | n/a |
| Details of long-term incentive schemes | Pages 56 to 57 |
| Waiver of emoluments by a Director | n/a |
| Waiver of future emoluments by a Director | n/a |
| Non pre-emptive issues of equity for cash | n/a |
| Non pre-emptive issues of equity for cash by major subsidiary undertakings | n/a |
| Parent company participation in a placing by a listed subsidiary | n/a |
| Contracts of significance | n/a |
| Provision of services by a controlling shareholder | n/a |
| Shareholder waivers of dividends | Shares held by Employee Share Ownership Trust – see section below |
| Shareholder waivers of future dividends | Shares held by Employee Share Ownership Trust – see section below |
| Agreements with controlling shareholders | n/a |

## Substantial shareholdings

As at 26 March 2018 (the latest practicable date prior to the issue of this report) the Company has been notified of the following interests in its issued ordinary share capital:

| | No. of shares | % |
|---|---|---|
| MStead Limited | 69,978,847 | 9.74 |
| PDI Investment Holdings | 65,462,806 | 9.11 |
| ICAMAP Investments | 53,147,931 | 7.40 |
| BlackRock | 41,778,069 | 5.82 |
| Peens Family Holdings | 32,440,000 | 4.52 |
| Hargreave Hale | 32,300,000 | 4.50 |
| New Fortress Finance Holdings | 27,535,263 | 3.83 |
| Thames River Capital | 24,768,962 | 3.45 |
| Aberforth Partners | 23,640,935 | 3.29 |

*MStead Limited and PDI Investment Holdings are part of the Parkdev Group of investors.*

## Share capital

As at 30 December 2017 the Company's total issued share capital was 718,275,760 ordinary shares of one pence each, all with equal voting rights. The changes in the Company's Issued share capital during 2017 are detailed in Note 19 to the financial statements.

The Company has a Secondary Listing of shares on the Johannesburg Stock Exchange (JSE). At 30 December 2017, 60,477,452 of the Company's shares were held on the JSE register representing 8.42% of the total shares in issue.

## Change in control

The Group's core £30 million revolving credit facility can be called in if there is a change in direct control of the borrower, Capital & Regional Holdings, of 50% or more of its issued share capital. The Group's £39 million debt facility in respect of The Exchange Centre, Ilford allows the lender to demand repayment of the facility with 120 days' notice following an individual or entity taking control of 50% or more of Capital & Regional Plc's shares.

In addition, certain potential tax liabilities could be crystallised in some circumstances where there are varying degrees of change of ownership of the Group's shares.

Furthermore, the Group could lose its status as a REIT as a result of the actions of third parties (for example, in the event of a successful takeover by a company that is not a REIT and which does not qualify as an "institutional investor" for REIT purposes) or due to a breach of the close company condition if it is unable to remedy the breach within a specified period.

## Purchase of own shares

The Company did not make any purchases of its own shares during 2016 or in 2017 up to 4 April 2018 being the latest practicable date prior to the issue of this report.

The Company was authorised by shareholders at the 2017 AGM held on 9 May 2017 to purchase up to a maximum of 10.0% of its ordinary shares in the market. This authority will expire at the 2018 AGM and the directors will be seeking a new authority for the Company to purchase its ordinary shares. This will only be exercised if market and financial conditions make it advantageous to do so.

## Articles of Association

The rules governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by shareholders in accordance with the legislation in force from time to time.

## Shares held by Employee Share Ownership Trust

The Capital & Regional Employee Share Ownership Trust did not acquire any shares in 2017. At 30 December 2017 the Trust held 182,699 shares in the Company. The shares held by the Trust are registered in the nominee name, Forest Nominees Limited, and a dividend waiver is in place to cover the entire holding.

## Human rights

The Group operates in the UK and Jersey and, as such, is subject to the European Convention on Human Rights and the UK Human Rights Act 1998.

The Group respects all human rights and in conducting its business the Group regards those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on its key stakeholder groups of customers, employees and suppliers.

The Board has overall responsibility for ensuring the Group upholds and promotes respect for human rights. The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through its policies and procedures and, in particular, through its policies regarding employment, equality and diversity, treating its stakeholders and customers fairly and information security. Group policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Staff Policy Manual. The Group has not been made aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

# DIRECTORS' REPORT

CONTINUED

## Employees

The Group 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 Group that cannot be justified as necessary on operational grounds.

We give full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by people with disabilities. We endeavour to retain the employment of, and arrange suitable retraining for, any employee who becomes disabled during their employment as well as providing training, career development and promotion to disabled employees wherever appropriate.

During the year, the Group maintained arrangements to provide employees with information on matters of concern to them, to regularly consult employees for views on matters affecting them, to encourage employee involvement in the Group's performance through share schemes, and to make all employees aware of financial and economic factors affecting the performance of the Group.

At 30 December 2017 the total number of employees was as follows:

| Employees | Male | Female | Total |
|---|---|---|---|
| Directors[1] | 8 | 1 | 9 |
| Employees – Group | 22 | 23 | 45 |
| Employees – Wholly-owned assets | 63 | 21 | 84 |
| Employees – Snozone | 160 | 97 | 257 |

1. The Group defines its senior management as the members of the Executive Committee which at 30 December 2017 consisted of the Executive Directors and the Group's Investment Director, James Ryman.

## Political donations

The Group has not made any political donations during the year and intends to continue its policy of not doing so for the foreseeable future.

## Auditor's information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. A resolution to reappoint Deloitte LLP as the Company's Auditor will be proposed at the forthcoming AGM.

## Annual General Meeting

A separate document, the Notice of Annual General Meeting 2017, accompanies this report and accounts and explains the business to be covered at the Annual General Meeting of the Company to be held on 9 May 2018.

By order of the Board

**Stuart Wetherly**
Company Secretary
5 April 2018

**Registered Company name**: Capital & Regional plc
**Registered Company number**: 01399411
**Registered office**: 22 Chapter Street, London SW1P 4NP

# DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with FRS 101, as published by the Financial Reporting Council, and applicable law in the United Kingdom. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Directors' responsibilities statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 5 April 2018 and is signed on its behalf by:

**Lawrence Hutchings**
Chief Executive

**Charles Staveley**
Group Finance Director

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL & REGIONAL PLC

## Report on the audit of the financial statements

## Opinion

### *In our opinion:*

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Capital and Regional plc (the "parent Company") and its subsidiaries (the "Group") which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated and parent Company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Summary of our audit approach

| | |
|---|---|
| **Key Audit Matters** | The key audit matters that we identified in the current year were:<br>• Property valuations<br>• Going concern and covenant compliance<br>• Impairment of Company only investments |
| **Materiality** | The materiality that we used in the current year was £9.5 million which was determined on the basis of 2% of net assets. |
| **Scoping** | Our group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group and component levels. Our audit scoping provides full scope audit coverage of 93% (2017: 90%) of net assets and 96% (2017: 90%) of Adjusted Profit. |
| **Significant changes in our approach** | In the prior year we reported on the risk of fraud in revenue recognition as a key audit matter. In the current year we reassessed our identification of the risks of material misstatement due to fraud and considered this to relate to the valuation of the property portfolio, as discussed below. |

## Conclusions relating to going concern, principal risks and viability statement

### *Going concern*

We have reviewed the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### *Principal risks and viability statement*

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 26 to 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 30 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL & REGIONAL PLC

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Property valuations* | |
|---|---|
| **Risk description** | Investment property has a carrying value of £930.6 million at 30 December 2017 (30 December 2016: £838.5 million), comprising 92% (30 December 2016: 89%) of the Group's assets. The portfolio consists of seven shopping centres within the Group. The Group has a further interest in investment properties held by an associate entity, valued at £138.4 million (100%) (30 December 2016: £150.0 million (100%)) within the associate. These are disclosed in note 10b to the Group financial statements.<br><br>We deem the fair value of the Group's property portfolio to be a significant area of focus due to the level and nature of the judgements and estimates from Management that form inputs into the valuation process performed by the Group's independent valuers, such as occupancy rates, lease incentives, break clauses and yields. Changes in these assumptions and judgements could lead to significant movements in property values and consequently unrealised gains or losses in the consolidated income statement.<br><br>There is also a risk of fraud risk in relation to the valuation of the property portfolio, where the use of assumptions and judgements is more critical and could lead to material misstatement.<br><br>The accounting policy for investment property is set out in note 1 to the Group financial statements including management's assessment of this as a critical accounting judgement.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 44. |
| **How the scope of our audit responded to the risk** | • We tested the appropriateness of the design and implementation of the Group's key controls to address the risk over property valuations.<br>• We met with the third party valuers appointed by management to value the property portfolio and challenged the significant judgements and assumptions applied in their valuation model. We verified movements in the key judgements and assumptions and benchmarked the inputs against market data with the assistance of our internal valuation specialists.<br>• We analysed the individual property valuations to understand significant movements against prior year and comparative market evidence considered by the valuers.<br>• We tested the integrity of the information provided to the valuers by management pertaining to rental income, purchasers' costs and occupancy.<br>• We considered the competence and independence of the external valuers. |
| **Key observations** | We found that management's judgements and assumptions fell within the reasonable range which is based on third party market commentator reports on market movements, and are satisfied that the value of investment properties is reasonably stated. |

| *Going concern and covenant compliance* | |
|---|---|
| **Risk description** | As at 30 December 2017, external borrowings had a carrying value of £422.2 million at 30 December 2017 (30 December 2016: £360.8 million). This includes the Group's £30 million central revolving credit facility, which matures in January 2022.<br><br>We identified a key audit matter relating to the ability of the Group to meet the external loan covenant requirements during the year and for a period of one year from the date of this Auditor's Report. Whilst there is headroom in the borrowing to property valuation ratio compared to the covenant requirement over this period, a significant downwards movement in property valuations could impact on this headroom. In the unlikely event of a significant fall in property valuations or rental income, the Group may not meet its covenant requirements.<br><br>Management's consideration of the going concern basis of preparation is set out in note 1 to the Group financial statements. Management have adopted the going concern basis of accounting for the Group and parent Company; they have concluded that there are no material uncertainties that may cast significant doubt over the Group's and parent Company's ability to adopt this basis for a period of at least twelve months from the date when the financial statements are authorised for issue.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 44. |
| **How the scope of our audit responded to the risk** | • We critically assessed the appropriateness of the design and implementation of the Group's key controls to address the risk of non-compliance with covenants and the going concern status of the Group.<br>• We challenged the judgements and assumptions applied by management in their going concern assessment and associated forecasts of financial performance and financial position. These included modelling alternative scenarios taking consideration of projected capital expenditure, assumptions around asset sales and purchases, discount rates applied to future cash flows, current business and economic trends and significant developments during and subsequent to the year ended 30 December 2017. |
| **Key observations** | From the results of our work we concur with management's conclusions on going concern. |

| *Impairment of company only investments* | |
|---|---|
| **Risk description** | There is a risk that the carrying value of the investments and intercompany debtors cannot be supported. The accuracy of forecast future cash flows to support the carrying values of the investments is a key area of judgement and is identified as a significant risk. In particular, this relates to the reasonableness of cash flow forecasts, long-term growth rates and the discount rates applied in the discounted cash flow calculations used to support investments held at above net asset value of the subsidiaries.<br><br>Investments had a carrying value of £453.7 million at 30 December 2017 (30 December 2016: £330.0 million), comprising 96% (30 December 2016: 72%) of the parent company's assets. Intercompany debtors had a carrying value of £18.6 million at 30 December 2017 (30 December 2016: £125.2 million), comprising 3.92% (30 December 2015: 28%) of the parent Company's assets.<br><br>Investments are subject to an impairment review using discount rates between the range of 7.4% and 9.5%. The investment in the year reflects a reorganisation of the Group completed in parallel with and following the completion of the purchase of Ilford Shopping centre and refinancing of the five Mall shopping centre assets that completed on 4 January 2017.<br><br>The accounting policies for both investments and intercompany debtors are set out in note A to the parent Company financial statements. |
| **How the scope of our audit responded to the risk** | • We tested the appropriateness of the design and implementation of the company's key controls to address the risk of impairment of investments and debtor balances.<br>• We challenged management's investment impairment model and the cash flow forecasts employed therein, including comparison of the input assumptions to externally and internally derived data with the assistance of our internal valuations specialists. The inputs considered included the cash flow projections and discount rates.<br>• We also assessed whether the forecasts employed are consistent with those used to support other judgements in the financial statements. |
| **Key observations** | We concur with the level of impairment recognised by management for all investments. We consider that the carrying value of investment and intercompany debtor balances is appropriate. |

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL & REGIONAL PLC

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent financial statements |
|---|---|---|
| **Materiality** | £9.5 million (2016: £7.0 million) | £9.15 million (2016: £3.5 million) |
| **Basis for determining materiality** | We determined materiality to be 2% of net assets (2016: 1.5% of net assets).<br><br>We applied a lower threshold of £1.4 million (2016: £1.2 million) for testing of all balances impacting Adjusted Profit (as defined in Note 1 to the Group financial statements), which is less than 5% of Adjusted Profit (2016: less than 5% of Adjusted Profit). | We determined materiality to be 2% of net assets (2016: 1.5% of net assets). |
| **Rationale for the benchmark applied** | We used net assets as benchmark when determining materiality as it is considered to be the most critical financial performance measure for the Group.<br><br>We applied a lower threshold of £1.4 million (2016: £1.2 million) for testing of all balances impacting Adjusted Profit on the basis that it is a key metric used by management, is the basis of the discussion of the financial performance in the strategic report and is a metric used by analysts. | We used net assets as benchmark when determining materiality as it is considered to be the most critical financial performance measure for the Company as a holding company. |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £280,000 (2016: £140,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group and component levels.

Our group audit scope focused primarily on the audit work on the major lines of business. These major lines of business are Wholly-owned assets, Other UK Shopping Centres, Snozone and Group/Central. These are included within individual IFRS 8 segments as disclosed in note 2 to the Group financial statements. Other major lines of business for scoping purposes include the Kingfisher Limited Partnership, incorporated into the Other Shopping Centre segment and Capital & Regional Property Management Limited, which is incorporated into the Group / Central segment in note 2 to the Group financial statements.

All of the above were subject to a full scope audit with the exception of the Kingfisher Limited Partnership which was subject to specific audit procedures around significant audit risks and key balances including investment property and loans payable. This is consistent with the prior year.

The businesses subject to a full scope audit or specific audit procedures account for 95% (2016: 95%) of the Group's net assets, 100% (2016: 100%) of the Group's revenue and 99% (2016: 99%) of the Group's Adjusted Profit. All investment properties have been included within the scope of our work. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All components are audited directly by the Group audit team. Our audit work at each component was executed at levels of materiality applicable to each individual entity which were between 2% and 90% (2016: 2% and 90%) of Group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit or specific audit procedures.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL & REGIONAL PLC

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor's 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.

## Report on other legal and regulatory requirements

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

## Matters on which we are required to report by exception

### *Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

## Other matters

### *Auditor tenure*

Following the recommendation of the audit committee, we were appointed by those charged with governance on 19 January 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 December 1998 to 31 December 2017.

### *Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

**Georgina Robb FCA** (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
5 April 2018

# CONSOLIDATED INCOME STATEMENT

## FOR THE YEAR TO 30 DECEMBER 2017

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Revenue** | 3 | **89.2** | 87.2 |
| Cost of sales | 4 | **(33.5)** | (32.5) |
| **Gross profit** | | **55.7** | 54.7 |
| Administrative costs | | **(10.2)** | (10.9) |
| Share of (loss)/profit in associates and joint ventures | 14a | **(2.0)** | 0.3 |
| Loss on revaluation of investment properties | 10a | **(3.8)** | (14.2) |
| Other gains and losses | 6 | **0.3** | (1.8) |
| **Profit on ordinary activities before financing** | | **40.0** | 28.1 |
| Finance income | 5 | **1.2** | 0.4 |
| Finance costs | 5 | **(18.8)** | (33.0) |
| **Profit/(loss) before tax** | 6 | **22.4** | (4.5) |
| Tax credit | 8a | **–** | 0.1 |
| **Profit/(loss) for the year** | 2a | **22.4** | (4.4) |
| *All results derive from continuing operations.* | | | |
| Basic earnings per share | 9a | **3.2p** | (0.6)p |
| Diluted earnings per share | 9a | **3.1p** | (0.6)p |
| EPRA basic earnings per share | 9a | **3.9p** | 3.7p |
| EPRA diluted earnings per share | 9a | **3.9p** | 3.7p |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR TO 30 DECEMBER 2017

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Profit/(loss) for the year** | | **22.4** | (4.4) |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translation of foreign operations | | **–** | – |
| Gain on a hedge of a net investment taken to equity | | **–** | – |
| **Total items that may be reclassified subsequently to profit or loss** | | **–** | – |
| **Total comprehensive income for the year** | | **22.4** | (4.4) |

There are no items in other comprehensive income that may not be reclassified to income statement.

Profit for the year and total comprehensive income is all attributable to equity holders of the parent.

The EPRA measures used throughout this report are industry best practice performance measures established by the European Public Real Estate Association. They are defined in the Glossary to the Financial Statements. EPRA Earnings and EPRA EPS are shown in Note 9 to the Financial Statements. EPRA net assets and EPRA triple net assets are shown in Note 23 to the Financial Statements.

# CONSOLIDATED BALANCE SHEET

## AT 30 DECEMBER 2017

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 10 | **930.6** | 838.5 |
| Plant and equipment | 11 | **1.8** | 0.9 |
| Fixed asset investments | | **2.1** | 1.9 |
| Receivables | 13 | **14.2** | 14.3 |
| Investment in associates | 14b | **7.4** | 13.9 |
| **Total non-current assets** | | **956.1** | 869.5 |
| **Current assets** | | | |
| Receivables | 13 | **21.6** | 13.4 |
| Cash and cash equivalents | 15 | **30.2** | 49.1 |
| Assets classified as held for sale | 14c | **–** | 13.9 |
| **Total current assets** | | **51.8** | 76.4 |
| **Total assets** | 2b | **1,007.9** | 945.9 |
| **Current liabilities** | | | |
| Bank loans | 17a | **–** | (334.6) |
| Trade and other payables | 16 | **(39.0)** | (41.3) |
| Liabilities directly associated with assets held for sale | 14c | **–** | (0.4) |
| **Total current liabilities** | | **(39.0)** | (376.3) |
| **Net current assets/(liabilities)** | | **12.8** | (299.9) |
| **Non-current liabilities** | | | |
| Bank loans | 17a | **(422.2)** | (26.2) |
| Other payables | 16 | **(4.0)** | (4.4) |
| Obligations under finance leases | 25 | **(61.3)** | (61.4) |
| **Total non-current liabilities** | | **(487.5)** | (92.0) |
| **Total liabilities** | 2b | **(526.5)** | (468.3) |
| **Net assets** | | **481.4** | 477.6 |
| **Equity** | | | |
| Share capital | 19 | **7.2** | 7.0 |
| Share premium | | **163.3** | 158.2 |
| Merger reserve | | **60.3** | 60.3 |
| Capital redemption reserve | | **4.4** | 4.4 |
| Own shares reserve | 21 | **(0.1)** | (0.4) |
| Retained earnings | | **246.3** | 248.1 |
| **Equity shareholders' funds** | | **481.4** | 477.6 |
| | | | |
| Basic net assets per share | 23 | **£0.67** | £0.68 |
| EPRA triple net assets per share | 23 | **£0.66** | £0.67 |
| EPRA net assets per share | 23 | **£0.67** | £0.68 |

These financial statements were approved by the Board of Directors, authorised for issue and signed on their behalf on 5 April 2018 by:

**Charles Staveley**
Group Finance Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR TO 30 DECEMBER 2017

| | Share capital £m | Share premium[1] £m | Merger reserve[2] £m | Capital redemption reserve[1] £m | Own shares reserve[3] £m | Retained earnings[4] £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **Balance at 30 December 2015** | **7.0** | **157.2** | **60.3** | **4.4** | **(0.6)** | **274.9** | **503.2** |
| Loss for the year | – | – | – | – | – | (4.4) | (4.4) |
| Other comprehensive loss for the year | – | – | – | – | – | – | – |
| **Total comprehensive income for the year** | – | – | – | – | – | (4.4) | (4.4) |
| Credit to equity for equity-settled share-based payments (Note 20) | – | – | – | – | – | 0.5 | 0.5 |
| Dividends paid (Note 29), net of Scrip | – | – | – | – | – | (21.7) | (21.7) |
| Shares issued, net of costs (Note 19) | – | 1.0 | – | – | – | (1.0) | – |
| Other movements | – | – | – | – | 0.2 | (0.2) | – |
| **Balance at 30 December 2016** | **7.0** | **158.2** | **60.3** | **4.4** | **(0.4)** | **248.1** | **477.6** |
| Profit for the year | – | – | – | – | – | 22.4 | 22.4 |
| Other comprehensive income for the year | – | – | – | – | – | – | – |
| **Total comprehensive income for the year** | – | – | – | – | – | 22.4 | 22.4 |
| Credit to equity for equity-settled share-based payments (Note 20) | – | – | – | – | – | 0.9 | 0.9 |
| Dividends paid (Note 29), net of Scrip | – | – | – | – | – | (19.5) | (19.5) |
| Shares issued, net of costs (Note 19) | 0.2 | 5.1 | – | – | – | (5.3) | – |
| Other movements | – | – | – | – | 0.3 | (0.3) | – |
| **Balance at 30 December 2017** | **7.2** | **163.3** | **60.3** | **4.4** | **(0.1)** | **246.3** | **481.4** |

Notes:

1. These reserves are not distributable.
2. The merger reserve of £60.3 million arose on the Group's capital raising in 2009 which was structured so as to allow the Company to claim merger relief under section 612 of the Companies Act 2006 on the issue of Ordinary shares. The merger reserve is available for distribution to shareholders.
3. Own shares relate to shares purchased out of distributable profits and therefore reduce reserves available for distribution.
4. The Company has determined what is realised and unrealised in accordance with the guidance provided by ICAEW TECH 2/17 and the requirements of UK law. In accordance with UK Companies Act 2006 s831(2), a public company may make a distribution only if, after giving effect to such distribution, the amount of its net assets is not less than the aggregate of its called up share capital and non-distributable reserves as shown in the relevant accounts.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR TO 30 DECEMBER 2017

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Net cash from operations | 22 | **43.0** | 41.1 |
| Distributions received from associates | 14b | **4.5** | 0.5 |
| Distributions received from fixed asset investments including German B-note | | **0.7** | 4.2 |
| Interest paid | | **(14.6)** | (14.6) |
| Interest received | | **0.1** | 0.1 |
| **Cash flows from operating activities** | | **33.7** | 31.3 |
| **Investing activities** | | | |
| Acquisition of The Exchange, Ilford | 10a | **(79.0)** | – |
| Disposal of The Mall, Camberley | | **–** | 85.7 |
| Disposal of Buttermarket, Ipswich | 14c | **9.8** | – |
| Other disposals | | **–** | 0.7 |
| Acquisitions in Hemel Hempstead | | **–** | (56.6) |
| Purchase of plant and equipment | | **(0.6)** | (0.5) |
| Capital expenditure on investment properties | | **(16.9)** | (20.6) |
| **Cash flows from investing activities** | | **(86.7)** | 8.7 |
| **Financing activities** | | | |
| Dividends paid, net of Scrip | | **(19.1)** | (21.7) |
| Bank loans drawn down | | **401.5** | 26.9 |
| Bank loans repaid | | **(334.6)** | (45.4) |
| Loan arrangement costs | | **(13.7)** | (0.6) |
| **Cash flows from financing activities** | | **34.1** | (40.8) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(18.9)** | (0.8) |
| Cash and cash equivalents at the beginning of the year | | **49.1** | 49.9 |
| **Cash and cash equivalents at the end of the year** | 15 | **30.2** | 49.1 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 DECEMBER 2017

## 1 Significant Accounting Policies

### General information

Capital & Regional plc is a company domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office became 22 Chapter Street, London, SW1P 4NP on 5 February 2018 but was 52 Grosvenor Gardens, London, SW1W 0AU as at 30 December 2017. The nature of the Group's operations and its principal activities are disclosed in Note 2a and in the operating and financial reviews.

### Basis of accounting

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and notes 1 to 29. They are prepared on the historical cost basis except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of the reporting year, as explained in the accounting policies below. Other than as noted in the "Accounting developments and changes" section below, the accounting policies have been applied consistently to the results, other gains and losses, assets, liabilities, income and expenses.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for share-based payments that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 inputs are unobservable inputs for the asset or liability.

The 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.

### Statement of compliance

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

### Accounting developments and changes

The accounting policies used in these financial statements are consistent with those applied in the last annual financial statements, as amended where relevant to reflect the adoption of new standards, amendments and interpretations which became effective in the year. These amendments have not had an impact on the financial statements.

A number of new standards and amendments to standards have been issued but are not yet effective for the Group. The most significant of these are set out below:

- IFRS 15 Revenue from Contracts with Customers – does not apply to gross rental income, but does apply to service charge income, other fees and trading property disposals and is effective for the Group's year ending 30 December 2019. The Group does not expect adoption of IFRS 15 to have a material impact on the measurement of revenue recognition, but additional disclosures will be required with regards to the above sources of income.
- IFRS 9 Financial Instruments – will impact both the measurement and disclosures of financial instruments and is effective for the Group's year ending 30 December 2019. The Group does not expect adoption to have a material impact on the measurement of Financial Instruments, but additional disclosures may be required.
- IFRS 16 Leases – will result in the Group recognising on balance sheet assets it leases along with a corresponding liability and is effective for the Group's year ending 30 December 2019. The primary lease contracts that this will impact are the lease on the Group's head offices and the leases of the Snozone business on its Basingstoke, Castleford and Milton Keynes sites. The total of the future minimum lease payments under these leases is disclosed in Note 25 to the financial statements.

  In addition, IFRS 16 could have an indirect impact on the Group's business if it leads to a change in occupier behaviour. Examples of this would be if its adoption results in tenants or potential tenants typically seeking shorter lease terms and/or more prevalent use of turnover-related, as opposed to fixed, rents.

## 1 Significant Accounting Policies continued

### Going concern

The financial statements have been prepared on a going concern basis. Details on going concern and the viability statement are provided on page 30.

### Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the Directors 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 following are the critical accounting judgements and/or key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

*Property valuation*

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the property market.

The investment property valuation contains a number of assumptions upon which the Group's valuer has based its valuation of the Group's properties as at 30 December 2017. The assumptions on which the property valuation reports have been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties, the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are market standard and accord with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards UK 2014 (revised April 2015).

If the assumptions upon which the external valuer has based its valuations prove to be inaccurate, this may have an impact on the value of the Group's investment properties, which could in turn have an effect on the Group's financial position and results. Note 10c provides sensitivity analysis estimating the impact that changes in the estimated rental values or equivalent yields would have on the Group's property valuations.

*Derivative financial instruments*

Reliance upon the work undertaken at 30 December 2017 by independent third party experts in assessing the fair values of the Group's derivative financial instruments, which are disclosed in Notes 13 and 18e. Note 18b provides figures showing the Group's sensitivity to a 100bps increase or decrease in interest rate expectations.

*Carrying value of investments and intercompany debtor balances*

Management perform an annual review of intercompany investments and receivables to determine the values to be maintained in the Plc Company only and individual subsidiary balance sheets. The carrying values are in part supported by forecast future cashflows and an assessment of long-term growth rates and the Group's discount rate all of which require Management judgment to varying extents.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company at 30 December. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. The reporting year for all material subsidiaries and affiliates ends on 31 December and their financial statements are consolidated from this date. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 1 Significant Accounting Policies continued

### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate at the date of exchange of the fair values of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred. Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the remeasurement period or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information and is subject to a maximum of one year.

### Assets held for sale

Assets held for sale are measured at the lower of carrying amount and realisable value with associated costs of sale shown separately as liabilities. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year of the date of classification. The Group considered that its assets held for sale at 30 December 2016 fell within "Level 2", as defined in Note 1.

### Subsidiaries, joint ventures and associates

The consolidated financial statements incorporate the financial statements of Capital & Regional plc and all subsidiaries and entities controlled by Capital & Regional plc. Control is assumed where the Group has the power and the ability to affect the financial and operating policies of an investee entity so as to gain benefits from its activities.

The results of subsidiaries, joint ventures or associates acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal. Accounting practices of subsidiaries, joint ventures or associates which differ from Group accounting policies are adjusted on consolidation.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. The Group has assessed the nature of its joint arrangements under IFRS 11 "Joint arrangements" and determined them to be joint ventures. This assessment required the exercise of judgement as set out in Note 14c.

Joint ventures and associates are accounted for under the equity method, whereby the consolidated balance sheet incorporates the Group's share (investor's share) of the net assets of its joint ventures and associates. The consolidated income statement incorporates the Group's share of joint venture and associate profits after tax, upon elimination of upstream and downstream transactions. Their profits include revaluation movements on investment properties. Interest income, management fees and performance fees are proportionately eliminated.

### 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 year. 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 = €1.127 (2016: £1 = €1.168). The principal exchange rate used for the income statement is the average rate for the year: £1 = €1.141 (2016: £1 = €1.224).

## 1 Significant Accounting Policies continued

*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.

### Property, plant and equipment

Plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and land, on a straight-line basis over their expected useful lives:

- Leasehold improvements – over the term of the lease
- Fixtures and fittings – over three to five years
- Motor vehicles – over four years

### Property portfolio

*Investment properties*

Investment properties are properties owned or leased under finance leases which are held either for long-term rental income or for capital appreciation or both. Investment property is initially recognised at cost (including directly related transaction costs) and is revalued at the balance sheet date to 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. Valuations are generally carried out twice a year. 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.

*Capital expenditure*

Refurbishment expenditure in respect of major works is capitalised. Renovation and refurbishment expenditure of a revenue nature is expensed as incurred. Our business model for developments is to use a combination of in-house staff and external advisers. The cost of external advisers is capitalised to the cost of developments. The cost of staff working on developments is capitalised subject to meeting certain criteria related to the degree of time spent on and the nature of specific projects.

*Property transactions*

Acquisitions and disposals are accounted for at the date of legal completion. Investment properties are reclassified as held for sale once contracts have been exchanged and are transferred between categories at the estimated market value on the transfer date.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Incentives and costs associated with entering into tenant leases are amortised on a straight-line basis over the term of the lease.

*The Group as lessee*

Assets held under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the years in which they are incurred.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 1 Significant Accounting Policies continued

*Head leases*

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

### Fixed asset investments

Fixed asset investments are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value.

### Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

### Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held to maturity" investments, "available for sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest rate method*

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount in initial recognition.

*Loans and receivables*

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

*Trade receivables*

Trade receivables are carried at the original invoice amount less allowances made for doubtful accounts. An allowance for doubtful accounts is recorded for the difference between the carrying value and the recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due. Discounts and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends and the Group's experience. Long-term accounts receivable are discounted to take into account the time value of money, where material.

*Cash and cash equivalents*

Cash and cash equivalents include 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.

### Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

*Borrowings*

Borrowings are initially measured at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, a substantial modification of the terms of an existing borrowing is accounted for as an extinguishment of the original liability and the recognition of a new liability. Where the terms of the modification are not substantially different, any costs paid in connection with the modification are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining life of the modified liability.

## 1 Significant Accounting Policies continued

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. 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 swaps is calculated by reference to appropriate forecasts of 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. Derivative financial instruments are classified as non-current when they have a maturity of more than twelve months and are not intended to be settled within one year.

*Trade payables*

Trade payables are carried at fair value, with any gains or losses arising on remeasurement recognised in the income statement.

### Taxation

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full using the balance sheet liability method on timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

No provision is made for timing differences (i) arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

### 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 LTIP and the SAYE scheme are calculated using Monte Carlo simulations and the Black–Scholes model as appropriate. 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. 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. Where awards are cancelled, including when an employee ceases to pay contributions into the SAYE scheme, the remaining fair value is expensed immediately.

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

### Revenue

The Group recognises revenue on an accruals basis, when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group.

Gross rental income – Gross rental income is rental income adjusted for tenant incentives, recognised on a straight-line basis over the term of the underlying lease. Contingent rents, being lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded as income in the periods in which they are earned.

Ancillary income – Ancillary income comprises rent and other income from short term tenancies of mobile units, car park income and other sundry income and is recognised over the period of the lettings and contracts.

Service charge – Service charge income represents recharges of the running costs of the shopping centres made to tenants.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 1 Significant Accounting Policies continued

Management fees – Management fees are recognised, in line with the property management contracts, in the year to which they relate. They include income in relation to services provided by CRPM to associates and joint ventures for asset and property management, project co-ordination, procurement, and management of service charges and directly recoverable expenses.

Dividend and interest income – Dividend income from investments is recognised when the shareholders' right to receive payment has been established. 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.

Performance fees – Performance fees are recognised as revenue by the Group or the relevant associate or joint venture when both the amount of performance fee and the stage of completion of the relevant performance conditions can be measured reliably, and when it is probable that the performance fee will be received. No performance fees were recognised in the current or prior year.

Provisions for performance fees payable by the underlying subsidiary, associate or joint venture are made when there is a present obligation to settle the performance fee, its amount can be measured reliably and it is probable that it will be paid. Further disclosure on performance fees is included in Note 28. No performance fees were recognised in the current or prior year.

Snozone income - Revenue arises from the operation of indoor ski operations. Revenue represents the amounts received from customers (excluding VAT) for admissions tickets, membership, retail, food and beverage sales and sponsorship. Ticket revenue is recognised at point of entry. Revenue from the sale of memberships is deferred and then recognised over the period that the membership is valid. Retail and food and beverage sales revenues are recognised at the point of sale. Sponsorship revenue is recognised over the relevant contract term.

### Finance costs

All borrowing costs are recognised under Finance costs in the income statement in the year in which they are incurred. Finance costs also include the amortisation of loan issue costs, 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.

### Operating segments

The Group's reportable segments under IFRS 8 are Wholly-owned assets, Other UK Shopping Centres, Snozone and Group/Central. Wholly-owned assets consists of the shopping centres at Blackburn, Hemel Hempstead, Ilford (from acquisition on 8 March 2017), Luton, Maidstone, Walthamstow and Wood Green and, in the prior year, Camberley, until its disposal on 11 November 2016. Other UK Shopping Centres consists of the Group's interests in Kingfisher Limited Partnership (Redditch) and, in the prior year, until its reclassification as held for sale on 30 December 2016, Buttermarket Ipswich Limited. Group/Central includes management fee income, Group overheads incurred by Capital & Regional Property Management, Capital & Regional plc and other subsidiaries and the interest expense on the Group's central borrowing facility.

Wholly-owned assets and Other UK Shopping Centres derive their revenue from the rental of investment properties. The Snozone and Group/Central segments derive their revenue from the operation of indoor ski slopes and the management of property funds or schemes respectively. The split of revenue between these classifications satisfies the requirement of IFRS 8 to report revenues from different products and services. Depreciation and charges in respect of share-based payments represent the only significant non-cash expenses.

The Group's interests in the assets, liabilities and profit or loss of its associates and joint ventures are proportionately consolidated and are also shown on a see-through basis as this is how they are reported to the Board of Directors. There are no differences between the measurements of the segments' assets, liabilities and profit or loss as they are reported to the Board of Directors and their presentation under the Group's accounting policies.

### Adjusted Profit

Adjusted Profit is the total of Contribution from Wholly-owned assets and the Group's joint ventures and associates, the profit from Snozone and property management fees less central costs (including interest, excluding non-cash charges in respect of share-based payments) after tax. Adjusted Profit excludes revaluation of properties, profit or loss on disposal of properties or investments, gains or losses on financial instruments and exceptional one-off items. Results from Discontinued Operations are included up until the point of disposal or reclassification as held for sale. Further detail on the use of Adjusted Profit and other Alternative Performance Measures is provided within the Financial Review.

A reconciliation of Adjusted Profit to the statutory result is provided in Note 2a and, on a per share basis, in Note 9, where EPRA earnings figures are also provided.

## 2a Operating segments

| Year to 30 December 2017 | Notes | UK Shopping Centres: Wholly-owned assets £m | UK Shopping Centres: Other UK Shopping Centres[1] £m | Snozone £m | Group Central £m | Total £m |
|---|---|---|---|---|---|---|
| Rental income from external sources | 2b | 63.9 | 2.3 | – | – | 66.2 |
| Property and void costs | | (12.3) | (0.7) | – | – | (13.0) |
| Net rental income | | 51.6 | 1.6 | – | – | 53.2 |
| Net interest expense | | (18.4) | (0.9) | – | (0.3) | (19.6) |
| Snozone income/Management fees[2] | 2b | – | – | 10.4 | 2.2 | 12.6 |
| Management expenses | | – | – | (8.8) | (6.8) | (15.6) |
| Investment income | | – | – | – | 0.4 | 0.4 |
| Depreciation | | – | – | (0.1) | (0.1) | (0.2) |
| Variable overhead (excluding non-cash items) | | – | – | – | (1.6) | (1.6) |
| Tax charge | | – | (0.1) | – | – | (0.1) |
| **Adjusted Profit** | | 33.2 | 0.6 | 1.5 | (6.2) | 29.1 |
| Revaluation of properties | | (3.8) | (2.5) | – | – | (6.3) |
| Income from Euro B-Note[3] | | – | – | – | 0.3 | 0.3 |
| Gain on financial instruments | | 0.7 | 0.4 | – | – | 1.1 |
| Refinancing costs | | – | (0.5) | – | – | (0.5) |
| Share-based payments | | – | – | – | (0.9) | (0.9) |
| Other items | | – | – | – | (0.4) | (0.4) |
| **Profit/(loss)** | | 30.1 | (2.0) | 1.5 | (7.2) | 22.4 |
| Total assets | 2b | 984.1 | 30.9 | 4.4 | 12.0 | 1,031.4 |
| Total liabilities | 2b | (518.7) | (23.5) | (2.2) | (5.6) | (550.0) |
| **Net assets** | | 465.4 | 7.4 | 2.2 | 6.4 | 481.4 |

1. Comprises Kingfisher Redditch. For further information see Note 14.
2. Asset management fees of £3.6 million charged from the Group's Capital & Regional Property Management entity to Wholly-owned assets have been excluded from the table above.
3. £0.3 million of monies were received in the year through the holding of a share in the German Euro B-Note junior loan instrument which had previously been fully impaired. The monies were distributed following the sale of properties by the liquidator of the underlying German entities.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 2a Operating segments continued

| | | UK Shopping Centres | | | | |
|---|---|---|---|---|---|---|
| Year to 30 December 2016 | Notes | Wholly-owned assets £m | Other UK Shopping Centres[1] £m | Snozone £m | Group Central £m | Total £m |
| Rental income from external sources | 2b | 62.0 | 3.4 | – | – | 65.4 |
| Property and void costs | | (11.6) | (1.2) | – | – | (12.8) |
| Net rental income | | 50.4 | 2.2 | – | – | 52.6 |
| Net interest expense | | (19.0) | (0.9) | – | (0.4) | (20.3) |
| Snozone income/Management fees[2] | 2b | – | – | 10.2 | 2.4 | 12.6 |
| Management expenses | | – | – | (8.7) | (7.8) | (16.5) |
| Investment income | | – | – | – | 0.3 | 0.3 |
| Depreciation | | – | – | (0.1) | – | (0.1) |
| Variable overhead (excluding non-cash items) | | – | – | – | (1.8) | (1.8) |
| Tax (charge)/credit | | – | (0.1) | – | 0.1 | – |
| **Adjusted Profit** | | 31.4 | 1.2 | 1.4 | (7.2) | 26.8 |
| Revaluation of properties | | (14.2) | 1.2 | – | – | (13.0) |
| Deferred tax on revaluation of properties | | – | (1.5) | – | – | (1.5) |
| Loss on disposal[3] | | (5.9) | (0.6) | – | – | (6.5) |
| Income from Euro B-Note[4] | | – | – | – | 3.9 | 3.9 |
| Loss on financial instruments | | (2.5) | – | – | – | (2.5) |
| Refinancing costs[5] | | (11.0) | – | – | – | (11.0) |
| Share-based payments | | – | – | – | (0.5) | (0.5) |
| Other items | | – | – | – | (0.1) | (0.1) |
| **(Loss)/profit** | | (2.2) | 0.3 | 1.4 | (3.9) | (4.4) |
| Total assets | 2b | 885.9 | 32.1 | 4.0 | 42.1 | 964.1 |
| Total liabilities | 2b | (460.9) | (18.2) | (2.1) | (5.3) | (486.5) |
| **Net assets** | | 425.0 | 13.9[6] | 1.9 | 36.8[6] | 477.6 |

1. Includes Buttermarket Ipswich and Kingfisher Redditch. For further information see Note 14.
2. Asset management fees of £3.6 million charged from the Group's Capital & Regional Property Management entity to Wholly-owned assets have been excluded from the table above.
3. Includes £0.6 million impairment of Ipswich trading property recognised on reclassification as held for sale.
4. £3.9 million of monies were received in the year through the holding of a share in the German Euro B-Note junior loan instrument which had previously been fully impaired. The monies were distributed following the sale of properties by the liquidator of the underlying German entities.
5. Refinancing costs consist of those triggered by serving notice on the existing debt facility on five Mall assets on 28 December 2016 (see Note 9 for further details). They comprise £7.6 million of fixed rate loan redemption costs and the write-off of the £3.4 million of financing costs that were unamortised at 30 December 2016.
6. Net assets of the Buttermarket Ipswich joint venture have been included within Group following its reclassification as held for sale on 30 December 2016. The results for the year were reflected in the Other UK Shopping Centres column.

## 2b Reconciliations of reportable revenue, assets and liabilities

| Revenue | Notes | Year to 30 December 2017 £m | Year to 30 December 2016 £m |
|---|---|---|---|
| Rental income from external sources | 2a | **66.2** | 65.4 |
| Service charge income | | **14.1** | 14.0 |
| Management fees | 2a | **2.2** | 2.4 |
| Snozone income | 2a | **10.4** | 10.2 |
| Revenue for reportable segments | | **92.9** | 92.0 |
| Elimination of inter-segment revenue | | **(1.4)** | (1.4) |
| Rental income earned by associates and joint ventures | 2a | **(2.3)** | (3.4) |
| **Revenue per consolidated income statement** | 3 | **89.2** | 87.2 |

All revenue in the current and prior years was attributable to activities within the UK.

| Assets | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| Total assets of reportable segments | 2a | **1,031.4** | 964.1 |
| Adjustment for associates and joint ventures | | **(23.5)** | (18.2) |
| **Group assets** | | **1,007.9** | 945.9 |
| | | | |
| **Liabilities** | | | |
| Total liabilities of reportable segments | 2a | **(550.0)** | (486.5) |
| Adjustment for associates and joint ventures | | **23.5** | 18.2 |
| **Group liabilities** | | **(526.5)** | (468.3) |
| | | | |
| **Net assets by country** | | | |
| UK | | **481.3** | 477.5 |
| Germany | | **0.1** | 0.1 |
| **Group net assets** | | **481.4** | 477.6 |

## 3 Revenue

| | Notes | Year to 30 December 2017 £m | Year to 30 December 2016 £m |
|---|---|---|---|
| Gross rental income | | **51.2** | 51.0 |
| Ancillary income | | **12.7** | 11.0 |
| | 2a | **63.9** | 62.0 |
| Service charge income | 2b | **14.1** | 14.0 |
| External management fees | | **0.8** | 1.0 |
| Snozone income | 2a | **10.4** | 10.2 |
| **Revenue per consolidated income statement** | 2b | **89.2** | 87.2 |

External management fees represent revenue earned by the Group’s wholly-owned Capital Regional Property Management Limited subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

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## 4 Cost of sales

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| Property and void costs | **(11.9)** | (11.2) |
| Service charge costs | **(12.7)** | (12.5) |
| Snozone expenses | **(8.9)** | (8.8) |
| **Total cost of sales** | **(33.5)** | (32.5) |

## 5 Finance income and costs

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| **Finance income** | | |
| Interest receivable | **0.1** | 0.1 |
| Income from fixed asset investments | **0.4** | 0.3 |
| Gain in fair value of financial instruments: | | |
| Interest rate swaps | **0.7** | – |
| **Total finance income** | **1.2** | 0.4 |
| **Finance costs** | | |
| Amortisation of deferred loan arrangement fees | **(1.0)** | (1.6) |
| Interest payable on bank loans and overdrafts | **(13.9)** | (14.0) |
| Other interest payable | **(0.5)** | (0.2) |
| Finance lease costs (head lease) | **(3.4)** | (3.6) |
| Loss in fair value of financial instruments: | | |
| Interest rate swaps | **–** | (2.1) |
| Interest rate caps | **–** | (0.5) |
| Refinancing costs[1] | **–** | (11.0) |
| **Total finance costs** | **(18.8)** | (33.0) |

[1] Refinancing costs in 2016 consisted of those triggered by serving notice on the existing debt facility on five Mall assets on 28 December 2016 (see Note 17a for further details). They comprised £7.6 million of fixed rate loan redemption costs and the write-off of the £3.4 million of financing costs that were unamortised at 30 December 2016.

## 6 Profit/loss before tax

The profit/loss before tax has been arrived at after charging/(crediting) the following items:

| | Notes | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|---|
| Operating lease charge | | **1.9** | 1.9 |
| Other gains and losses | | **(0.3)** | 1.8 |
| Depreciation of plant and equipment | 11 | **0.2** | 0.1 |
| Staff costs | 7 | **13.1** | 13.7 |
| Auditor's remuneration for audit services (see below) | | **0.2** | 0.2 |

In the current year other gains and losses relate primarily to £0.3 million recovered through the holding of a share in the German Euro B-Note junior loan instrument which had previously been fully impaired. In the prior year other gains and losses related primarily to losses on the sale of The Mall, Camberley of £6.3 million, partially offset by £3.9 million recovered through the German Euro B-Note, a £0.4 million profit on the sale of a unit in Maidstone and a £0.2 million receipt related to a property disposed of in a prior year.

## 6 Profit/loss before tax continued

### Auditor's remuneration

The analysis of the Auditor's remuneration is as follows:

| | Year to 30 December 2017 £'000 | Year to 30 December 2016 £'000 |
|---|---|---|
| Fees payable to the Company's Auditor and its associates for the audit of the Company's annual financial statements | 83 | 80 |
| Fees payable to the Company's Auditor and its associates for other services to the Group – the audit of the Company's subsidiaries | 74 | 60 |
| **Total audit fees for the Company and its subsidiaries** | **157** | 140 |
| Audit related assurance services – Review of Interim Report | 41 | 40 |
| Audit related assurance services – Agreed upon procedures review | 2 | 2 |
| **Total non-audit fees** | **43** | 42 |
| **Total fees paid to Auditor and their associates** | **200** | 182 |

## 7 Staff costs

| | Notes | Year to 30 December 2017 £m | Year to 30 December 2016 £m |
|---|---|---|---|
| Salaries | | 9.5 | 10.1 |
| Discretionary bonuses | | 1.4 | 1.7 |
| Share-based payments | 20 | 0.9 | 0.5 |
| | | 11.8 | 12.3 |
| Social security | | 1.2 | 1.3 |
| Other pension costs | | 0.1 | 0.1 |
| | | 13.1 | 13.7 |

Staff costs amounting to £0.4 million (2016: nil) have been capitalised as development costs during the year.

### Staff numbers

The monthly average number of employees (including Executive Directors), being full-time equivalents, employed by the Group during the year was as follows:

| | Year to 30 December 2017 Number | Year to 30 December 2016 Number |
|---|---|---|
| CRPM/PLC | 46 | 51 |
| Shopping centres | 60 | 67 |
| Snozone | 132 | 142 |
| **Total staff numbers** | **238** | 260 |

The monthly average number of total employees (including Executive Directors) employed within the Group during the year was 355 (CRPM – 49, Shopping centres – 81, Snozone – 225) compared to 367 in 2016 (CRPM – 52, Shopping centres – 86, Snozone – 229).

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 8 Tax

### 8a Tax credit

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | – | – |
| Adjustments in respect of prior years | – | (0.1) |
| Total current tax credit | – | (0.1) |
| **Deferred tax** | | |
| Origination and reversal of temporary timing differences | – | – |
| Total deferred tax | – | – |
| **Total tax credit** | – | (0.1) |

£nil (2016: £nil) of the tax charge relates to items included in other comprehensive income.

### 8b Tax charge reconciliation

| | Notes | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|---|
| Profit/(loss) before tax on continuing operations | | **22.4** | (4.5) |
| Profit/(loss) multiplied by the UK corporation tax rate of 19.25% (2016: 20%) | | **4.3** | (0.9) |
| REIT exempt income and gains | | **(4.0)** | (1.5) |
| Non-allowable expenses and non-taxable items | | **(0.4)** | (0.5) |
| Excess tax losses | | **0.1** | 0.4 |
| Unrealised losses/(gains) on investment properties not taxable | | – | 2.6 |
| Temporary timing and controlled foreign companies income | | – | (0.1) |
| Adjustments in respect of prior years | | – | (0.1) |
| **Total tax credit** | 8a | – | (0.1) |

### 8c Deferred tax

The UK corporation tax main rate was reduced to 19% with effect from 1 April 2017. A further reduction in the rate of corporation tax to 17% from 1 April 2020 was substantively enacted in Finance Act 2016. Consequently the UK corporation tax rate at which the deferred tax is booked in the financial statements is 17% (2016: 17%).

The Group has recognised a deferred tax asset of £0.1 million (2016: £0.1 million). No deferred tax asset has been recognised in respect of temporary differences arising from investments or investments in associates or in joint ventures in the current or prior years as it is not certain that a deduction will be available when the asset crystallises.

The Group has £12.3 million (2016: £13.9 million) of unused revenue tax losses, all of which are in the UK. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams and other reasons which may restrict the utilisation of the losses (2016: £nil). The Group has unused capital losses of £25.1 million (2016: £30.5 million) that are available for offset against future gains but similarly no deferred tax has been recognised in respect of these losses owing to the unpredictability of future capital gains and other reasons which may restrict the utilisation of the losses. The losses do not have an expiry date.

## 8 Tax continued

### 8d REIT compliance

The Group converted to a group REIT on 31 December 2014. As a result, the Group no longer pays UK corporation tax on the profits and gains from qualifying rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal. In order to achieve and retain group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting year, the value of the assets of the property rental business plus cash must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the property rental business; and
- at least 90% of the Group's UK property rental profits as calculated under tax rules must be distributed.

The Directors intend that the Group should continue as a group REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business.

## 9 Earnings per share

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

### 9a Earnings per share calculation

| | | Year to 30 December 2017 | | | Year to 30 December 2016 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Profit | EPRA | Adjusted Profit | Profit | EPRA | Adjusted Profit |
| **Profit (£m)** | | | | | | | |
| Profit/(loss) for the year | | 22.4 | 22.4 | 22.4 | (4.4) | (4.4) | (4.4) |
| Revaluation loss on investment properties (net of tax) | 9b | – | 6.3 | 6.3 | – | 14.5 | 14.5 |
| Loss on disposal of properties (net of tax) | 9b | – | – | – | – | 6.5 | 6.5 |
| Income from German B-Note | 2a | – | (0.3) | (0.3) | – | (3.9) | (3.9) |
| Changes in fair value of financial instruments | 9b | – | (1.1) | (1.1) | – | 2.5 | 2.5 |
| Refinancing costs | 2a | – | 0.5 | 0.5 | – | 11.0 | 11.0 |
| Share-based payments | 2a | – | – | 0.9 | – | – | 0.5 |
| Other items | 2a | – | – | 0.4 | – | – | 0.1 |
| **Profit (£m)** | | 22.4 | 27.8 | 29.1 | (4.4) | 26.2 | 26.8 |
| **Earnings per share (pence)** | | 3.2 | 3.9 | 4.1 | (0.6)p | 3.7p | 3.8p |
| **Diluted earnings per share (pence)** | | 3.1 | 3.9 | 4.1 | (0.6)p | 3.7p | 3.8p |

None of the current or prior year earnings related to discontinued operations (2016: none).

| **Weighted average number of shares (m)** | Notes | Year to 30 December 2017 | Year to 30 December 2016 |
|---|---|---|---|
| Ordinary shares in issue | | 709.2 | 701.0 |
| Own shares held | 21 | (0.2) | (0.6) |
| **Basic** | | 709.0 | 700.4 |
| Dilutive contingently issuable shares and share options | | 6.8 | 10.0 |
| **Diluted** | | 715.8 | 710.4 |

At the end of the year, the Group had 12,128,362 (2016: 11,929,797) share options and contingently issuable shares granted under share-based payment schemes that could potentially dilute earnings per share in the future but which have not been included in the calculation because they are not dilutive or the conditions for vesting have not been met.

# NOTES TO THE FINANCIAL STATEMENTS

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## 9 Earnings per share continued

### 9b Reconciliation of earnings figures included in earnings per share calculations

| | Notes | Year to 30 December 2017 Revaluation movements £m | Year to 30 December 2017 Profit on disposal of investment properties £m | Year to 30 December 2017 Movement in fair value of financial instruments £m | Year to 30 December 2016 Revaluation movements £m | Year to 30 December 2016 Loss on disposal of investment properties £m | Year to 30 December 2016 Movement in fair value of financial instruments £m |
|---|---|---|---|---|---|---|---|
| Wholly-owned | | **(3.8)** | **–** | **0.7** | (14.2) | (5.9) | (2.5) |
| Associates | 14d | **(2.5)** | **–** | **0.4** | (2.3) | – | – |
| Joint ventures | 14e | **–** | **–** | **–** | 3.5 | (0.6) | – |
| Tax effect | | **–** | **–** | **–** | (1.5) | – | – |
| **Total** | 9a | **(6.3)** | **–** | **1.1** | (14.5) | (6.5) | (2.5) |

### 9c Headline earnings per share

Headline earnings per share has been calculated and presented as required by the Johannesburg Stock Exchange listing requirements.

| | Year to 30 December 2017 Basic | Year to 30 December 2017 Diluted | Year to 30 December 2016 Basic | Year to 30 December 2016 Diluted |
|---|---|---|---|---|
| **Profit (£m)** | | | | |
| Profit/(loss) for the year | **22.4** | **22.4** | (4.4) | (4.4) |
| Revaluation loss on investment properties (including tax) | **6.3** | **6.3** | 14.5 | 14.5 |
| Loss on disposal of properties (net of tax) | **–** | **–** | 6.5 | 6.5 |
| Income from Euro B-Note (Note 6) | **(0.3)** | **(0.3)** | (3.9) | (3.9) |
| **Headline earnings** | **28.4** | **28.4** | 12.7 | 12.7 |
| **Weighted average number of shares (m)** | | | | |
| Ordinary shares in issue | **709.2** | **709.2** | 701.0 | 701.0 |
| Own shares held | **(0.2)** | **(0.2)** | (0.6) | (0.6) |
| Dilutive contingently issuable shares and share options | **–** | **6.8** | – | 10.0 |
| | **709.0** | **715.8** | 700.4 | 710.4 |
| **Headline Earnings per share (pence) – Basic/Diluted** | **4.0p** | **4.0p** | 1.8p | 1.8p |

## 10 Investment properties

### 10a Wholly-owned properties

| | Freehold investment properties £m | Leasehold investment properties £m | Total property assets £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 30 December 2015 | 292.7 | 577.3 | **870.0** |
| Acquired (The Marlowes, Hemel Hempstead) | 56.6 | – | **56.6** |
| Disposals (The Mall, Camberley) | – | (93.9) | **(93.9)** |
| Capital expenditure (excluding capital contributions) | 13.5 | 5.9 | **19.4** |
| Valuation deficit | (4.9) | (8.7) | **(13.6)** |
| **At 30 December 2016** | **357.9** | **480.6** | **838.5** |
| Acquired (The Exchange, Ilford) | 79.0 | – | **79.0** |
| Capital expenditure (excluding capital contributions) | 4.3 | 12.3 | **16.6** |
| Valuation surplus[1] | (3.8) | 0.3 | **(3.5)** |
| **At 30 December 2017** | **437.4** | **493.2** | **930.6** |

1. £3.8 million per Note 2a includes letting fee amortisation adjustment of £0.3 million (2016: £0.6 million).

# 10 Investment properties continued

## 10b Property assets summary

| | 30 December 2017 100% £m | 30 December 2017 Group share £m | 30 December 2016 100% £m | 30 December 2016 Group share £m |
|---|---|---|---|---|
| **Wholly-owned** | | | | |
| Investment properties at fair value | **886.6** | **886.6** | 794.1 | 794.1 |
| Head leases treated as finance leases on investment properties | **61.3** | **61.3** | 61.3 | 61.3 |
| Unamortised tenant incentives on investment properties | **(17.3)** | **(17.3)** | (16.9) | (16.9) |
| IFRS Property Value | **930.6** | **930.6** | 838.5 | 838.5 |
| **Associates** | | | | |
| Investment properties at fair value | **142.9** | **28.6** | 154.1 | 30.8 |
| Unamortised tenant incentives on investment properties | **(4.5)** | **(0.9)** | (4.1) | (0.8) |
| IFRS Property Value | **138.4** | **27.7** | 150.0 | 30.0 |
| **Total at property valuation** | **1,029.5** | **915.2** | 948.2 | 824.9 |
| **Total IFRS Property Value** | **1,069.0** | **958.3** | 988.5 | 868.5 |

## 10c Valuations

External valuations at 30 December 2017 were carried out on all of the gross property assets detailed in the table above. The Group's share of the total investment properties at fair value was £915.2 million of £1,029.5 million (2016: £824.9 million of £948.2 million).

The valuations were carried out by independent qualified professional valuers from CBRE Limited and Knight Frank LLP (2016: CBRE Limited, Cushman & Wakefield LLP and Knight Frank LLP) in accordance with RICS standards. These valuers are not connected with the Group and their fees are charged on a fixed basis that is not dependent on the outcome of the valuations.

The Group considers all of its investment properties to fall within "Level 3", as defined in Note 1. The table below summarises the key unobservable inputs used in the valuation of the Group's wholly-owned investment properties at 30 December 2017:

| | Market Value | Estimated rental value £ per sq ft | | | Equivalent yield % | | |
|---|---|---|---|---|---|---|---|
| | £m | Low | Portfolio | High | Low | Portfolio | High |
| **Wholly-owned assets** | 886.6 | 13.72 | 19.61 | 24.96 | 5.09 | 6.40 | 8.25 |

*Sensitivities*

The following table illustrates the impact of changes in key unobservable inputs (in isolation) on the fair value of the Group's properties:

| | Impact on valuations of 5% change in estimated rental value | | Impact on valuations of 25bps change in equivalent yield | |
|---|---|---|---|---|
| | Increase £m | Decrease £m | Increase £m | Decrease £m |
| **Wholly-owned assets** | 38.5 | (36.7) | (37.5) | 40.6 |

# NOTES TO THE FINANCIAL STATEMENTS

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## 11 Plant and equipment

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| **Cost or valuation** | | |
| At the start of the year | **3.7** | 3.3 |
| Additions | **1.1** | 0.5 |
| Disposals | **–** | (0.1) |
| At the end of the year | **4.8** | 3.7 |
| **Accumulated depreciation** | | |
| At the start of the year | **(2.8)** | (2.7) |
| Charge for the year | **(0.2)** | (0.1) |
| At the end of the year | **(3.0)** | (2.8) |
| **Carrying amount** | | |
| At the end of the year | **1.8** | 0.9 |

## 12 Subsidiaries

A list of the subsidiaries of the Group, including the name, country of incorporation, and proportion of ownership interest is given in Note F to the Company financial statements.

## 13 Receivables

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| **Amounts falling due after one year:** | | |
| **Financial assets** | | |
| Deferred tax asset | **0.1** | 0.1 |
| Interest rate swaps | **0.1** | – |
| | **0.2** | 0.1 |
| **Non-financial assets** | | |
| Unamortised tenant incentives | **4.6** | 5.3 |
| Unamortised rent free periods | **9.4** | 8.9 |
| | **14.2** | 14.3 |
| **Amounts falling due within one year:** | | |
| **Financial assets** | | |
| Trade receivables (net of allowances) | **8.0** | 5.2 |
| Amounts owed by associates | **0.2** | 0.1 |
| Other receivables | **6.1** | 2.1 |
| Accrued income | **1.0** | 0.5 |
| Non-derivative financial assets | **15.3** | 7.9 |
| **Financial assets carried at fair value through the profit or loss:** | | |
| Interest rate caps | **–** | 0.1 |
| | **15.3** | 8.0 |
| **Non-financial assets** | | |
| Prepayments | **3.0** | 2.7 |
| Unamortised tenant incentives | **1.2** | 1.1 |
| Unamortised rent free periods | **2.1** | 1.6 |
| | **21.6** | 13.4 |

## 13 Receivables continued

Included in the non-derivative financial assets balance are trade receivables with a carrying amount of £1.7 million (2016: £1.9 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 £0.8 million (2016: £0.7 million) over trade receivables as security deposits held in rent accounts. The average age of trade receivables is 30 days (2016: 26 days).

| | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|
| **Analysis of non-derivative current financial assets** | | |
| Not past due | **13.6** | 6.0 |
| Past due but not individually impaired: | | |
| Less than 1 month | **0.8** | 1.2 |
| 1 to 3 months | **–** | 0.1 |
| 3 to 6 months | **0.6** | 0.3 |
| Over 6 months | **0.3** | 0.3 |
| | **15.3** | 7.9 |

| | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|
| **Allowances for doubtful receivables** | | |
| At the start of the year | **0.7** | 0.6 |
| Additional allowances created | **1.8** | 0.9 |
| Utilised during the year | **(1.5)** | (0.2) |
| Unused amounts reversed | **(0.3)** | (0.6) |
| At the end of the year | **0.7** | 0.7 |

## 14 Investment in associates and joint ventures

### 14a Share of results

| | Notes | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|---|
| Share of results of associates | 2a, 14d | **(2.0)** | (1.5) |
| Share of results of joint ventures | 14e | **–** | 1.8 |
| | | **(2.0)** | 0.3 |

See Note F of the Company's separate financial statements for further detail on our associate entities.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 14 Investment in associates and joint ventures continued

### 14b Investment in associates

| | Notes | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|---|
| At the start of the year | | **13.9** | 15.9 |
| Share of results of associates | 14d | **(2.0)** | (1.5) |
| Dividends and capital distributions received | | **(4.5)** | (0.5) |
| At the end of the year | 14d | **7.4** | 13.9 |

The Group's only significant associate during 2017 was the Kingfisher Limited Partnership in which the Group is in partnership with funds under the management of Oaktree Capital Management LP. The Kingfisher Limited Partnership owns The Kingfisher Shopping Centre in Redditch. The Group has a 20% share and exercises significant influence through its representation on the General Partner board and through acting as the property and asset manager.

### 14c Investment in joint ventures

| | Notes | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|---|
| At the start of the year | | **–** | 11.7 |
| Share of results of joint ventures | 14e | **–** | 1.8 |
| Reclassification of Buttermarket Centre, Ipswich as held for sale | | **–** | (13.5) |
| At the end of the year | 14e | **–** | – |

The Group's only significant joint venture during 2016 was the Buttermarket Centre, Ipswich. Buttermarket Ipswich Limited was reclassified as held for sale on 30 December 2016 as Management, and their joint venture partner, were committed to a plan to sell and considered a disposal to be highly probable within the following 12 months. On 17 February 2017 the sale completed to National Grid Pension Fund. The Group's share of the initial proceeds was £9.8 million, with Management estimating the value of deferred contingent consideration to be a further £4.1 million, with the Group's share of estimated disposal costs of £0.4 million resulting in a net carrying value of £3.7 million, which remained the position at 30 December 2017. £0.3 million of consideration has been received since 30 December 2017 reducing the net carrying value accordingly.

# 14 Investment in associates and joint ventures continued

## 14d Analysis of investment in associates

| | **Year to 30 December 2017[1] Total £m** | Year to 30 December 2016[1] Total £m |
|---|---|---|
| **Income statement (100%)** | | |
| Revenue – gross rent | **11.3** | 11.5 |
| Property and management expenses | **(2.7)** | (2.0) |
| Void costs | **(1.1)** | (1.0) |
| Net rent | **7.5** | 8.5 |
| Net interest payable | **(6.6)** | (3.8) |
| Contribution | **0.9** | 4.7 |
| Revaluation of investment properties | **(12.4)** | (11.8) |
| Fair value of interest rate swaps | **1.9** | (0.2) |
| Loss before tax | **(9.6)** | (7.3) |
| Tax | **(0.2)** | (0.7) |
| Loss after tax | **(9.8)** | (8.0) |
| **Balance sheet (100%)** | | |
| Investment properties | **138.4** | 150.0 |
| Other assets | **16.1** | 10.4 |
| Current liabilities | **(6.3)** | (6.5) |
| Non-current liabilities | **(111.3)** | (84.0) |
| **Net assets (100%)** | **36.9** | 69.9 |
| **Income statement (Group share)** | | |
| Revenue – gross rent | **2.3** | 2.3 |
| Property and management expenses | **(0.5)** | (0.4) |
| Void costs | **(0.2)** | (0.2) |
| Net rent | **1.6** | 1.7 |
| Net interest payable | **(1.4)** | (0.8) |
| Contribution | **0.2** | 0.9 |
| Revaluation of investment properties | **(2.5)** | (2.3) |
| Fair value of interest rate swaps | **0.4** | – |
| Loss before tax | **(1.9)** | (1.4) |
| Tax | **(0.1)** | (0.1) |
| Loss after tax | **(2.0)** | (1.5) |
| **Balance sheet (Group share)** | | |
| Investment properties | **27.7** | 30.0 |
| Other assets | **3.3** | 2.1 |
| Current liabilities | **(1.3)** | (1.4) |
| Non-current liabilities | **(22.3)** | (16.8) |
| **Net assets (Group share)** | **7.4** | 13.9 |

[1] Comprises Kingfisher Redditch.

# NOTES TO THE FINANCIAL STATEMENTS

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## 14 Investment in associates and joint ventures continued

### 14e Analysis of investment in joint ventures

| | **Year to 30 December 2017 Total £m** | Year to 30 December 2016[1] Total £m |
|---|---|---|
| **Income statement (100%)** | | |
| Revenue – gross rent | – | 2.2 |
| Property and management expenses | – | (0.7) |
| Void costs | – | (0.6) |
| Net rent | – | 0.9 |
| Net interest payable | – | (0.3) |
| Contribution | – | 0.6 |
| Revaluation of investment properties | – | 7.2 |
| Deferred tax on revaluation | – | (2.9) |
| Impairment | – | (1.2) |
| Profit before tax | – | 3.7 |
| Tax | – | – |
| Profit after tax | – | 3.7 |
| **Income statement (Group share)** | | |
| Revenue – gross rent | – | 1.1 |
| Property and management expenses | – | (0.3) |
| Void costs | – | (0.3) |
| Net rent | – | 0.5 |
| Net interest payable | – | (0.1) |
| Contribution | – | 0.4 |
| Revaluation of investment properties | – | 3.5 |
| Deferred tax on revaluation | – | (1.5) |
| Impairment | – | (0.6) |
| Profit before tax | – | 1.8 |
| Tax | – | – |
| Profit after tax | – | 1.8 |

[1] Comprised Buttermarket Ipswich.

## 15 Cash and cash equivalents

| | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|
| Cash at bank and in hand | **24.4** | 45.8 |
| Security deposits held in rent accounts | **0.8** | 0.7 |
| Other restricted balances | **5.0** | 2.6 |
| | **30.2** | 49.1 |

Cash at bank and in hand include amounts subject to a charge against various borrowings and may therefore not be immediately available for general use by the Group. All of the above amounts at 30 December 2017 were held in Sterling other than £0.9 million which was held in Euros (30 December 2016: £0.3 million).

## 16 Trade and other payables

| | 30 December 2017 £m | 30 December 2016 £m |
|---|---|---|
| **Amounts falling due after one year:** | | |
| **Financial liabilities** | | |
| Accruals | **0.3** | 0.5 |
| Other creditors | **2.2** | 1.8 |
| Non-derivative financial liabilities | **2.5** | 2.3 |
| **Financial liabilities carried as fair value through profit or loss** | | |
| Interest rate swaps | **1.5** | 2.1 |
| | **4.0** | 4.4 |
| **Amounts falling due within one year:** | | |
| **Financial liabilities** | | |
| Trade payables | **2.3** | 0.8 |
| Accruals | **21.1** | 23.2 |
| Other creditors | **4.6** | 8.0 |
| Non-derivative financial liabilities | **28.0** | 32.0 |
| **Non-financial liabilities** | | |
| Deferred income | **10.4** | 8.3 |
| Other taxation and social security | **0.6** | 1.0 |
| | **39.0** | 41.3 |

The average age of trade payables is 36 days (2016: 14 days), no amounts incur interest (2016: £nil).

## 17 Bank loans

### 17a Summary of borrowings

The Group's borrowings are arranged to ensure an appropriate maturity profile and to maintain short-term liquidity. There were no defaults or other breaches of financial covenants that were not waived under any of the Group borrowings during the current year or the preceding year.

| **Borrowings at amortised cost** | Notes | 30 December 2017 £m | 30 December 2016 £m |
|---|---|---|---|
| **Secured** | | | |
| Fixed and swapped bank loans | 17d | **428.4** | 260.2 |
| Variable rate bank loans | 17d | **–** | 101.3 |
| Total borrowings before costs | | **428.4** | 361.5 |
| Unamortised issue costs | | **(6.2)** | (0.7) |
| **Total borrowings after costs** | | **422.2** | 360.8 |
| **Analysis of total borrowings after costs** | | | |
| Current | | **–** | 334.6 |
| Non-current | | **422.2** | 26.2 |
| **Total borrowings after costs** | | **422.2** | 360.8 |

The Group considers all of its borrowings to fall within "Level 2", as defined in Note 1.

During the period £39.0 million of new debt was drawn in respect of the acquisition of The Exchange, Ilford, and £362.5 million in respect of the refinancing of the Mall assets completed on 4 January 2017. The maturity of the Group's £30 million revolving credit facility was extended in the year to 22 January 2022.

# NOTES TO THE FINANCIAL STATEMENTS

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## 17 Bank loans continued

### 17b Maturity of borrowings

| | Notes | 30 December 2017 £m | 30 December 2016 £m |
|---|---|---|---|
| Greater than five years | | **401.5** | – |
| From two to five years | | **26.9** | 26.9 |
| Due after more than one year | | **428.4** | 26.9 |
| Current | | **–** | 334.6 |
| | 17a | **428.4** | 361.5 |

The debt facility on the Mall assets was classified as a current liability at the end of 2016 as notice to repay had been served on 28 December 2016, ahead of the debt being refinanced on 4 January 2017.

### 17c Undrawn committed facilities

| | 30 December 2017 £m | 30 December 2016 £m |
|---|---|---|
| Expiring greater than five years | **10.0** | – |
| Expiring between two and five years | **30.0** | 30.0 |

The Articles of the Company include some restrictions on borrowing but this did not limit the amount available for drawdown on the above facility during the current year or the preceding year.

### 17d Interest rate and currency profile of borrowings

| | Notes | 30 December 2017 £m | 30 December 2016 £m |
|---|---|---|---|
| **Fixed and swapped rate borrowings** | | | |
| Between 2% and 3% | | **39.0** | – |
| Between 3% and 4% | | **389.4** | 260.2 |
| | 17a | **428.4** | 260.2 |
| **Variable rate borrowings** | 17a | **–** | 101.3 |
| | | **428.4** | 361.5 |

## 18 Financial instruments and risk management

### 18a Overview

*Capital risk management*

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17a; cash and cash equivalents as disclosed in Note 15; and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Statement of changes in equity. For the purpose of calculating gearing ratios, debt is defined as long and short-term borrowings (excluding derivatives) excluding unamortised issue costs. Equity includes all capital and reserves of the Group attributable to equity holders of the Company.

The Group is not subject to externally imposed capital requirements. The Board reviews the capital structure and cost of capital on an annual basis and has set out a target range for net debt to property value of 40% to 50% in the medium term. The risks associated with each class of capital are also considered as part of the risk reviews presented to the Audit Committee and the Board.

## 18 Financial instruments and risk management continued

*Gearing ratios*

| **Statutory** | Notes | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|---|
| Debt before unamortised issue costs | 17a | **428.4** | 361.5 |
| Cash and cash equivalents | 15 | **(24.4)** | (45.8) |
| Group net debt | | **404.0** | 315.7 |
| Equity | | **481.6** | 477.6 |
| Net debt to equity ratio | | **84%** | 66% |

| **See-through** | Notes | **30 December 2017 £m** | 30 December 2016 £m |
|---|---|---|---|
| Debt before unamortised issue costs | 18e | **451.0** | 378.3 |
| Cash and cash equivalents | | **(26.3)** | (46.6) |
| See-through net debt | | **424.7** | 331.7 |
| Equity | | **481.6** | 477.6 |
| Net debt to equity ratio | | **88%** | 69% |
| | | | |
| Properties at valuation | | | |
| Wholly-owned | 10b | **886.6** | 794.1 |
| Associates (Group share) | 10b | **28.6** | 30.8 |
| Total Group Property at valuation | | **915.2** | 824.9 |
| Net debt to property value ratio | | **46%** | 40% |

*Categories of financial assets/(liabilities)*

| | | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Carrying value £m** | **Gain/(loss) to income £m** | **Gain to equity £m** | Carrying value £m | Gain/(loss) to income £m | Gain to equity £m |
| **Financial assets** | | | | | | | |
| Current receivables | 13 | **15.3** | **–** | **–** | 7.9 | – | – |
| Cash and cash equivalents | 15 | **30.2** | **–** | **–** | 49.1 | – | – |
| Non-current receivables | 13 | **0.1** | **–** | **–** | 0.1 | – | – |
| ***Loans and receivables*** | | **45.6** | **–** | **–** | 57.1 | – | – |
| Interest rate swaps | 13 | **0.1** | **0.1** | **–** | – | – | – |
| Interest rate caps | 13 | **–** | **–** | **–** | 0.1 | (0.4) | – |
| ***Assets at fair value held for trading*** | | **0.1** | **0.1** | **–** | 0.1 | (0.4) | – |
| **Financial liabilities** | | | | | | | |
| Current payables | 16 | **(28.0)** | **–** | **–** | (32.0) | – | – |
| Current borrowings | 17a | **–** | **–** | **–** | (334.6)[1] | (4.8) | – |
| Non-current payables | 16 | **(2.5)** | **–** | **–** | (2.3) | – | – |
| Non-current borrowings | 17a | **(422.2)** | **(1.0)** | **–** | (26.2) | (0.1) | – |
| ***Liabilities at amortised cost*** | | **(452.7)** | **(1.0)** | **–** | (395.1) | (4.9) | – |
| Interest rate swaps | 16 | **(1.5)** | **0.6** | **–** | (2.1) | (2.1) | – |
| **Liabilities at fair value held for trading** | | **(1.5)** | **0.6** | **–** | – | (2.1) | – |
| **Total financial (liabilities)/assets** | | **(408.5)** | **(0.3)** | **–** | (340.0) | (7.4) | – |

1. As detailed in note 17a the debt facility on the Mall assets was classified as a current liability at the end of 2016 as notice to repay had been served on 28 December 2016 ahead of the debt being refinanced on 4 January 2017.

# NOTES TO THE FINANCIAL STATEMENTS

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## 18 Financial instruments and risk management continued

### Significant accounting policies

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

### 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.

### 18b Interest rate risk

The Group manages its interest rate risk through a combination of fixed rate loans and interest rate derivatives, typically interest rate swaps or caps. 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 the directors regularly review the ratio of fixed to floating rate debt to assist this process. The Group does not hedge account its interest rate derivatives and states them at fair value with changes in fair value included in the income statement.

The following table shows a summary of the Group's interest rate cap and swap contracts and their maturity dates:

| | Loan facility | Maturity date | Notional principal | Contract fixed rate | 30 December 2017 fair value £m asset/(liability) |
|---|---|---|---|---|---|
| Interest rate swap | Hemel Hempstead | 6 February 2023 | £18,650,000 | 1.33% | (0.3) |
| Interest rate swap | Hemel Hempstead | 6 February 2023 | £8,237,000 | 1.30% | (0.1) |
| Interest rate swap | The Mall, Luton | 30 December 2023 | £107,500,000 | 1.14% | (0.6) |
| Interest rate swap | Four Mall assets | 22 January 2024 | £100,000,000 | 1.13% | (0.5) |
| Interest rate swap | The Exchange, Ilford | 8 March 2024 | £39,000,000 | 1.00% | 0.1 |

*Sensitivity analysis*

The following table shows the Group's sensitivity to a 100bps increase or decrease in interest rates. To calculate the impact on the income statement for the year the interest rates on all external floating rate interest bearing loans and borrowings and interest earning cash, including loans and cash within associates and joint ventures, have been increased or decreased by 100bps. The income statement impact includes the estimated effect of a 100bps decrease or increase in interest rates on the market values of interest rate derivatives.

| | **100bps increase in interest rates** | | **100bps decrease in interest rates** | |
|---|---|---|---|---|
| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
| Floating rate loans and cash – (loss)/gain | **(0.1)** | (1.1) | **0.1** | 1.1 |
| Interest rate derivatives – gain/(loss) | **15.8** | 9.3 | **(15.8)** | (9.3) |
| Impact on the income statement – (loss)/gain | **15.7** | 8.2 | **(15.7)** | (8.2) |
| Impact on equity – (loss)/gain | **15.7** | 8.2 | **(15.7)** | (8.2) |

### 18c 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 loans and trade and other receivables, which are principally amounts due from tenants. Credit risk arising from tenants is mitigated as the Group receives most rents in advance, monitors credit ratings for significant tenants and makes an allowance for doubtful receivables that represents the estimate of potential losses in respect of trade receivables. The Group's allowance for doubtful receivables disclosed in Note 13 to the financial statements is considered to represent the Group's best estimate of the exposure to credit risk associated to trade receivables.

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.

## 18 Financial instruments and risk management continued

### 18d 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 Adjusted Profit included in Note 2a. The majority of income within Adjusted 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 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, such as tax payments and the close out of derivative financial instruments.

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 18 month forecast of anticipated recurring and non-recurring cash flows under different scenarios. This is compared to expected cash balances and 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 are its long-term debt facilities and its core revolving credit facility, expiring in January 2022, which had £30.0 million fully available at 30 December 2017 as disclosed in Note 17c.

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[1].

| 2017 | Note | Effective interest rate % | Less than 1 year £m | 1–2 years £m | 2–5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Current receivables | 13 | | **15.3** | **–** | **–** | **–** | **15.3** |
| Cash and cash equivalents | 15 | **0.2%** | **30.2** | **–** | **–** | **–** | **30.2** |
| Non-current receivables | 13 | | **–** | **–** | **–** | **0.1** | **0.1** |
| | | | **45.5** | **–** | **–** | **0.1** | **45.6** |
| **Financial liabilities** | | | | | | | |
| Borrowings – bank loans | 17a | **3.3%** | **–** | **–** | **(27.4)** | **(394.8)** | **(422.2)** |
| Borrowings – other loans | 16 | **3.4%** | **–** | **–** | **(2.2)** | **–** | **(2.2)** |
| Current payables | 16 | | **(28.0)** | **–** | **–** | **–** | **(28.0)** |
| Non-current payables | 16 | | **–** | **(0.3)** | **–** | **–** | **(0.3)** |
| | | | **(28.0)** | **(0.3)** | **(29.6)** | **(394.8)** | **(452.7)** |

| 2016 | Note | Effective interest rate % | Less than 1 year £m | 1–2 years £m | 2–5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Current receivables | 13 | | 7.9 | – | – | – | 7.9 |
| Cash and cash equivalents | 15 | 0.3% | 49.1 | – | – | – | 49.1 |
| Non-current receivables | 13 | | – | – | – | 0.1 | 0.1 |
| | | | 57.0 | – | – | 0.1 | 57.1 |
| **Financial liabilities** | | | | | | | |
| Borrowings – bank loans | 17a | 3.5% | (334.6)[1] | – | (26.2) | – | (360.8) |
| Borrowings – other loans | 16 | 2.3% | – | – | (1.8) | – | (1.8) |
| Current payables | 16 | | (32.0) | – | – | – | (32.0) |
| Non-current payables | 16 | | – | (0.5) | – | – | (0.5) |
| | | | (366.6) | (0.5) | (28.0) | – | (395.1) |

1. As detailed in note 17a the debt facility on the five Mall assets was classified as a current liability as notice to repay had been served on 28 December 2016 ahead of the debt being refinanced on 4 January 2017.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 18 Financial instruments and risk management 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.

| **2017** | **Less than 1 year £m** | **1–2 years £m** | **2–3 years £m** | **3–4 years £m** | **4–5 years £m** | **More than 5 years £m** | **Total £m** |
|---|---|---|---|---|---|---|---|
| Borrowings – fixed bank loans | **(14.0)** | **(14.0)** | **(14.0)** | **(14.0)** | **(40.1)** | **(429.4)** | **(525.5)** |
| Borrowings – other fixed loans | **–** | **–** | **(2.3)** | **–** | **–** | **–** | **(2.3)** |
| Non-interest bearing | **(28.0)** | **(0.3)** | **–** | **–** | **–** | **–** | **(28.3)** |
| | **(42.0)** | **(14.3)** | **(16.3)** | **(14.0)** | **(40.1)** | **(429.4)** | **(556.1)** |

| 2016 | Less than 1 year £m | 1–2 years £m | 2–3 years £m | 3–4 years £m | 4–5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| Borrowings – fixed bank loans | (234.3) | (0.9) | (0.9) | (0.9) | (26.9) | – | (263.9) |
| Borrowings – other fixed loans | – | – | – | (1.8) | – | – | (1.8) |
| Borrowings – floating bank loans | (101.3) | – | – | – | – | – | (101.3) |
| Non-interest bearing | (32.0) | (0.5) | – | – | – | – | (32.5) |
| | (367.6) | (1.4) | (0.9) | (2.7) | (26.9) | – | (399.5) |

The following tables detail the Group's remaining contractual maturity for its derivative financial assets/(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 rates as illustrated by the yield curves existing at the reporting date.

| **2017** | **Less than 1 year £m** | **1–2 years £m** | **2–3 years £m** | **3–4 years £m** | **4–5 years £m** | **More than 5 years £m** | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Net settled** | | | | | | | |
| Interest rate caps | **–** | **–** | **–** | **–** | **–** | **(1.4)** | **(1.4)** |
| | **–** | **–** | **–** | **–** | **–** | **(1.4)** | **(1.4)** |

| 2016 | Less than 1 year £m | 1–2 years £m | 2–3 years £m | 3–4 years £m | 4–5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Net settled** | | | | | | | |
| Interest rate caps | 0.1 | – | – | – | – | – | 0.1 |
| Interest rate swaps | – | – | – | – | – | (2.1) | (2.1) |
| | 0.1 | – | – | – | – | (2.1) | (2.0) |

## 18 Financial instruments and risk management continued

### 18e Fair values of financial instruments

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

| | Notes | Notional principal £m | **2017 Book value £m** | **2017 Fair value £m** | 2016 Book value £m | 2016 Fair value £m |
|---|---|---|---|---|---|---|
| **Financial liabilities not at fair value through income statement** | | | | | | |
| Sterling denominated loans | 18a | | **(428.4)** | **(430.0)** | (361.5) | (363.9) |
| Total on balance sheet borrowings | | | **(428.4)** | **(430.0)** | (361.5) | (363.9) |
| Group share of associate borrowings | | | **(22.6)** | **(22.6)** | (16.8) | (16.8) |
| **Total see-through borrowings** | 18a | | **(451.0)** | **(452.6)** | (378.3) | (380.7) |
| **Derivative assets/(liabilities) at fair value through income statement** | | | | | | |
| Interest rate caps | 13 | | **–** | **–** | 0.1 | 0.1 |
| Interest rate swaps | | 438.4 | **(1.4)** | **(1.4)** | (2.1) | (2.1) |
| Total on balance sheet derivatives | | | **(1.4)** | **(1.4)** | (2.0) | (2.0) |
| Group share of Sterling interest rate caps in associates and joint ventures | | 17.1 | **0.1** | **0.1** | – | – |
| Group share of Sterling interest rate swaps in associates and joint ventures | | | **–** | **–** | (0.5) | (0.5) |
| **Total see-through derivatives** | | | **(1.3)** | **(1.3)** | (2.5) | (2.5) |

The fair value of borrowings has been estimated on the basis of quoted market prices. Details of the Group's cash and deposits are disclosed in Note 15 and their fair values are equal to their book values. All of the above financial instruments are measured, subsequent to initial recognition, at fair value. All instruments were considered to be Level 2, as defined in Note 1. There were no transfers between Levels in the year.

## 19 Share capital

| | **Number of shares issued and fully paid** | | **Nominal value of shares issued and fully paid** | |
|---|---|---|---|---|
| | **2017 Number** | 2016 Number | **2017 £m** | 2016 £m |
| **Ordinary shares of 1p each** | | | | |
| At the start of the year | **702,342,500** | 700,752,626 | **7.0** | 7.0 |
| Shares issued | **15,933,260** | 1,589,874 | **0.2** | – |
| **Total called-up share capital** | **718,275,760** | 702,342,500 | **7.2** | 7.0 |

The Company has one class of Ordinary shares which carry voting rights but no right to fixed income. The Company maintains a Secondary Listing on the Johannesburg Stock Exchange (JSE) in South Africa. At 30 December 2017 60,477,452 (2016: 58,253,524) of the Company's shares were held on the JSE register.

The table below outlines the movements of shares in the year:

| | Price per share (Pence) | No. of shares | Total No. of shares |
|---|---|---|---|
| Brought forward at 31 December 2016 | | | 702,342,500 |
| May 2017 – Final 2016 Scrip Dividend | 56.48 | 6,135,235 | 708,477,735 |
| August 2017 – to satisfy Long Term Incentive awards | 0.01 | 6,300,000 | 714,777,735 |
| October 2017 – Interim 2017 Scrip Dividend | 55.07 | 3,498,025 | 718,275,760 |
| **Carried forward at 30 December 2017** | | | **718,275,760** |

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 20 Share-based payments

The Group's share-based payments comprise the 2008 LTIP and the Executive Directors deferred bonus. Further details are disclosed in the Directors' Remuneration Report.

In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant. For options with market based conditions these are calculated using either a Black–Scholes option pricing model or a Monte Carlo simulation. For the elements of options that include non-market based conditions an initial estimate is made of the likely qualifying percentage, this is subsequently updated at each reporting date.

| Income statement charge | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| Equity-settled share-based payments – 2008 LTIP | **0.9** | 0.5 |

The figures above exclude a National Insurance charge in the year of £0.2 million (2016: £0.2 million).

| Movements during the year | Number of Options |
|---|---|
| Outstanding at 30 December 2015 | 18,825,226 |
| Granted during the year | 6,159,764 |
| Exercised during the year | (376,165) |
| Forfeited during the year | (2,870,109) |
| Outstanding at 30 December 2016 | 21,738,716 |
| Granted during the year | 6,367,945 |
| Exercised during the year[1] | (6,759,688) |
| Forfeited during the year | (6,643,491) |
| Outstanding at 30 December 2017 | 14,703,482 |
| Exercisable at the end of the year | – |

1. The weighted average share price of options exercised during the year was 54.8p.

| | 2008 LTIP | | | |
|---|---|---|---|---|
| **Assumptions** | August 2014 | March 2015 | August 2016 | April 2017 |
| Share price at grant date | 46.8p | 57.8p | 59.5p | 59.5p |
| Exercise price | 0.0p | 0.0p | 0.0p | 0.0p |
| Expected volatility | 36% | 34% | 27% | 19% |
| Expected life including holding period (years) | 4.50 | 4.50 | 5.00 | 5.00 |
| Average life remaining including holding period (years) | 1.12 | 1.68 | 3.65 | 4.33 |
| Risk free rate | 0.96% | 0.96% | 0.56% | 0.53% |
| Expected dividend yield | 4.53% | 5.00% | 5.00% | 5.70% |
| Lapse rate | 0% | 0% | 0% | 0% |
| Fair value of award at grant date per share | 13p | 23p | 26p | 25p |

Expected volatility is based on the historical volatility of the Group's share price over the three years to the date of grant. The 10 year UK Gilt rate at time of grant is used for estimating the risk free rate. Options are assumed to be exercised at the earliest possible date.

## 21 Own shares held

| | Own shares held £m |
|---|---|
| At the start of the year | 0.4 |
| Disposed of | (0.3) |
| **At the end of the year** | 0.1 |

The own shares reserve represents the cost of shares in the Company purchased in the market. At 30 December 2017, the Capital & Regional plc 2002 Employee Share Trust (the "ESOT") held 182,699 (2016: 642,387) shares to assist the Group in meeting 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 2017 was £0.1 million (2016: £0.4 million).

## 22 Reconciliation of net cash from operations

| | Notes | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|---|
| Profit/(loss) for the year | | **22.4** | (4.4) |
| Adjusted for: | | | |
| Income tax credit | 8a | **–** | (0.1) |
| Finance income | | **(1.2)** | (0.4) |
| Finance expense | | **18.8** | 33.0 |
| Loss on revaluation of wholly-owned properties | | **3.8** | 14.2 |
| Share of loss/(profit) in associates and joint ventures | 14a | **2.0** | (0.3) |
| Depreciation of other fixed assets | 11 | **0.2** | 0.1 |
| Other gains and losses | | **(0.3)** | 1.8 |
| Increase in receivables | | **(7.3)** | (0.1) |
| Increase/(decrease) in payables | | **3.7** | (3.2) |
| Non-cash movement relating to share-based payments | | **0.9** | 0.5 |
| **Net cash from operations** | | **43.0** | 41.1 |

## 23 Net assets per share

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

| | | **30 December 2017** | | | 30 December 2016 |
|---|---|---|---|---|---|
| | Note | **Net assets £m** | **Number of shares (m)** | **Net assets per share (£)** | Net assets per share (£) |
| **Basic net assets** | | **481.4** | **718.3** | **0.67** | 0.68 |
| Own shares held | 21 | | **(0.2)** | | |
| Dilutive contingently issuable shares and share options | | | **6.8** | | |
| Fair value of fixed rate loans (net of tax) | | **(1.6)** | | | |
| **EPRA triple net assets** | | **479.8** | **724.9** | **0.66** | 0.67 |
| Exclude fair value of fixed rate loans (net of tax) | | **1.6** | | | |
| Exclude fair value of see-through interest rate derivatives | 18e | **1.3** | | | |
| Exclude deferred tax on unrealised gains and capital allowances | | **(0.1)** | | | |
| **EPRA net assets** | | **482.6** | **724.9** | **0.67** | 0.68 |

# NOTES TO THE FINANCIAL STATEMENTS

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## 24 Return on equity

| | 30 December 2017 £m | 30 December 2016 £m |
|---|---|---|
| Total comprehensive income attributable to equity shareholders | **22.4** | (4.4) |
| Opening equity shareholders' funds plus time weighted additions | **480.1** | 503.4 |
| Return on equity | **4.7%** | (0.9)% |

## 25 Lease arrangements

### The Group as lessee – operating leases

At the balance sheet date, the Group's future minimum lease payments under non-cancellable operating leases related to land and buildings were as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| **Lease payments** | | |
| Within one year | **(2.1)** | (1.9) |
| Between one and five years | **(9.1)** | (7.9) |
| After five years | **(9.7)** | (11.8) |
| | **(20.9)** | (21.6) |

Operating lease payments are denominated in Sterling and have an average remaining lease length of 9 years (2016: 10 years) and rentals are fixed for an average of 2 years (2016: 2 years). During the year there were no contingent rents (2016: £nil) and the Group incurred lease payments recognised as an expense of £1.9 million (2016: £1.9 million).

### The Group as lessee – finance leases

At the balance sheet date, the Group's future minimum lease payments under finance leases were as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| **Lease payments** | | |
| Within one year | **3.4** | 3.4 |
| Between one and five years | **13.5** | 13.6 |
| After five years | **361.7** | 365.1 |
| | **378.6** | 382.1 |
| Future finance charges on finance leases | **(317.3)** | (320.7) |
| Present value of finance lease liabilities | **61.3** | 61.4 |

Finance lease liabilities are in respect of head leases on investment property. These leases provide for payment of contingent rent, usually a proportion of net rental income, in addition to the rents above.

### The Group as lessor

The Group leases out all of its investment properties under operating leases for average lease terms of 7 years (2016: 7 years) to expiry. The leasing arrangements are summarised in the portfolio information on page 120. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

| 100% figures | Unexpired average lease term Years | Less than 1 year £m | 2 – 5 years £m | 6 – 10 years £m | 11 – 15 years £m | 16 – 20 years £m | More than 20 years £m | 30 December 2017 Total £m | 30 December 2016 Total £m |
|---|---|---|---|---|---|---|---|---|---|
| Wholly-owned | 7.8 | 44.7 | 123.9 | 63.4 | 29.4 | 17.4 | 82.8 | **361.6** | 327.6 |
| Redditch | 5.9 | 8.1 | 19.1 | 8.5 | 2.0 | 0.2 | – | **37.9** | 41.7 |
| Ipswich | – | – | – | – | – | – | – | **–** | 31.0 |
| **Total** | | 52.8 | 143.0 | 71.9 | 31.4 | 17.6 | 82.8 | **399.5** | 400.3 |

## 26 Capital commitments

At 30 December 2017, the Group's share of the capital commitments of its associates, joint ventures and wholly-owned properties was £4.7 million (2016: £7.7 million) relating to capital expenditure projects.

## 27 Contingent liabilities

### German joint venture

Under the terms of the German joint venture disposal, completed on 10 February 2015, the Group gave certain customary warranties as to their title to the relevant shares and certain warranties in relation to the German joint venture generally. In addition, Capital & Regional plc have provided an indemnity to the purchaser for potential German Real Estate Transfer Tax (RETT) liabilities if they arise out of actions undertaken by the Group post completion. All such actions covered by the indemnity are within the Group's control. The maximum RETT liability based on the property valuation at the time of sale was approximately €20 million.

### X-Leisure

Under the terms of the X-Leisure disposal agreements, the Group gave certain customary warranties as to capacity, title to the disposed assets, solvency, accounting and financial matters, litigation, compliance with laws and regulatory consents and taxation.

The aggregate liability of the sellers in respect of breaches of certain warranties including those relating to title and capacity and authority shall not exceed an amount equal to the consideration received by that seller. Other than in the case of fraud, the aggregate liability of the Sellers and the Manager in respect of claims under the disposal agreements shall not exceed £30 million. Any claims in respect of the warranties must be brought within 21 months of completion, being 16 January 2013, or five years in respect of the tax warranties. These warranties have expired post 30 December 2017 with no claim having been made.

### The Junction Fund

Under the terms of the Group's disposal of its interest in The Junction Fund, Capital & Regional Units LLP and Capital & Regional (Junction GP) Limited gave certain customary warranties as to their title to the relevant units and shares and certain warranties in relation to the Junction Fund generally and the GP sellers gave warranties in relation to the Junction GP. Any claims in respect of the warranties must be brought within 12 months of the date of the agreement, being 19 October 2012, other than in respect of certain claims relating to taxation, where the claims must be brought within either 24 months or six years from the date of agreement. The relevant warranties were given on a several basis and the maximum liability of Capital & Regional Units LLP in respect of the outstanding warranties is £3.5 million and the maximum liability of Capital & Regional (Junction GP) Limited in respect of the outstanding warranties is £3.5 million. The obligations of Capital & Regional Units LLP under the agreement were guaranteed by Capital & Regional Holdings Limited.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 28 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 associates and joint ventures, all of which occurred at normal market rates, are disclosed below.

| | Fee income and rent income | | Net amounts receivables from | |
|---|---|---|---|---|
| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m | **As at 30 December 2017 £m** | As at 30 December 2016 £m |
| **Associates** | | | | |
| Kingfisher Limited Partnership (Redditch) | **0.7** | 0.7 | **0.2** | 0.1 |
| **Joint ventures** | | | | |
| Buttermarket Ipswich Limited | **–** | 0.2 | **n/a** | 0.1 |

Amounts receivable from associates and joint ventures are unsecured and do not incur interest and they are payable on demand and settled in cash. Management fees are received by Capital & Regional Property Management Limited (CRPM) and are payable on demand. They are unsecured, do not incur interest and are settled in cash.

### Property Management incentive arrangements

CRPM will earn an additional equity return from Kingfisher Limited Partnership if distributions result in a geared return in excess of a 15% IRR. The Group will bear 20.00% of the cost by virtue of its investment in the Partnership. No performance fee has been recognised during the year (2016: none) as the criteria have currently not been met.

### Transactions with key management personnel

In accordance with IAS 24, key personnel are considered to be the Executive Directors and Non-Executive Directors and members of the Executive Committee as they have the authority and responsibility for planning, directing and controlling the activities of the Group. Their remuneration in the income statement is as follows:

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| Short-term employment benefits | **1.8** | 2.5 |
| Post-employment benefits | **0.1** | 0.2 |
| Share-based payments | **0.6** | 0.3 |
| | **2.5** | 3.0 |

In both years the highest paid Director was the Chief Executive whose remuneration is disclosed in the Directors' Remuneration Report on page 54.

## 29 Dividends

The dividends shown below are gross of any take-up of Scrip offer.

| | **Year to 30 December 2017 £m** | Year to 30 December 2016 £m |
|---|---|---|
| Final dividend per share paid for year ended 30 December 2015 of 1.62p | **–** | 11.3 |
| Interim dividend per share paid for year ended 30 December 2016 of 1.62p | **–** | 11.4 |
| Final dividend per share paid for year ended 30 December 2016 of 1.77p | **12.4** | – |
| Interim dividend per share paid for year ended 30 December 2017 of 1.73p | **12.4** | – |
| Amounts recognised as distributions to equity holders in the year | **24.8** | 22.7 |
| Proposed final dividend per share for year ended 30 December 2017 of 1.91p[1] | **13.7** | – |

[1] In line with the requirements of IAS 10 – "Events after the Reporting Period", this dividend has not been included as a liability in these financial statements.

# COMPANY BALANCE SHEET

## AS AT 30 DECEMBER 2017

Registered number: 01399411
Prepared in accordance with FRS 101

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | C | **457.0** | 330.0 |
| **Current assets** | | | |
| Receivables – amounts falling due within one year | D | **18.7** | 125.5 |
| Cash and deposits | | **1.4** | – |
| **Total current assets** | | **20.1** | 125.5 |
| **Current liabilities** | | | |
| Trade and other payables | E | **(15.6)** | (15.3) |
| **Total current liabilities** | | **(15.6)** | (15.3) |
| **Net current assets** | | **4.5** | 110.2 |
| **Net assets** | | **461.5** | 440.2 |
| **Equity** | | | |
| Share capital | | **7.2** | 7.0 |
| Share premium | | **163.3** | 158.2 |
| Merger reserve | | **60.3** | 60.3 |
| Capital redemption reserve | | **4.4** | 4.4 |
| Retained earnings | | **226.3** | 210.3 |
| **Shareholders' funds** | | **461.5** | 440.2 |

The profit for the year attributable to equity shareholders was £40.8 million (2016: £30.2 million).

These financial statements were approved by the Board of Directors, authorised for issue and signed on their behalf on 5 April 2018 by:

**Charles Staveley**
Group Finance Director

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR TO 30 DECEMBER 2017

| | Non-distributable | | | | Distributable | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Share Premium £m | Capital redemption reserve £m | Retained earnings £m | Retained earnings £m | Merger reserve £m | **Total £m** |
| **Balance at 30 December 2015** | 7.0 | 157.2 | 4.4 | – | 202.8 | 60.3 | **431.7** |
| Retained profit for the year | – | – | – | – | 30.2 | – | **30.2** |
| Total comprehensive income for the year | – | – | – | – | 30.2 | – | **30.2** |
| Dividends paid, net of Scrip | – | – | – | – | (21.7) | – | **(21.7)** |
| Shares issued, net of costs | – | 1.0 | – | – | (1.0) | – | **–** |
| **Balance at 30 December 2016** | 7.0 | 158.2 | 4.4 | – | 210.3 | 60.3 | **440.2** |
| Retained profit for the year | – | – | – | – | 40.8 | – | **40.8** |
| Total comprehensive income for the year | – | – | – | – | 40.8 | – | **40.8** |
| Dividends paid, net of Scrip | – | – | – | – | (19.5) | – | **(19.5)** |
| Shares issued, net of costs | 0.2 | 5.1 | – | – | (5.3) | – | **–** |
| **Balance at 30 December 2017** | **7.2** | **163.3** | **4.4** | **–** | **226.3** | **60.3** | **461.5** |

The Company's authorised, issued and fully paid-up share capital is described in Note 19 to the Group financial statements. The Company's dividends are as described in Note 29 to the Group financial statements. The other reserves are described in the consolidated statement of changes in equity in the Group financial statements.

# NOTES TO THE COMPANY'S SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 DECEMBER 2017

## A Accounting policies

The Company's separate financial statements for the year ended 30 December 2017 are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The main accounting policies have been applied consistently in the current year and the preceding year.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payments, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

The Company's financial statements are presented in Pounds Sterling, generally rounded to the nearest million.

Investments, amounts owed by subsidiaries and amounts owed by associates and joint ventures are stated at cost less provision for impairment. Where there is an indication that an investment is impaired, an impairment review is carried out by comparing the carrying value of the investment against its recoverable amount, which is the higher of its estimated value in use and fair value. This review involves accounting judgements about the future cash flows from the underlying associates and joint ventures and, in the case of CRPM, estimated asset management fee income less estimated fixed and variable expenses.

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 differences arising on translation are recognised in the income statement.

The Company's related party transactions are described in Note 28 to the Group financial statements. Except for the Directors, the Company had no direct employees during the year (2016: none). Information on the Directors' emoluments, share options, long-term incentive schemes and pension contributions is shown in the Directors' Remuneration Report. Further disclosures regarding the nature of the share-based payment schemes operated by the Group are included in Note 20 to the Group's financial statements.

## B Profit for the year

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements.

The fees payable to the Company's Auditor for the audit of the Company and Group financial statements are disclosed in Note 6 to the Group financial statements.

## C Fixed asset investments

| | Subsidiaries £m | Other investments £m | **Total £m** |
|---|---|---|---|
| At the start of the year | 329.0 | 1.0 | **330.0** |
| Investment | 235.2 | – | **235.2** |
| Impairment of investments | (108.2) | – | **(108.2)** |
| At the end of the year | 456.0 | 1.0 | **457.0** |

Investments are subject to an impairment review using discount rates between the range of 7.4% and 9.5%. The investment in the year reflects a reorganisation of the Group completed in parallel with and following the completion of the refinancing of the five Mall assets that completed on 4 January 2017.

Note F shows the subsidiaries, associates and joint ventures held by the Group and the Company.

## D Receivables

| **Amounts falling due within one year** | **2017 £m** | 2016 £m |
|---|---|---|
| Amounts owed by subsidiaries | **18.5** | 125.2 |
| Other receivables | **0.2** | 0.3 |
| | **18.7** | 125.5 |

# NOTES TO THE COMPANY'S SEPARATE FINANCIAL STATEMENTS

CONTINUED

## E Trade and other payables

| Amounts falling due within one year | 2017 £m | 2016 £m |
|---|---|---|
| Amounts owed to subsidiaries | **12.7** | 12.1 |
| Accruals and deferred income | **2.9** | 3.2 |
| | **15.6** | 15.3 |

## F Subsidiaries at 30 December 2017

| | Nature of business | Country of incorporation | Share of voting rights |
|---|---|---|---|
| **Subsidiaries** | | | |
| Ashley Centre One Limited | Dormant | Great Britain | 100% |
| Ashley Centre Two Limited | Dormant | Great Britain | 100% |
| Ashley Epsom Limited [2] | Dormant | Jersey | 100% |
| Capital & Regional (Europe Holding 5) Limited [3] | Property investment | Jersey | 100% |
| Capital & Regional (Jersey) Limited [3] | Property investment | Jersey | 100% |
| Capital & Regional (Mall GP) Limited | Property investment | Great Britain | 100% |
| Capital & Regional (Projects) Limited | Property investment | Great Britain | 100% |
| Capital & Regional (Shopping Centres) Limited [3] | Property investment | Jersey | 100% |
| Capital & Regional Abertawe Limited [1] | Dormant | Great Britain | 100% |
| Capital & Regional Earnings Limited | Property investment | Great Britain | 100% |
| Capital & Regional Estates Limited [1,4] | Dormant | Great Britain | 100% |
| Capital & Regional Holdings Limited | Property investment | Great Britain | 100% |
| Capital & Regional Ilford Limited [3] | Property investment | Jersey | 100% |
| C&R Ilford Limited Partnership | Property investment | Great Britain | 100% |
| C&R Ilford Nominee 1 Limited | Dormant | Great Britain | 100% |
| C&R Ilford Nominee 2 Limited | Dormant | Great Britain | 100% |
| C&R Ilford (General Partner) Limited | Property investment | Great Britain | 100% |
| Capital & Regional Income Limited[1,4] | Property investment | Great Britain | 100% |
| Capital & Regional Property Management Limited | Property management | Great Britain | 100% |
| Green-Sinfield Limited | Dormant | Great Britain | 100% |
| Lancaster Court (Hove) Limited | Dormant | Great Britain | 100% |
| Lower Grosvenor Place London One Limited | Dormant | Great Britain | 100% |
| Mall Developments Limited [1] | Dormant | Great Britain | 100% |
| Mall Messages Limited [1] | Dormant | Great Britain | 100% |

1. In liquidation/being dissolved.
2. Registered office at 1 The Esplanade, St Helier, Jersey, JE2 3QA.
3. Registered office at 47 The Esplanade, St Helier, Jersey, JE1 0BD.
4. Registered office at Griffins, Tavistock House South, Tavistock Square, London, WC1H 9LG.

## F Subsidiaries continued

| | Nature of business | Country of incorporation | Share of voting rights |
|---|---|---|---|
| **Subsidiaries (continued)** | | | |
| Mall Nominee One Limited | Dormant | Great Britain | 100% |
| Mall Nominee Two Limited | Dormant | Great Britain | 100% |
| Mall Nominee Three Limited | Dormant | Great Britain | 100% |
| Mall Nominee Four Limited | Dormant | Great Britain | 100% |
| Mall Shopping Limited [1] | Dormant | Great Britain | 100% |
| Mallspace Limited [1] | Dormant | Great Britain | 100% |
| Mall Ventures Limited | Dormant | Great Britain | 100% |
| Marlowes Hemel Limited [3] | Property investment | Jersey | 100% |
| MB Roding (Guernsey) Limited | Dormant | Guernsey | 100% |
| R Green Properties (Holdings) [1] | Dormant | Great Britain | 100% |
| Selborne One Limited | Dormant | Great Britain | 100% |
| Selborne Two Limited | Dormant | Great Britain | 100% |
| Selborne Walthamstow Limited [2] | Dormant | Jersey | 100% |
| Snozone Holdings Limited | Operator of indoor ski slopes | Great Britain | 100% |
| Snozone Leisure Limited | Operator of indoor ski slopes | Great Britain | 100% |
| Snozone Limited | Operator of indoor ski slopes | Great Britain | 100% |
| The Mall (General Partner) Limited | Property investment | Great Britain | 100% |
| The Mall (Luton) (General Partner) Limited | Property investment | Great Britain | 100% |
| The Mall Company Limited [1] | Dormant | Great Britain | 100% |
| The Mall Facilities Management Limited [1] | Dormant | Great Britain | 100% |
| The Mall Limited Partnership | Property investment | Great Britain | 100% |
| The Mall People Management Limited [1] | Dormant | Great Britain | 100% |
| The Mall REIT Limited | Dormant | Great Britain | 100% |
| The Mall Shopping Centres Limited | Dormant | Great Britain | 100% |
| The Mall Unit Trust [3] | Property investment | Jersey | 100% |
| The Mall Walthamstow One Limited | Dormant | Great Britain | 100% |
| The Mall Walthamstow Two Limited | Dormant | Great Britain | 100% |
| Wood Green London Limited [2] | Dormant | Jersey | 100% |
| Wood Green One Limited | Dormant | Great Britain | 100% |
| Wood Green Two Limited | Dormant | Great Britain | 100% |
| **Principal associate entities** | | | |
| Euro B-Note Holding Limited [3] | Finance | Jersey | 39.90% |
| Kingfisher Limited Partnership | Property investment | Great Britain | 20% |
| Kingfisher Topco S.a.r.l [5] | Property investment | Luxembourg | 20% |

1. In liquidation/being dissolved.
2. Registered office at 1 The Esplanade, St Helier, Jersey, JE2 3QA.
3. Registered office at 47 The Esplanade, St Helier, Jersey, JE1 0BD.
4. Registered office at Griffins, Tavistock House South, Tavistock Square, London, WC1H 9LG.
5. Registered office at 26A Boulevard Royal, L–2449, Luxembourg.

The registered office of all subsidiaries, unless otherwise noted, is 22 Chapter Street, London, SW1P 4NP although was 52 Grosvenor Gardens, London, SW1W 0AU as of 30 December 2017 and until 5 February 2018.

The shares of voting rights are equivalent to the percentages of ordinary shares or units held directly or indirectly by the Group.

# GLOSSARY OF TERMS

**Adjusted Profit** is the total of Contribution from wholly-owned assets and the Group's joint ventures and associates, the profit from Snozone and property management fees less central costs (including interest excluding non-cash charges in respect of share-based payments) after tax. Adjusted Profit excludes revaluation of properties, profit or loss on disposal of properties or investments, gains or losses on financial instruments and exceptional one-off items. Results from Discontinued Operations are included up until the point of disposal or reclassification as held for sale.

**C&R** is Capital & Regional plc, also referred to as the Group or the Company.

**C&R Trade index** is an internal retail tracker using data from approximately 300 retail units across C&R's shopping centre portfolio.

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

**Contracted rent** is passing rent and the first rent reserved under a lease or unconditional agreement for lease but which is not yet payable by a tenant.

**Contribution** is net rent less net interest, including unhedged foreign exchange movements.

**Capital return** is the change in market value during the year for properties held at the balance sheet date, after taking account of capital expenditure calculated on a time weighted basis.

**Debt** is borrowings, excluding unamortised issue costs.

**EPRA earnings per share (EPS)** is the profit/(loss) after tax excluding gains on asset disposals and revaluations, movements in the fair value of financial instruments, intangible asset movements and the capital allowance effects of IAS 12 "Income Taxes" 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 net assets per share** include the dilutive effect of share-based payments but ignore the fair value of derivatives, any deferred tax provisions on unrealised gains and capital allowances, any adjustment to the fair value of borrowings net of tax and any surplus on the fair value of trading properties.

**EPRA triple net assets per share** include the dilutive effect of share-based payments and adjust all items to market value, including trading properties and fixed rate debt.

**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.

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

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

**Interest cover** is the ratio of Adjusted Profit (before interest, tax, depreciation and amortisation) to the interest charge (excluding notional amortisation of finance costs and interest on head leases).

**Like-for-like** figures, unless otherwise stated, exclude the impact of property purchases and sales on year to year comparatives.

**Loan to value (LTV)** is the ratio of debt excluding fair value adjustments for debt and derivatives, to the Market value of properties.

**Market value** is an opinion of the best price at which the sale of an interest in a 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 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 year end, excluding own shares held.

**Net initial yield (NIY)** is the annualised current rent, net of revenue costs, topped-up for contractual uplifts, expressed as a percentage of the capital valuation, after adding notional purchaser's costs.

**Net debt to property value** is debt less cash and cash equivalents divided by the property value.

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

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

**Nominal equivalent yield** is a weighted average of the net initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received, assuming rent is received annually in arrears on gross values including the prospective purchaser's costs.

**Occupancy cost ratio** is the proportion of a retailer's sales compared with the total cost of occupation being: rent, business rates, service charge and insurance. Retailer sales are based on estimates by third party consultants which are periodically updated and indexed using relevant data from the C&R Trade Index.

**Occupancy rate** is the ERV of occupied properties expressed as a percentage of the total ERV of the portfolio, excluding development voids.

**Passing rent** is gross rent currently payable by tenants including car park profit but excluding income from non-trading administrations and any assumed uplift from outstanding rent reviews.

**Rent to sales ratio** is Contracted rent excluding car park income, ancillary income and anchor stores expressed as a percentage of net sales.

**REIT** – Real Estate Investment Trust.

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

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

**Reversionary yield** is the anticipated yield to which the net initial yield will rise once the rent reaches the ERV.

**Temporary lettings** are those lettings for one year or less.

**Total property return** incorporates net rental income and capital return expressed as a percentage of the capital value employed (opening market value plus capital expenditure) calculated on a time weighted basis.

**Total return** is the Group's total recognised income or expense for the year as set out in the consolidated statement of comprehensive income expressed as a percentage of opening equity shareholders' funds.

**Total shareholder return (TSR)** is a performance measure of the Group's share price over time. It is calculated as the share price movement from the beginning of the year to the end of the year plus dividends paid, divided by share price at the beginning of the year.

**Variable overhead** includes discretionary bonuses and the costs of awards to Directors and employees made under the 2008 LTIP and other share schemes which are spread over the performance period.

# FIVE YEAR REVIEW (UNAUDITED)

| | 2017 £m | 2016 £m | 2015 £m | 2014 £m | 2013[1] £m |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Property assets | **930.6** | 838.5 | 870.0 | 790.8 | – |
| Other non-current assets | **18.1** | 17.1 | 18.1 | 21.3 | 23.5 |
| Intangible assets | **–** | – | – | – | – |
| Investment in joint ventures | **–** | – | 11.7 | – | 32.3 |
| Investment in associates | **7.4** | 13.9 | 15.9 | 13.6 | 112.1 |
| Cash at bank | **30.2** | 49.1 | 49.9 | 42.6 | 11.1 |
| Assets classified as held for sale | **–** | 13.9 | – | 39.5 | 8.5 |
| Other net current (liabilities)/assets | **(17.4)** | (362.9)[1] | (20.0) | (26.5) | 2.2 |
| Bank loans greater than one year | **(422.2)** | (26.2) | (374.9) | (396.8) | – |
| Other non-current liabilities | **(65.3)** | (65.8) | (67.5) | (65.5) | (1.0) |
| **Net assets** | **481.4** | 477.6 | 503.2 | 419.0 | 188.7 |
| **Financed by** | | | | | |
| Called-up share capital | **7.2** | 7.0 | 7.0 | 7.0 | 9.9 |
| Share premium account | **163.3** | 158.2 | 157.2 | 157.2 | – |
| Other reserves | **64.6** | 64.3 | 64.1 | 65.3 | 66.3 |
| Retained earnings | **246.3** | 248.1 | 274.9 | 189.5 | 112.5 |
| **Capital employed** | **481.4** | 477.6 | 503.2 | 419.0 | 188.7 |
| **Return on equity** | | | | | |
| Return on equity | **4.7%** | (0.9)% | 23.5% | 28.1% | 5.1% |
| Increase/(decrease) in NAV per share + dividend | **3.7%** | (0.8)% | 23.2% | 12.1% | 5.8% |
| Total shareholder return | **12.7%** | (12.3)% | 29.8% | 24.7% | 53.9% |
| Year end share price | **59p** | 55p | 66p | 53p | 44p |
| **Total return** | | | | | |
| Total comprehensive income/(expense) | **22.4** | (4.4) | 98.4 | 74.1 | 9.2 |
| **Net assets per share** | | | | | |
| Basic net assets per share | **67p** | 68p | 72p | 60p | 54p |
| EPRA triple net assets per share | **66p** | 67p | 70p | 59p | 54p |
| EPRA net assets per share | **67p** | 68p | 71p | 59p | 56p |
| Gearing | **89%** | 76% | 76% | 96% | – |
| **Income statement**[2] | | | | | |
| Group revenue | **89.2** | 87.2 | 80.7 | 46.6 | 17.6 |
| Gross profit | **55.7** | 54.7 | 51.6 | 28.4 | 9.6 |
| Profit on ordinary activities before financing | **40.0** | 28.1 | 116.8 | 77.0 | 7.4 |
| Net interest payable | **(17.6)** | (32.6)[3] | (19.2) | (9.8) | (0.1) |
| Profit/(loss) before tax | **22.4** | (4.5) | 97.6 | 67.2 | 7.3 |
| Tax credit | **–** | 0.1 | – | 2.5 | 0.2 |
| Profit/(loss) after tax | **22.4** | (4.4) | 97.6 | 69.7 | 7.5 |
| Adjusted Profit | **29.1** | 26.8 | 24.0 | 21.8 | 13.4 |
| Adjusted Earnings per Share | **4.1p** | 3.8p | 3.4p | 4.2p | 3.8p |
| Interest cover | **3.2** | 3.1 | 3.0 | 2.7 | 2.8 |
| **Earnings per share** | | | | | |
| Basic[4] | **3.2p** | (1)p | 14p | 15p | 3p |
| Diluted[4] | **3.1p** | (1)p | 14p | 15p | 3p |
| EPRA[4] | **3.9p** | 4p | 3p | 3p | 2p |
| Dividends per share | **3.64p** | 3.39p | 3.12p | 0.95p | 0.65p |

1. The debt facility on The Mall was classified as a current liability at 30 December 2016 as notice to repay had been served on 28 December 2016 ahead of the debt being refinanced on 4 January 2017.
2. 2013 results have been restated from those originally presented in those respective years to separate discontinued operations.
3. Includes £11.0 million of costs in respect of the debt refinancing of the Mall assets (see note 17a for further details).
4. Continuing and discontinued operations.

# COVENANT INFORMATION (UNAUDITED)

## WHOLLY-OWNED ASSETS

| | Borrowings £m | Covenant[1] | 30 December 2017 | Future changes |
|---|---|---|---|---|
| **Core revolving credit facility (100%)** | | | | |
| Net Assets | – | No less than £350m | **£481.6m** | |
| Gearing | | No greater than 1.5:1 | **0.87:1** | |
| Historic interest cover | | No less than 200% | **374%** | |
| **4 Mall assets (100%)** | | | | |
| Loan to value[2] | 255.0 | No greater than 70% | **48%** | |
| Historic interest cover | | No less than 175% | **291%** | |
| *A projected interest cover test also applies at a covenant level of no less than 150%* | | | | |
| **Luton (100%)** | | | | |
| Loan to value[2] | 107.5 | No greater than 70% | **55%** | Covenant 65% from January 2022 |
| Debt yield | | No less than 8% | **10.2%** | |
| Historic interest cover | | No less than 250% | **350%** | |
| *A projected interest cover test also applies at a covenant level of no less than 200%* | | | | |
| **Hemel Hempstead (100%)** | | | | |
| Loan to value[2] | 26.9 | No greater than 60% | **50%** | |
| Debt to net rent | | No greater than 10:1 | **7.1:1** | Covenant 9:1 from April 2019 |
| Historic interest cover | | No less than 200% | **435%** | |
| *A projected interest cover test also applies at a covenant level of no less than 200%* | | | | |
| **Ilford (100%)** | | | | |
| Loan to value[2] | 39.0 | No greater than 70% | **47%** | |
| Historic interest cover | | No less than 225% | **515%** | |
| *A projected interest cover test also applies at a covenant level of no less than 225%* | | | | |

1. Covenants quoted are the default covenant levels. The facilities typically also have cash trap mechanisms.
2. Calculated as specified in loan agreement based on 30 December 2017 valuation. Actual bank covenant based on bank valuation updated annually.

# WHOLLY-OWNED ASSETS PORTFOLIO INFORMATION (UNAUDITED)

AT 30 DECEMBER 2017

| | |
|---|---|
| **Physical data** | |
| Number of properties | 7 |
| Number of lettable units | 765 |
| Size (sq ft – million) | 3.5 |
| **Valuation data** | |
| Properties at independent valuation (£m) | 886.6 |
| Adjustments for head leases and tenant incentives (£m) | 44.0 |
| **Properties as shown in the financial statements (£m)** | **930.6** |
| Revaluation loss in the year (£m) | 3.8 |
| Initial yield | 6.1% |
| Equivalent yield | 6.4% |
| Reversion | 12.3% |
| Loan to value ratio | 48% |
| Net debt to value ratio | 46% |
| **Lease length (years)** | |
| Weighted average lease length to break | 6.5 |
| Weighted average lease length to expiry | 7.8 |
| **Passing rent (£m) of leases expiring in:** | |
| 2018 | 9.0 |
| 2019 | 3.1 |
| 2020–2022 | 17.1 |
| **ERV (£m) of leases expiring in:** | |
| 2018 | 10.9 |
| 2019 | 4.5 |
| 2020–2022 | 17.8 |
| **Passing rent (£m) subject to review in:** | |
| 2018 | 3.0 |
| 2019 | 3.4 |
| 2020–2022 | 9.3 |
| **ERV (£m) of passing rent subject to review in:** | |
| 2018 | 3.0 |
| 2019 | 3.3 |
| 2020–2022 | 12.0 |
| **Rental Data** | |
| Contracted rent at year end (£m) | 64.1 |
| Passing rent at year end (£m) | 61.0 |
| ERV at year end (£m per annum) | 68.5 |
| ERV movement (like-for-like) | +0.3% |
| Occupancy | 97.3 |

# EPRA PERFORMANCE MEASURES (UNAUDITED)

## AS AT 30 DECEMBER 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| EPRA earnings (£m) | 9a | 27.8 | 26.2 |
| EPRA earnings per share (diluted) | 9a | 3.9p | 3.7p |
| EPRA net assets (£m) | 23 | 482.6 | 481.5 |
| EPRA net assets per share | 23 | 67p | 68p |
| EPRA triple net assets (£m) | 23 | 479.8 | 475.2 |
| EPRA triple net assets per share | 23 | 66p | 67p |
| EPRA vacancy rate (UK portfolio only) | | 2.8% | 3.7% |

### EPRA net initial yield and EPRA topped-up net initial yield

| | 2017 £m | 2016[1] £m |
|---|---|---|
| Investment property – wholly-owned | 886.6 | 794.1 |
| Investment property – share of joint ventures and associates | 28.6 | 30.8 |
| Less developments | – | – |
| Completed property portfolio | 915.2 | 824.9 |
| Allowance for capital costs | 8.0 | 15.0 |
| Allowance for estimated purchasers' costs | 60.2 | 56.3 |
| Grossed up completed property portfolio valuation | 983.4 | 896.2 |
| Annualised cash passing rental income | 67.0 | 58.8 |
| Property outgoings | (13.1) | (11.4) |
| Annualised net rents | 53.9 | 47.4 |
| Add: notional rent expiration of rent free periods or other lease incentives | 3.6 | 4.4 |
| Topped up annualised rent | 57.5 | 51.8 |
| **EPRA net initial yield** | 5.5% | 5.3% |
| **EPRA topped-up net initial yield** | 5.8% | 5.8% |

1. Excludes Buttermarket Centre, Ipswich.

### EPRA Cost ratios

| | 2017 £m | 2016 £m |
|---|---|---|
| Cost of sales (adjusted for IFRS head lease differential) | 33.9 | 33.0 |
| Administrative costs | 10.2 | 10.9 |
| Service charge income | (14.1) | (14.0) |
| Management fees | (0.8) | (1.0) |
| Snozone (indoor ski operation) costs | (8.9) | (8.8) |
| Share of joint venture & associate expenses | 0.7 | 1.2 |
| Less inclusive lease costs recovered through rent | (2.1) | (1.9) |
| EPRA costs (including direct vacancy costs) | 18.9 | 19.4 |
| Direct vacancy costs | (3.1) | (2.9) |
| EPRA costs (excluding direct vacancy costs) | 15.8 | 16.5 |
| Gross rental income | 63.9 | 62.0 |
| Less ground rent costs | (3.0) | (3.1) |
| Share of joint venture & associate gross rental income less ground rent costs | 2.3 | 3.4 |
| Less inclusive lease costs recovered through rent | (2.1) | (1.9) |
| Gross rental income | 61.1 | 60.4 |
| **EPRA cost ratio (including direct vacancy costs)** | 30.9% | 32.2% |
| **EPRA cost ratio (excluding vacancy costs)** | 25.9% | 27.4% |

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