# Capital& Regional


**Capital & Regional**
Annual Report and Accounts
for the year ended 30 December 2011

# Our business

Capital & Regional is a specialist property company focusing on retail investments in the UK and Germany. The Group uses in-house asset and property management teams to maximise the returns from the properties for investors and tenants. We ensure that our property assets adapt to the ever changing behaviour of retailers and shoppers as they embrace technological advances, in particular the internet and related mobile technologies.

The Group has two investments in well established UK retail funds; a joint venture with a German retail property portfolio; and a number of interests in leisure and trade park properties.

# Our business model

We operate an asset business that invests in retail assets in the UK and Germany and leisure assets in the UK.

We operate an earnings business that generates fees from the asset and property management platforms for the UK and German property investments and profits from an indoor skiing business.

**Pictured below:**
The Mall, Camberley

**Front cover picture:**
The Mall, Blackburn

“Capital & Regional’s ambition is to be a leading specialist retail property company.”

**Hugh Scott-Barrett** Chief Executive

# Our strategy

Our Group strategy is to:

- Focus our business on being a specialist retail property company with an emphasis on growth in net asset value, whilst generating attractive income and cash returns
- Take significant stakes in retail property investments and leverage our in-house property and asset management skills
- Deliver our asset management and development pipeline to realise value in the existing portfolios
- Realise the maximum value from our non-core investments and look to reinvest the proceeds into retail property investments

See further information on our strategy on page 10

**Forward looking statements**

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking in nature and are subject to risks and uncertainties. Actual future results may differ materially from those expressed in or implied by these statements. Many of these risks and uncertainties relate to factors that are beyond the Group’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of government regulators and other risk factors such as the Group’s ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which the Group operates or in economic or technological trends or conditions, including inflation and consumer confidence, on a global, regional or national basis. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this document. The Group does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document. Information contained in this document relating to the Group should not be relied upon as a guide to future performance.

**See further information online:**
**capreg.com**

# The relevance of our property assets

## "A key element of our portfolio strategy is to ensure that our property assets are aligned with the constantly evolving demands of our tenants and shoppers, developments in technology and consumer behaviour."

A key element of our portfolio strategy is to ensure that our property assets are aligned with the constantly evolving demands of our tenants and shoppers, developments in technology and consumer behaviour.

Shopping habits are changing with a continuing trend towards online shopping, 'click and collect', social media and mobile marketing. Successful retailers now operate through genuine multi-channel formats which enhance the physical shopping experience with the use of mobile technologies.

During the year we engaged a leading brand consultancy (The Engine Group) together with prominent retail business consultants (FSP) to review what retailers and shoppers are looking for in shopping centres. The conclusions of this review confirmed that shopping centres continue to be a key social and leisure experience for shoppers. However, shopper expectations of the level of service, convenience, range and quality of facilities, together with a real appreciation of value and local community are high. Only those shopping centres which can consistently deliver these different elements will continue to be successful.

In December 2011, the Portas review into the future of our high streets was published which provided further context. Recommendations from this review focused on getting town centres running like businesses, encouraging affordable town centre car parking and giving local communities a greater say in planning whilst encouraging innovative community uses of empty high street spaces. The recommendations are, in essence, how our in-town community shopping centre portfolio operates.

Our shopping centre and retail park properties demonstrate the key characteristics to remain relevant in the current environment. Our shopping centres are all specifically founded on a strong community involvement, affordable rents and continued investment to enhance the shopping experience. This is demonstrated by the sustained high footfall and occupancy levels we have in The Mall and The Junction.

We continually adapt to meet changing retailer and consumer needs and have:

- Developed the retailer and consumer branding for The Mall shopping centres and The Junction retail parks through individual websites and, for The Mall, loyalty based marketing and promotions;
- Enhanced our marketing and social media feedback through the development of mobile enabled websites, social networking and The Mall smart phone apps;
- Invested in shopper facilities to enhance the shopping and leisure experience, including the development of free cloud WiFi across the shopping centre portfolio, improvements to the service levels, staff training and security;
- The Mall digital media and Mall TV; and
- Retailer affiliate marketing hosted on: themall.co.uk.

The non-executive directors bring a depth of experience of the internet, retailer and consumer markets to the board. This ensures our strategy is responsive to the changing retailer and consumer demands that impact on our property assets.

# Highlights

## Financial

- Growth in net assets per share to £0.56, up 12% from the 2010 year end, and EPRA net assets per share to £0.63, up 11% from 2010 year end
- Robust recurring pre-tax profit of £16.4 million, up 10% from 2010
- Group share of cash distributions from funds and joint ventures of £15.7 million
- Group net debt falling to 24% compared to 29% at 2010 year end and see-through debt falling to 64% compared to 66% at 2010 year end
- Sale of six properties in The Mall and The Junction for £370.0 million, at or above valuation
- Acquisitions of The Waterside Shopping Centre in Lincoln and Schwäbisch Hall in Germany and recycling cash distributions to increase the Group's investment in The Mall Fund

| NAV per share | EPRA NAV per share | NAV growth |
|---|---|---|
| 56 pence | 63 pence | +12% |
| **Group net debt** | **See-through net debt** | **Recurring pre-tax profit** |
| 24% | 64% | +10% |

## Operational

- Strong asset management delivering 101 new lettings and 57 lease renewals at, or above ERV across the UK funds
- Successful rent reviews for 156 units for an uplift to previous rent of 4.7% across the UK funds
- Strengthening UK fund occupancy of 96.8%, up 0.6% from the 2010 year end
- Uplift in The Mall footfall of 3.2% and outperformance of the national index by 3.7%
- Positive geared returns from the UK funds of 11.5% and Germany of 18.0%
- Growth in passing rents for both the UK funds and Germany of 1.0%
- All three UK funds outperforming the IPD index
- Continuing improvement in reducing our environmental impact with a 9% reduction in The Mall energy consumption and 7% reduction in carbon output across the Group
- Positive momentum in delivering the asset management and development pipeline

| UK fund occupancy | Germany occupancy | Mall footfall | UK passing rent |
|---|---|---|---|
| 96.8% | 95.1% | +3.2% | +1.0% |
| **UK fund geared return** | **Germany geared return** | **Mall energy reduction** | **Germany passing rent** |
| +11.5% | +18.0% | -9.0% | +1.0% |

Better than 2010 Lower than 2010

# Understanding our business

## UK Retail

### Shopping centres: The Mall

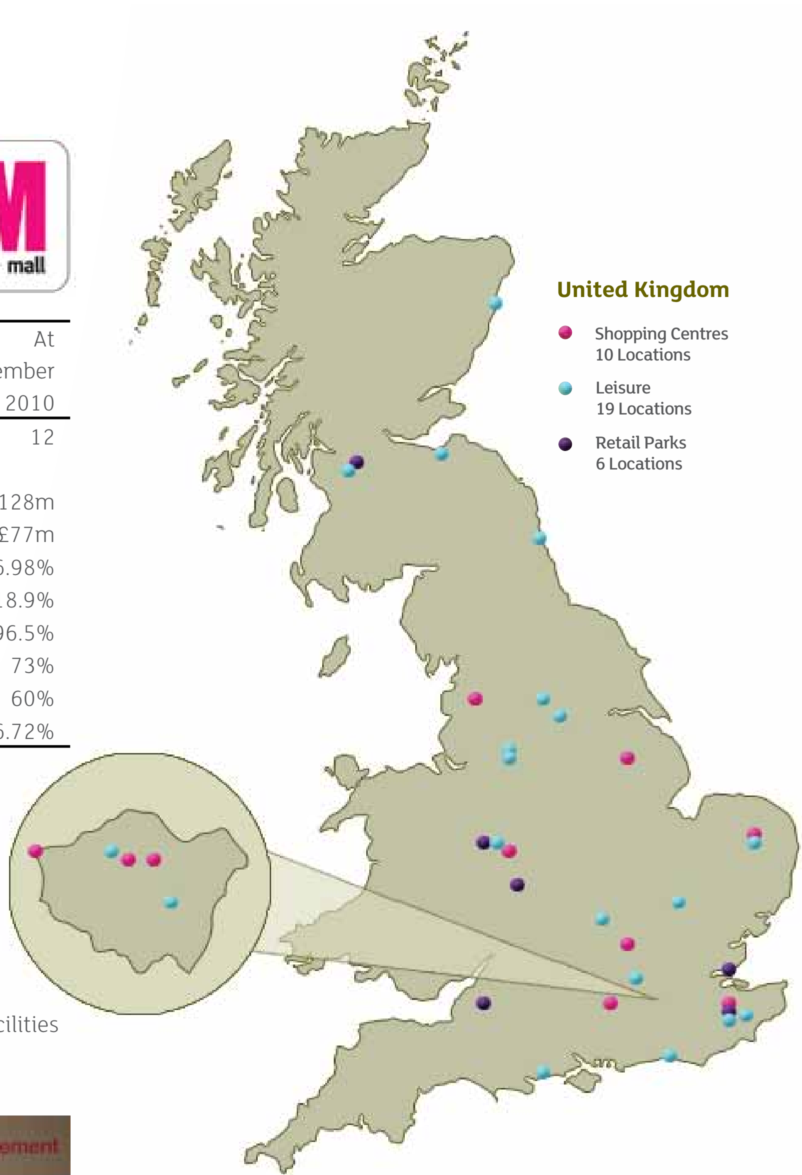
The Mall Fund is the specialist UK community shopping centre brand, owning nine properties with a total lettable space of over 4.6 million square feet and home to over 1,000 retail units. Its key statistics are:

| | **At 30 December 2011** | At 30 December 2010 |
|---|---|---|
| Number of properties | **9** | 12 |
| Property value at independent valuation | **£971m** | £1,128m |
| Passing rent (like for like) | **£78m** | £77m |
| Initial yield | **7.02%** | 6.98% |
| Property level return | **6.2%** | 18.9% |
| Occupancy (like for like) | **97.2%** | 96.5% |
| Loan to value ratio | **69%** | 73% |
| Net debt to value ratio | **56%** | 60% |
| C&R share | **18.16%*** | 16.72% |

* Increased to 20.15% after year end

The key characteristics of the shopping centres are:

- Town centre locations
- Dominant in the local community
- Affordable rents
- Minimum of 250,000 sq ft lettable area
- Mass market or value retail
- Ownership of car parking and good public transport facilities





**Pictured above:**
The Mall, Blackburn

Key events during 2011:

- Sale of three properties in Bristol, Barnsley and Middlesbrough for £158 million
- £165 million repayment of debt and fall in LTV to 69%
- 75 new lettings, 53 lease renewals and 95 rent reviews completed
- Growth in footfall of 3.2% compared to a decline of 0.5% in the national index
- Heads of terms finalised for a development agreement with the local authority for The Mall in Walthamstow

See further information on our properties on page 121

## Shopping centre: The Waterside Shopping Centre, Lincoln

The Waterside shopping centre was purchased in February 2011 and the Group owns a 50% interest in a joint venture with Karoo. The shopping centre is centrally located on a prime retail pitch in the centre of the cathedral city of Lincoln and has a total lettable space of 118,000 square feet and 46 retail units.

## Retail parks: The Junction

The Junction Fund is a specialist retail park fund, owning four retail parks and two development sites, with a total lettable space of over 1.3 million square feet. Its key statistics are:

| | At 30 December 2011 | At 30 December 2010 |
|---|---|---|
| Number of properties | **6** | 9 |
| Property value at independent valuation | **£288m** | £476m |
| Passing rent (like for like) | **£17m** | £17m |
| Initial yield | **5.68%** | 5.77% |
| Property level return | **10.7%** | 13.0% |
| Occupancy (like for like) | **96.4%** | 96.9% |
| Loan to value ratio | **60%** | 60% |
| Net debt to value ratio | **50%** | 57% |
| C&R share | **13.29%** | 13.29% |

The key characteristics of the retail parks are:

- Dominant in the local catchment area
- Minimum 185,000 sq ft multi-let retail park
- Planning consent for open A1, bulky goods or mixed use

Key events during 2011:

- Sale of three properties in Portsmouth, Swansea and Maidstone for £212 million
- £126 million repayment of debt
- Capital distribution of £73.5 million (Group share of £9.9 million)
- Growth in car counts of 3.4% compared to 2010
- Planning permissions and variation consent granted for Thurrock, Paisley and Oldbury

**Pictured above:**
The Junction Thurrock shopping park

## Asset and property management

The Mall Fund, The Junction Fund and The Waterside Shopping Centre are managed by Capital & Regional Property Management ('CRPM') as asset and property manager. For The Mall, Aviva Investors fulfils the regulated fund management role. For The Junction, Aviva Investors fulfils the regulated operator role and AREA fulfils the fund management role. Investors hold units in a Jersey Property Unit Trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax.

# Understanding our business continued

## German Retail

### Retail: Germany

The commercial retail property portfolio in Germany is a joint venture with AREA Property Partners. The portfolio owns 48 properties with a total lettable space of over 5.2 million square feet. Its key statistics are:

| | At 30 December 2011 | At 30 December 2010 |
|---|---|---|
| Number of properties | **48** | 48 |
| Property value at independent valuation | **€594m** | €576m |
| Passing rent (like for like) | **€46.2m** | €45.7m |
| Initial yield | **6.61%** | 6.69% |
| Property level return | **6.6%** | 5.7% |
| Occupancy (like for like) | **95.1%** | 96.9% |
| Loan to value ratio | **80%** | 82% |
| Net debt to value ratio | **77%** | 77% |
| C&R share | **49.60%** | 49.60% |


The key characteristics of the German portfolio are:

- Established out-of-town retail locations, typically anchored by food retailers
- Standalone hypermarkets and retail parks with sales areas of more than 3,500 square metres with car parking
- Strong cash generation with generally shorter leases


**Pictured above:**
Tönisvorst retail park

Key events during 2011:

- Purchase of Schwäbisch Hall for €23 million on 30 December 2011
- Refinancing of €162 million debt for three years in July 2011
- €13 million repayment of debt
- Income distribution of €8.6 million (Group share of €4.3 million)
- 13 lease extensions securing the long term income for certain properties

### Asset and property management

Garigal Asset Management GmbH, a German asset and property manager, is responsible for the asset and property management of the German property portfolio and the Group holds a 30% stake in Garigal.

See further information on our properties on pages 122 to 123

# Other UK interests

## Leisure: X-Leisure

The X-Leisure Fund is the largest specialist fund investing in UK leisure property, owning 16 properties with a total lettable space of over 3.0 million square feet. Its key statistics are:

| | **At 30 December 2011** | At 30 December 2010 |
|---|---|---|
| Number of properties | **16** | 16 |
| Property value at independent valuation | **£565m** | £528m |
| Passing rent (like for like) | **£40.8m** | £40.7m |
| Initial yield | **6.59%** | 7.02% |
| Property level return | **14.1%** | 22.1% |
| Occupancy (like for like) | **96.1%** | 95.3% |
| Loan to value ratio | **53%** | 57% |
| Net debt to value ratio | **49%** | 53% |
| C&R share | **11.93%** | 11.93% |

The key characteristics of the leisure properties are:

- Dominant in local catchment area
- Anchored by a cinema
- 50% or more of rental income generated from leisure operators

Key events during 2011:

- Income distribution of £10.9 million (Group share of £1.3 million)
- Growth in footfall of 1.4% compared to 2010

## Leisure: Great Northern, Manchester

The Group owns 100% of the 399,000 square foot property, which is a converted Victorian warehouse in the centre of Manchester city centre including multiplex cinema, casino and bars, health and fitness, restaurants and shops. The principal occupiers of its 46 units are AMC Cinema, Virgin Active and London Clubs International.

## Leisure: Xscape Braehead, Glasgow

The Group owns a 50% effective interest in Xscape Braehead which is a joint venture with Capital Shopping Centres. The 374,000 square foot property was constructed from 2004 and is located next to the Braehead Shopping Centre on the outskirts of Glasgow. Like the Xscapes in Milton Keynes and Castleford, which are owned by the X-Leisure Fund, it offers indoor real snow skiing, bowling, dining, cinema and other leisure activities. Following the sale of SNO!zone Braehead the snow operator is now Sno Factor. The other principal occupiers of its 37 units are Odeon, Bowlplex and Ellis Brigham.

## Leisure: Hemel Hempstead

The Group owns 100% of the 160,000 square foot leisure property which is located in Hemel Hempstead. A planning application is due to be determined shortly by the local authority following positive pre-application discussions. This application is for a comprehensive redevelopment and re-branding of the 160,000 square foot scheme replacing the swimming complex and nightclub with family oriented restaurants.

## Asset and property management:

X-Leisure Limited, which is a 50:50 joint venture with AREA, carries out the asset and non-FSA regulated fund management activities for the X-Leisure fund. AREA acts as Operator and is responsible for FSA regulated fund management activities. Investors in the X-Leisure fund hold units in a Jersey Property Unit Trust (JPUT) which allows exposure to a diversified portfolio of properties without direct investment and the ability to transfer units without incurring Stamp Duty Land Tax. The Great Northern Warehouse, Xscape Braehead and Leisure World are run by CRPM as asset and property manager.

## Trade centres: FIX UK portfolio

The Group owns a 20% minority interest in the FIX UK fund which is a portfolio of UK trade centres and trade parks. Paradigm Real Estate Managers perform the day-to-day management responsibilities of the Fund.

## Ski operator: SNO!zone

The Group owns 100% of SNO!zone which is the largest indoor ski slope operator in the UK. SNO!zone rents the real snow slopes in the two Xscapes at Milton Keynes and Castleford. The Group sold the SNO!zone Braehead business on 16 December 2011.

# Chairman's statement

"I am delighted to report an increase in net asset value of 12% to 56 pence per share and an increase of 10% in recurring pre-tax profits to £16.4 million."

John Clare Chairman

## Overview

I am delighted to report an increase in net asset value of 12% to 56 pence per share and an increase of 10% in recurring pre-tax profits to £16.4 million. These results are all the more encouraging as they reflect the impact of asset management initiatives which have boosted income not only in the UK funds but also in the joint ventures.

Management's focus has shifted decisively from restructuring to ensuring the business is well placed to respond to the twin challenges of a weak economy and structural change in consumer behaviour, in particular the continuing rise in on-line retailing. Both developments are impacting the demand for retail space.

During the year, further disposals of property assets and recycling distributions into our core UK retail focus have formed part of our strategy to ensure we own or manage assets where we believe demand will remain strong. Our focus is on offering space which is both attractive and affordable. The Mall now owns nine assets, the majority of which are dominant within their community. We continue to ensure that these schemes, as well as other assets in the portfolio, are relevant to the communities in which they are located.

## Dividend

The board is not recommending the payment of a final dividend meaning that no dividend will be payable for the full year. The board is committed to resuming dividends when it is prudent to do so. The current dividend policy links future payments to the Group's cash generating ability and will normally be restricted to not more than 50% of operating cash flow less interest and tax to comply with the undertakings given for the Group's banking arrangements. The board intends to review this policy during the course of the year by which time progress in creating liquidity within the Group's investments in the funds and joint ventures should be further advanced.

## Responsible business

We attach great importance to the Group maintaining its commitment to responsible business in the currently very challenging operating environment. The manner in which the results have therefore been delivered is pleasing. The Group has once again gained its Investors in People award. The operating team have delivered a reduction in energy consumption and carbon footprint across the shopping centres which have helped limit increases in service charges. This in part explains the award from the PMA for Best Service Charge Provider for 2011. The shopping centres have raised significant sums for their local charities reinforcing their position at the heart of the local community and the Group is an active partner of the LandAid initiative.

Further details are set out in the statement on Responsible Business in the financial statements.

## Our people

I would like to thank all staff for their continued hard work in delivering this year's encouraging set of results. They have worked tirelessly to offer attractive space for our retailers and leisure operators and to provide a safe operating environment for their customers.

## The Board

I would like to thank Paul Stobart, who has stepped down from the board after nine years, for his contribution to the board's deliberations over a very challenging period for the Group and thank Philip Newton for taking on the role of the Senior Independent Director. I would also like to welcome Tony Hales who joined the board in August 2011. Tony brings a wealth of both board and commercial experience which will be of great value to the Group.

**John Clare**
Chairman

# Chief Executive's statement

"The UK business has delivered an impressive operational performance in challenging market conditions for our retailers, driven by a focus on new lettings, lease renewals and rent reviews."

**Hugh Scott-Barrett** Chief Executive

## Operations

The UK business has delivered an impressive operational performance in challenging market conditions for our retailers, driven by a focus on new lettings, lease renewals and rent reviews. Passing rent has grown by 1% and occupancy levels across the three UK funds are up 0.6%, to 96.8% as at 30 December 2011.

The German business has been successful in securing key lease extensions for several properties which has secured the long term income at a marginally lower rent. Passing rent has grown by 1% within the portfolio and occupancy remains high at 95.1% as at 30 December 2011.

This operating performance and a 3.2% growth in footfall for our Mall shopping centres continues to reflect the overall affordability and well positioned nature of our property portfolio both in the UK and Germany.

## Asset management and development pipeline

There is an attractive and exciting pipeline with near term plans for three Junction properties, Waterside Lincoln, Hemel Hempstead, Great Northern and The Mall Walthamstow. This reflects a belief that attractive returns can be generated from extending or reshaping schemes we know well. We have a track record of success in this area, highlighted by the British Council of Shopping Centres' award to The Mall Blackburn for best refurbishment in 2011.

During the year, we have made positive momentum in laying the foundations for delivering this pipeline and realising value from our existing portfolio with the highlights being:

- Key planning permissions at Thurrock and Paisley and a planning variation at Oldbury have been granted for the Junction properties to enable these developments to progress in 2012. Construction at Lakeside Extra is expected to commence in the second quarter of 2012 on the back of a strong level of pre-lets;
- A planning application for a comprehensive redevelopment of our Hemel Hempstead property has been submitted. We anticipate commencing work on this during the second half of 2012 if the planning application is successful;
- Key lettings have been achieved at Waterside Lincoln and Great Northern to enhance the existing schemes whilst development and reconfiguration discussions have continued to advance; and
- Heads of terms have been finalised for a development agreement with the local authority on The Mall at Walthamstow.

In addition to the near term opportunities, there are significant medium to long term opportunities for The Malls at Luton, Camberley, Uxbridge and Maidstone, in The Junction at Thurrock and in Germany at Tönisvorst.

## Financial position

The Group's balance sheet has continued to strengthen in 2011 with net assets of £196.0 million, up from £174.5 million at the end of last year.

Gearing at Group level has fallen to 24% as at 30 December 2011 compared to 29% at the end of last year. This reflects a £3.3 million repayment of Group debt during 2011 combined with a 12% growth in shareholders' equity.

At the fund level, the Mall Fund completed the disposal of three assets for total proceeds of £158.3 million during the year. Following these disposals, the headline loan to value ('LTV') for the Mall is now 69%, and allowing for cash in the Fund is 56%, both of which are comfortably below the 83% LTV covenant at year end.

The Junction disposed of three assets for total proceeds of £211.7 million during the year and the LTV at year end is 60%. Following these disposals the Fund made distributions to the Group of £9.9 million during the year.

# Chief Executive's statement continued

Within our German joint venture we successfully refinanced debt of €162.3 million for three years in July 2011, subject to certain covenants, which was an important step in securing the funding for one of the portfolios,

At the start of the year the Group acquired The Waterside Shopping Centre in Lincoln and formed a joint venture with Karoo, and at the end of the year the German joint venture acquired Schwäbisch Hall. These acquisitions demonstrate our commitment to investing into new properties when the right opportunities and returns present themselves.

We are in negotiations to extend our core revolving credit facility and the Great Northern debt facility. Although there are no immediate refinancing issues, we aim to reach agreement well in advance of the maturity of these facilities.

## Strategy

Capital & Regional's ambition is to be a leading specialist retail property company. Our unique management platform gives us the ability not only to invest in, but operate and asset manage large and complex properties.

Our objective is to grow our portfolio of UK shopping centres which are held both through our investment in The Mall and in joint ventures. Our recent investment in The Mall is part of a broader strategy to accelerate the restart of distributions and to position the fund so it can access capital to fund the exciting development opportunities that exist in a number of the core schemes.

Capital & Regional will continue to leverage its management platform by investing with other joint venture partners in shopping centres which share similar characteristics to the schemes in the Mall (dominant community schemes). Successful asset management initiatives at Waterside Lincoln encourage us that we have the skills and resources to apply to other opportunities.

The Junction continues to provide opportunities both to recycle capital from those retail parks where we believe asset management initiatives are largely complete and to invest in some exciting development initiatives in particular at Thurrock and Oldbury. Retail parks remain a core focus and we will continue to look at selective acquisitions in joint ventures with our partners.

Having had the opportunity to more aggressively and efficiently asset manage our German joint venture under the management of our new asset management platform Garigal, we intend over the next 12 to 18 months to focus on realising value from more mature properties.

## Outlook

The operating environment is likely to remain challenging for the foreseeable future. This reflects the tough market conditions experienced by our retailers and leisure operators. We have seen a number of administrations in the first two months of 2012. The majority of units affected are expected to continue trading.

Despite this challenging backdrop we continue to see demand for affordable and attractive space in dominant trading destinations. As a consequence we therefore expect to see income resilience in the core schemes and opportunities to deliver valuation uplift from completed asset management initiatives in joint ventures and wholly-owned assets. We expect values for the South East and London based schemes, which account for the majority of the shopping centre portfolio, to remain resilient.

We have seen another year of significant disposals (at or above valuation). Further sales will be geared to recycling capital from the funds, accelerating distributions and the realisation of value from the joint ventures and wholly-owned assets on completion of the development initiatives.

We expect to make further significant progress this year in focusing Capital & Regional as a retail property investment company. We will achieve this through the recycling of capital from our non-core businesses into our core retail activities. The recent purchases of units in the Mall not only reflect the underlying value in the portfolio but also our wish together with our partners to play a significant part in the future development of the fund.

**Hugh Scott-Barrett**
Chief Executive

# Operating review

During the year the team have continued to deliver an impressive operational performance in challenging market conditions for our tenants. This performance continues to benefit from the overall affordability and well positioned nature of our property portfolio both in the UK and Germany.

## New lettings, renewals and rent reviews

Asset management has driven strong performances on new lettings, lease renewals and rent reviews across the three UK funds during the year at rents at or above estimated rental values ('ERV'). Turnover rent is excluded from our comparison to ERV, but if included would have a positive effect. ERV has remained stable compared to the prior year. We are continuing to advance negotiations with a number of retailers for new space against the challenging headwinds in the retail sector with new lettings generally taking longer to complete in the current environment.

| | The Mall | The Junction | X-Leisure | **Total UK** |
|---|---|---|---|---|
| **Number of new lettings** | 75 | 7 | 19 | **101** |
| Rent from new lettings (£m) | 6.1 | 1.4 | 1.3 | **8.8** |
| Comparison to ERV (%) | 0.0 | 7.2 | 7.2 | **2.2** |
| **Renewals settled** | 53 | 1 | 3 | **57** |
| Revised rent (£m) | 1.4 | 0.3 | 0.1 | **1.8** |
| Comparison to ERV (%) | 0.9 | (3.6) | 0.8 | **0.2** |
| **Number of rent reviews settled** | 95 | 11 | 50 | **156** |
| Revised passing rent (£m) | 11.7 | 2.3 | 6.5 | **20.5** |
| Uplift to previous rent (%) | 2.8 | 3.0 | 8.7 | **4.7** |
| Comparison to ERV (%) | 8.6 | (6.0) | 6.0 | **6.1** |

During the first three quarters of 2011, The Mall new lettings were 4.5% above ERV. During the fourth quarter of 2011, The Mall new lettings were 5.4% below ERV, however we did two strategic new lettings at below ERV which, if excluded, would have resulted in fourth quarter new lettings in The Mall being 5.1% above ERV.

Since 30 December 2011, there have been a further six new lettings in The Mall for contracted rent of £0.4 million. The Junction has exchanged contracts on two new lettings with contracted rent of £0.3 million and X-Leisure has completed two new lettings with contracted rent of £0.2 million. In 2012, new lettings and renewals for the three UK funds have been at 1.4% below ERV, with The Mall new lettings and renewals being at 2.0% below ERV.

In Germany there were 10 new lettings with an initial passing rent of €1.0 million. A further 13 lease extensions were completed to secure the long term income of the portfolio. The lease extensions had the impact of increasing the average unexpired lease term of the portfolio by 1.5 years, but at a lower rent of €5.2 million compared to a current rent of €5.9 million.

In X-Leisure 29% of leases contain minimum or fixed uplifts which continue to drive income levels.

Significant highlights during the year include:

| **The Mall** | |
|---|---|
| Luton | New lettings to Costa, Toby Inns and Jimmy Spices to successfully complete the food element of the redevelopment. Lettings elsewhere in the scheme to Jessops and Tiger and lease renewals with Arcadia, WHSmiths and C & J Clark |
| Wood Green | Primark took an additional two units totalling 4,700 sq ft, at rents in excess of ERV, extending their store to approximately 80,000 sq ft. New lettings to Select, Phones 4U, Card Factory and Moss Bros |
| Blackburn | New lettings to Specsavers, JD Sports, Bank, Harvey, Thompson and Select |
| Maidstone | New lettings to Sports Direct, Costa, Select, Vision Express and Internacionale |
| Norwich | New lease to Family Bargains on a previously vacant 18,000 sq ft unit and a new letting to the British Heart Foundation and lease renewals with F Hinds and the Post Office |
| Sutton Coldfield | New lettings to H&M Hennes and Sports Direct who took 14,000 sq ft of formerly unused first floor space for a new upsized store, whilst Jones The Bootmaker have taken a new 4,000 sq ft store and there was a new letting to Barclays |
| Camberley | New lettings to 3G and Rush Hair and lease renewals with Monsoon, Jessops and Game |
| Walthamstow | New lettings to Choice Discount Stores and West Coast |
| Uxbridge | New lettings to Metrobank and Blue Inc and a significant lease renewal with Iceland |

# Operating review continued

### The Junction

| | |
|---|---|
| Bristol | New lettings to The Range and Subway |
| Telford | New letting to Petstop |
| Thurrock | New lettings to Boots and Go Outdoors and a regear with Furniture Village |

### X-Leisure

| | |
|---|---|
| Parrswood | New letting to Grosvenor Casino |
| Ashford | New lettings to Nando's and Chiquito |
| Cardigan Fields | Surrender taken from Scottish & Newcastle for a premium and space re-let to Bella Italia and a new letting to Mitchells and Butler |
| Cambridge | New letting to Sainsbury's |
| Poole | New letting to Pizza Express and a unit expansion by Empire Cinemas |

### Germany

| | |
|---|---|
| Ingelheim | Lease extension for 15 years to Real |
| Koln Gremberg | Significant lease extension until 2024 with Real |
| Lauchammer | New 10 year letting to Toom and 5 year extension to Edeka |
| Balingen | 10 year lease extension with Toom |

### Other properties

| | |
|---|---|
| Waterside Lincoln | New letting to Apple franchise |
| Xscape Braehead | New 25 year lease to Sno Factor |

### Occupancy levels

Occupancy levels across the three UK funds of 96.8% at 30 December 2011 has improved by 0.6% compared to the prior year demonstrating the overall success of our asset management teams in letting space and maintaining occupancy in the challenging retail market.

| Occupancy (like for like) | **2011** **%** | 2010 % |
|---|---|---|
| The Mall | **97.2** | 96.5 |
| The Junction | **96.4** | 96.9 |
| X-Leisure | **96.1** | 95.3 |
| UK funds | **96.8** | 96.2 |
| Germany | **95.1** | 96.9 |

The Mall occupancy of 97.2% at 30 December 2011 has improved by 0.7% compared to the prior year despite a number of administrations demonstrating the affordability and resilience of our shopping centres. The occupancy at 30 December 2011 includes the normal seasonal increase in Christmas temporary lettings. Included within the 97.2% occupancy for The Mall is 2.8% related to units that were in administration.

The Junction occupancy of 96.4% at 30 December 2011 declined by 0.5% reflecting the lease termination of Marks Wholesale and the administration of World of Sofas at Thurrock.

The X-Leisure occupancy of 96.1% at 30 December 2011 has improved by 0.8% due to strong new lettings during the year more than offsetting the administrations.

Germany occupancy of 95.1% at 30 December 2011 declined by 1.8% reflecting two lease expiries in Hamburg. Terms have been agreed for a new letting of one of these at an increased rent to commence in 2012 following refurbishment and management are currently assessing various options to re-let the other property.

### Administrations

Whilst the number of administrations have increased compared to the prior year we have so far been able to re-let most of those units that cease trading, which has supported the strong occupancy levels reported opposite.

| | The Mall | The Junction | X-Leisure | **Total UK** |
|---|---|---|---|---|
| Administrations (units) | 62 | 3 | 8 | **73** |
| Passing rent (£m) | 3.3 | 0.2 | 0.6 | **4.1** |
| Still trading (units) | 21 | – | 1 | **22** |
| Passing rent still trading (£m) | 0.9 | – | 0.3 | **1.2** |

There were 73 administrations in the three UK funds during the year with a passing rent of £4.1 million (3.0% of the UK funds passing rent) of which 33 units have been re-let for rent of £1.3 million and a further £0.6 million is still being received from tenants in administration.

The more notable administrations during the year related to T J Hughes, Hawkins Bazaar, Jane Norman, Officers Club, Barratts Shoes and World of Sofas.

In January 2012 the Best Buy unit at Thurrock in The Junction was closed, however the lease has been assigned at the same rent to Kiddicare, a part of Morrisons. This lease assignment provides an even stronger covenant and ensures that this large unit remains open and trading, maintaining the vibrancy of this part of the scheme.

Since the year end 2.0% of the three UK funds' passing rent has gone into administration involving 20 units. The most significant administration related to Peacocks in January 2012 whose business was sold to Edinburgh Woollen Mill in February 2012. This involved eight units in The Mall and The Junction with passing rent of £1.6 million. Of the units affected alternative demand has been identified for two units and six units are expected to remain open and trading. Eight of the other 12 units that have gone into administration since year end have remained open and trading, with the four units that have closed resulting in a loss of passing rent of £0.2 million.

There were four administrations in the German portfolio in the year with passing rent of €0.1 million.

### Cash collection

Rent collection rates in the UK funds (adjusted for tenants in administration) have continued to be strong throughout the year, with 97.9% of rent being paid within 30 days of the due date for December 2011, the same as for September 2011 and similar to the 97.8% for December 2010.

### Income security

Credit risk is managed through the assessment of the covenant strength of all incoming tenants and by monitoring credit ratings of key existing tenants. The 10 largest occupiers by rental income in each of the UK funds are given below.

| **The Mall** | % | **The Junction** | % | **X-Leisure** | % |
|---|---|---|---|---|---|
| Alliance Boots Limited | 4.9 | B&Q plc | 15.0 | Cine UK Limited | 18.8 |
| Debenhams Properties Limited | 2.6 | Tesco Stores Limited | 6.9 | The Restaurant Group | 4.6 |
| BHS Limited | 2.4 | Dave Whelan Sports Limited | 5.5 | Snozone | 3.8 |
| Primark Stores Limited | 2.3 | NBC Apparel (T/A TK Maxx) | 4.5 | Odeon | 3.6 |
| Peacocks Stores Limited | 2.2 | DSG Retail Limited | 4.4 | Spirit | 3.5 |
| Argos Limited | 2.1 | Comet Group Plc | 4.0 | Vue | 3.1 |
| Superdrug Stores Plc | 2.1 | Boots the Chemists Limited | 4.0 | Virgin Active | 3.1 |
| Arcadia | 2.1 | The Carphone Warehouse Limited | 3.6 | Pizza Hut | 2.7 |
| Clinton Cards (Essex) Limited | 2.1 | DFS Furniture Company Limited | 3.2 | Mitchells and Butler | 2.6 |
| New Look Retailers Limited | 2.0 | Decathlon UK Limited | 3.2 | Tenpin | 2.4 |

The high exposure to Cine UK in X-Leisure is a function of the size of cinemas relative to the rest of a leisure scheme and this risk is closely monitored and direct contact maintained with this operator. In Germany, 79% of the income is derived from seven tenants who are all strongly rated covenants such as Metro, Rewe and Edeka. As mentioned above, Peacocks went into administration in January 2012 and was sold to Edinburgh Woollen Mill in February 2012.

# Operating review continued

## Footfall
The Mall's footfall has outperformed the national footfall index, with an increase of 3.2% in shopper numbers over the year compared to a decline of 0.5% in the national index, demonstrating the well positioned nature of the portfolio and which supports our view that the pressure on disposable incomes and high fuel costs are encouraging people to shop locally. In the first two months of 2012 The Mall's footfall increased by 0.4% compared to a decline of 3.2% in the national index.

The Junction's car counts at the retail parks increased by 3.4% compared to the prior year due to strong performances at Telford and Thurrock and X-Leisure's footfall has increased by 1.4% compared to the prior year.

## Temporary lettings
At 30 December 2011 there were 127 (2010: 159) temporary lettings of one year or less of which 118 (2010: 155) for a net rent of £3.3 million compared to an ERV of £6.3 million were within The Mall. Temporary lettings are important because they maintain occupancy and energise the trading environment whilst contributing income and minimising the costs relating to vacant units.

## Rental income
### Passing rent
Passing rent across the UK funds and the German portfolio increased over the year which is a strong performance in light of the increased level of administrations and challenging economic environment.

| Passing rent (like for like) | **December 2011 £m** | June 2011 £m | December 2010 £m |
|---|---|---|---|
| The Mall | **78.0** | 76.6 | 77.1 |
| The Junction | **17.4** | 17.0 | 17.1 |
| X-Leisure | **40.8** | 40.9 | 40.7 |
| UK funds | **136.2** | 134.5 | 134.9 |
| | **€m** | €m | €m |
| Germany | **46.2** | 46.0 | 45.7 |

The Mall's passing rent increased by £0.9m during the year principally due to additional income derived from new lettings and the expiry of rent free periods more than offsetting the impact of insolvencies. The Junction and X-Leisure have maintained broadly stable passing rents during the year with new lettings offsetting the rent free periods granted for lease re-gears and lease surrenders.

The German portfolio's passing rent increased by €0.5 million during the year due to rent indexation offsetting the two lease expiries in Hamburg and the lease extensions at slightly lower rents. The acquisition of Schwäbisch Hall on 30 December 2011 had the impact of increasing passing rent by €2.1 million. The German portfolio continued to generate a strong operating cash return for the year.

### Contracted rent
The three UK funds had a further £6.0 million of contracted rent at 30 December 2011 which is not included in the passing rent figures above (The Mall £3.9 million, The Junction £1.2 million and X-Leisure £0.9 million).

Since the year end new lettings in the three UK funds were made for contracted rent of £0.9 million.

### Investment portfolio performance

We are pleased with the strong property level total returns as set our below:

| 30 December 2011 | Property valuation £m | Capital return % | Total return % | Initial yield % | Equivalent yield % |
|---|---|---|---|---|---|
| The Mall | 971 | (0.8) | 6.2 | 7.0 | 7.7 |
| The Junction | 288 | 5.0 | 10.7 | 5.7 | 6.9 |
| X-Leisure | 565 | 6.8 | 14.1 | 6.6 | 7.4 |
| UK weighted average[1] | 1,824 | 2.4 | 9.3 | 6.7 | 7.5 |
| Germany | 496 | (0.9) | 6.6 | 6.6 | n/a |

[1] Weighted average by property valuation

There was outward yield shift of 19 basis points in The Mall with the property valuation being underpinned by a 2.3% increase in net valued income. Inward yield shift of 20 basis points in The Junction and 43 basis points in X-Leisure together with increases in net valued income have generated good total returns from these funds. The German valuation was stable with an inward yield shift of 8 basis points.

The property level returns coupled with the financial gearing within the funds and the German joint venture have resulted in a positive geared return for the Group from these investments during the year.

| Geared returns | 2011 % | 2010 % |
|---|---|---|
| The Mall | **5.7** | 76.7 |
| The Junction | **13.4** | 14.8 |
| X-Leisure | **22.3** | 46.7 |
| UK fund weighted average[1] | **11.5** | 55.7 |
| Germany | **18.0** | 14.7 |

[1] based on Group interest in the three funds at the year end

### IPD index performance

All three UK funds outperformed their IPD index on a rolling 12 month basis driven by income growth, effective asset management and the strength of the underlying assets in the funds.

| | 2011 % | 2010 % |
|---|---|---|
| **The Mall** | | |
| Property level returns[1] | **6.3** | 20.0 |
| IPD shopping centre index | **5.0** | 16.9 |
| **The Junction** | | |
| Property level returns[1] | **10.0** | 13.1 |
| IPD retail parks index | **8.1** | 16.3 |
| **X-Leisure** | | |
| Property level returns[1] | **14.2** | 22.1 |
| IPD leisure index | **11.3** | 18.4 |

[1] as ratified by IPD

# Asset management and development pipeline

C&R is highly selective in terms of acquisitions and will only pursue opportunities which deliver attractive risk adjusted returns without stretching the balance sheet. Capital for new asset management initiatives will be recycled from within existing businesses into projects which will deliver value using our in-depth knowledge of retailer requirements in specific locations. There is an attractive and exciting pipeline with near term plans for three Junction properties, Waterside Lincoln, Hemel Hempstead, Great Northern and The Mall Walthamstow which are summarised below:

## The Junction: Thurrock

Planning permission has been granted at Lakeside Extra for the redevelopment of the former cinema to create 30,000 sq ft of Open A1 retail. An unconditional contract has been exchanged on 15,000 sq ft and a conditional contract on 7,500 sq ft and heads of terms on the final 7,500 sq ft have been agreed. We expect to commence work during the second quarter of 2012 and construction costs will be approximately £3.5 million. Additionally, further progress has been made on separate development opportunities at Thurrock with a planning application targeted for submission by the end of 2012.

## The Junction: Paisley

Planning permission has been granted for a new 54,000 sq ft terrace extension to our current scheme. We are in discussions with a number of retailers and expect to have contracted 65% of the space by the end of 2012. Additionally a planning application for 16,000 sq ft has been submitted for food retail on the former Menzies unit.

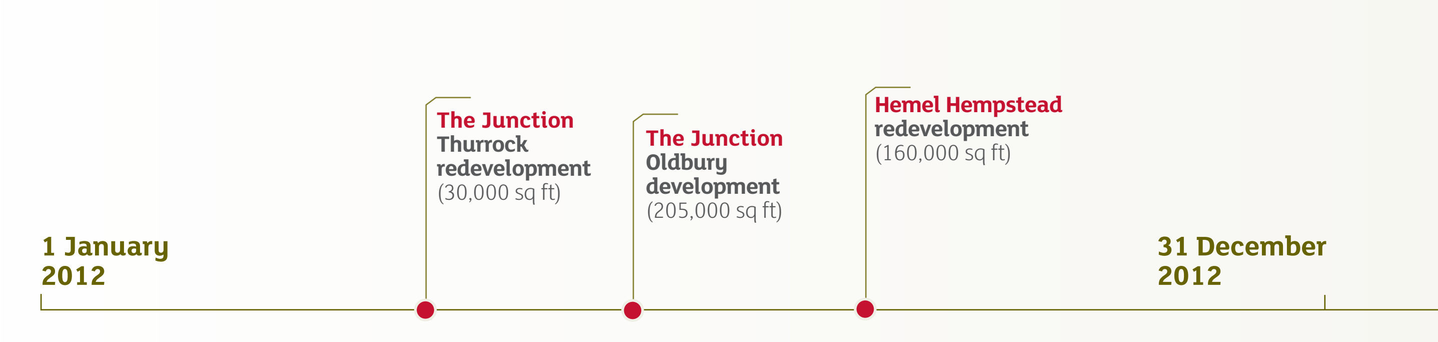
## The Junction: Oldbury

A variation to the original planning consent was approved for a 205,000 sq ft development with Open A1, bulky goods, leisure and A3 consent on a brownfield site. The variation included greater Open A1 and mezzanines. We are working up tenant interest and are looking to commence development during 2012.

## Hemel Hempstead

A planning application is due to be determined shortly by the local authority. Following positive pre-application discussions it has been recommended by the planning officer for approval. This application is for a comprehensive redevelopment and re-branding of the 160,000 sq ft scheme replacing the swimming complex and nightclubs with family dining, children's' play area and gym, with the cinema, ice rink and ten pin bowling retained. Heads of terms have been agreed with a number of restaurant operators and we are in advanced negotiations with a new bowling operator. Construction costs will be approximately £4.4 million.

## Our property pipeline – expected commencement of developments



## The Waterside Shopping Centre

During the year we have made solid progress towards our strategic aim of repositioning the scheme and upgrading the tenant mix and income profile in the centre.

A permanent long term letting to an Apple franchise, supported by a full refit of the Top Shop store has lifted the front half of the scheme. We now have flexibility over the Barratts store at the scheme entrance where we have agreed terms with a national fashion footwear operator, which should complete during the first half of 2012. We are in advanced negotiations to upsize an existing fashion retailer by 6,000 sq ft, which will incorporate a number of units that have historically been vacant.

The reconfiguration plans for the rear of the scheme to create large format retail space that would better anchor the scheme continue to progress well. However, with the success of the lettings currently being achieved at the front of the scheme, our strategy has been finessed to focus on completing the strengthening of this part of the centre, which will help strengthen the overall retailer perception of the scheme positioning, and in so doing improve the letting potential for the reconfiguration at the rear. The reconfiguration is not expected to commence until late in 2013.

## Great Northern

A new letting to the bowling operator, All Star Lanes, in March 2012 to take the ground floor for a ten pin bowling alley will improve the vitality of the property. This new letting is conditional on two items which are expected to be received shortly. A restaurant offer has been received for a unit on the ground floor and negotiations are continuing with regard to the first floor with a number of other potential leisure tenants.

Various other reconfiguration opportunities are being explored, involving re-gearing leases to release and re-let up to 75,000 sq ft of existing space, improving the longer term investment performance of this property and capitalising on it's situation adjacent to the G-Max conference centre.

## The Mall: Walthamstow

Progress has been made for a proposed 65,000 sq ft extension and we have agreed heads of terms for a development agreement with the local authority. Negotiations are continuing with them and potential tenants to devise a scheme that meets all of their requirements.

Other significant medium to long term asset management and development opportunities exist in the Malls at Luton, Camberley, Uxbridge and Maidstone and in Germany at Tönisvorst.

**Great Northern**
**reconfiguration**
(75,000 sq ft)

**The Junction**
**Paisley**
**expansion**
(70,000 sq ft)

**The Mall**
**Walthamstow**
**expansion**
(65,000 sq ft)

**The Waterside**
**Lincoln**
**reconfiguration**

**31 December 2013**

# Financial review

## Key performance indicators

The key performance indicators we use to measure our performance against our strategy and objectives are:

| | **2011** | 2010 |
|---|---|---|
| **Investment returns** | | |
| Net assets per share | **£0.56** | £0.50 |
| EPRA net assets per share | **£0.63** | £0.57 |
| Return on equity | **11.9%** | 33.9% |
| Total shareholder return | **(3.8)%** | (2.2)% |
| **Financing** | | |
| Group net debt | **£47.2m** | £49.8m[1] |
| Net debt to equity ratio | **24%** | 29%[1] |
| See-through debt to property value[3] | **73%** | 76% |
| See-through net debt to property value[2,3] | **64%** | 66%[1] |
| **Profitability** | | |
| Recurring pre-tax profit | **£16.4m** | £14.9m |
| Profit before tax | **£23.4m** | £46.4m |
| Basic earnings per share | **£0.06** | £0.13 |
| **Property under management** | **£2.5 billion** | £2.8 billion |

1 Adjusted for the £5.0 million tax payment made on 31 December 2010 as disclosed in note 24a

2 Adjusted for the Group's share of the €18.0 million German junior debt acquired during 2010

3 See-through debt and adjusted see-though net debt divided by IFRS property value as disclosed in note 24a

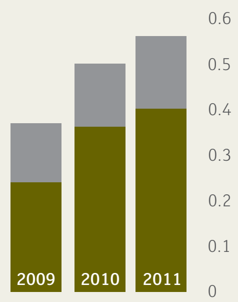
## Investment returns

Net assets per share continued to increase in the year to £0.56, up £0.06, or 12% since 30 December 2010, and EPRA net assets per share increased to £0.63, up £0.06, or 11% since 30 December 2010. The growth in net assets resulted in an 11.9% return on equity for the year. The 3.8% fall in total shareholder return was driven by a slight fall in share price during a turbulent year for UK equity markets.

### NAV Per Share (pence)

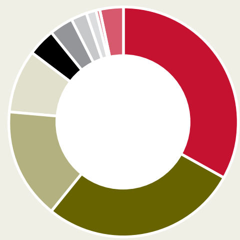
United Kingdom
Germany

| | UK | Germany |
|---|---|---|
| 2009 | 0.24 | 0.13 |
| 2010 | 0.36 | 0.14 |
| **2011** | **0.40** | **0.16** |




### NAV Constituents (%)

| | |
|---|---|
| The Mall | 33.1% |
| Germany | 27.9% |
| X-Leisure | 15.6% |
| The Junction | 8.7% |
| Great Northern | 4.0% |
| Waterside Lincoln | 3.4% |
| Xscape Braehead | 2.1% |
| Hemel Hempstead | 1.5% |
| FIX | 0.5% |
| Other net assets | 3.2% |



To provide a greater understanding of the composition of the business, the Group presents its balance sheet in two separate ways, with the "statutory" balance sheet following the accounting and statutory rules, and the "see-through" balance sheet showing the Group's proportionate economic exposure to the different property portfolios. These were:

| | **See-through** | | | **Statutory** | See-through | | | Statutory |
|---|---|---|---|---|---|---|---|---|
| | | | | **30 December** | | | | 30 December |
| | **Property** | **Debt** | **Other** | **2011** | Property | Debt | Other | 2010 |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| The Mall | **184.8** | **(120.3)** | **0.4** | **64.9** | 198.8 | (138.4) | (2.8) | 57.6 |
| Germany | **247.8** | **(197.5)** | **4.4** | **54.7** | 247.9 | (201.2) | 1.7 | 48.4 |
| X-Leisure | **66.5** | **(35.4)** | **(0.6)** | **30.5** | 62.1 | (35.6) | (0.5) | 26.0 |
| The Junction | **36.7** | **(21.8)** | **2.2** | **17.1** | 61.0 | (38.4) | 1.2 | 23.8 |
| Great Northern | **71.5** | **(61.9)** | **(1.7)** | **7.9** | 70.8 | (63.6) | (2.3) | 4.9 |
| Waterside Lincoln | **13.0** | **(6.8)** | **0.4** | **6.6** | – | – | – | – |
| Xscape Braehead | **24.1** | **(22.8)** | **2.9** | **4.2** | 22.6 | (22.8) | 2.4 | 2.2 |
| Hemel Hempstead | **8.3** | **(5.3)** | **0.0** | **3.0** | 9.8 | (6.9) | 0.2 | 3.1 |
| FIX | **26.1** | **(25.2)** | **0.1** | **1.0** | 26.9 | (25.3) | (0.6) | 1.0 |
| Other net assets | **0.2** | **-** | **5.9** | **6.1** | 0.2 | – | 7.3 | 7.5 |
| **Net assets** | **679.0** | **(497.0)** | **14.0** | **196.0** | 700.1 | (532.2) | 6.6 | 174.5 |

## Financing

The group net debt to equity ratio fell from 29% to 24% over the course of the year, primarily due to the increase in shareholders' equity of £21.5 million and loan repayments of £3.3 million. A summary of the movements in Group and off balance sheet debt during the year is set out below:

| | Group debt £m | Off balance sheet debt £m | **See-through debt £m** |
|---|---|---|---|
| At 30 December 2010 | 70.5 | 461.7 | **532.2** |
| Property acquisition | 13.6 | 7.7 | **21.3** |
| Disposal into a joint venture[1] | (13.6) | 6.8 | **(6.8)** |
| Other repayments | (3.3) | (49.9) | **(53.2)** |
| Increased investment in The Mall | – | 9.5 | **9.5** |
| Foreign exchange | – | (6.0) | **(6.0)** |
| **At 30 December 2011** | **67.2** | **429.8** | **497.0** |

1 Transfer from Group debt to off balance sheet debt following the sale of 50% of the Group's interest in The Waterside Shopping Centre in Lincoln

### Group debt

Group debt fell by £3.3 million to £67.2 million at 30 December 2011 (2010: £70.5 million). This fall was due to £2.3 million of surplus cash generated by the Great Northern and Hemel Hempstead properties being used to pay down the relevant loans via a cash sweep and £1.0 million amortisation payments on the Hemel Hempstead loan. The breakdown of Group debt and net debt at 30 December 2011 was as follows:

| **30 December 2011** | **Debt[1] £m** | Loan to value[3] % | Net debt to value[3] % | Average interest rate[2] % | Fixed % | Duration to loan expiry Years |
|---|---|---|---|---|---|---|
| Core revolving credit facility | **–** | – | – | – | – | 1.7 |
| Great Northern | **61.9** | 86 | 82 | 6.30 | 96 | 1.8 |
| Hemel Hempstead | **5.3** | 64 | 59 | 3.49 | – | 0.8 |
| **Group debt** | **67.2** | | | 6.08 | 89 | 1.7 |
| Cash and cash equivalents | **(20.0)** | | | | | |
| **Group net debt** | **47.2** | | | | | |

1 Excluding unamortised issue costs
2 In the case of variable rate loans, based on LIBOR at 30 December 2011 plus the appropriate margin
3 Debt and net debt divided by investment property at fair value and trading property at the lower of cost and net realisable value

The core revolving credit facility remained undrawn during the year (2010: £nil) and at 30 December 2011 the forecast covenant tests indicate that there is sufficient headroom for the full £58.0 million facility to be available for draw down.

We are in negotiations to extend our core revolving credit facility and the Great Northern debt facility. Although there are no immediate refinancing issues, we aim to reach agreement well in advance of the maturity of these facilities.

# Financial review continued

## Off balance sheet debt

Off balance sheet debt fell by £31.9 million to £429.8 million at 30 December 2011 (2010: £461.7 million). This fall was due to £49.9 million debt repayments, principally from the proceeds of asset sales in The Mall and The Junction, and a £6.0 million foreign exchange translation gain on Germany, offset by a £14.5 million share of loan draw downs related to the acquisitions of Waterside Lincoln in the UK and Schwäbisch Hall in Germany and a £9.5 million higher share of The Mall debt due to the Group's increased holding in The Mall fund. The breakdown of the Group's share of off balance sheet debt and net debt at 30 December 2011 was as follows:

| Group share 30 December 2011 | Debt[1] £m | Cash £m | Net debt £m | Loan to value[4] % | Net debt to value[4] % | Average interest rate % | Fixed % | Weighted average duration to loan expiry Years |
|---|---|---|---|---|---|---|---|---|
| The Mall | **120.3** | (21.2) | **99.1** | 69 | 56 | 5.32 | 100 | 3.3 |
| Germany | **197.5** | (6.1) | **191.4** | 80 | 77 | 3.62 | 59 | 2.8 |
| X-Leisure | **35.4** | (2.6) | **32.8** | 53 | 49 | 6.34 | 99 | 2.1 |
| The Junction | **21.8** | (2.6) | **19.2** | 60 | 50 | 6.76 | 99 | 2.3 |
| Waterside Lincoln | **6.8** | (0.6) | **6.2** | 52 | 47 | 4.70 | 100 | 3.1 |
| Xscape Braehead | **22.8** | (1.8) | **21.0** | 85 | 78 | 4.87 | 75 | 2.7 |
| FIX | **25.2** | (0.5) | **24.7** | 95 | 93 | 6.67 | 80 | 1.2 |
| Other[2] | **n/a** | (1.4) | **(1.4)** | – | – | – | – | – |
| **Off balance sheet** | **429.8** | (36.8) | **393.0** | | | 4.77 | 79 | 2.8 |
| German debt adjustment[3] | **(7.5)** | – | **(7.5)** | | | | | |
| **Adjusted off balance sheet** | **422.3** | (36.8) | **385.5** | | | | | |

1 Excluding unamortised issue costs
2 Off balance sheet cash held in other associates and joint ventures
3 Adjusted for the Group's share of the €18.0 million German junior debt acquired during 2010
4 Debt and net debt divided by investment property at fair value

Total Mall debt fell by £165.4 million to £662.3 million at 30 December 2011 (2010: £827.7 million). This fall was due to debt repayments principally from the sale proceeds of Bristol, Middlesbrough and Barnsley. The initial amortisation target required by the borrowing arrangements is £800 million by December 2012, which has already been achieved well in advance of the required date. A further target of £600 million by December 2014 could be met by one further property sale.

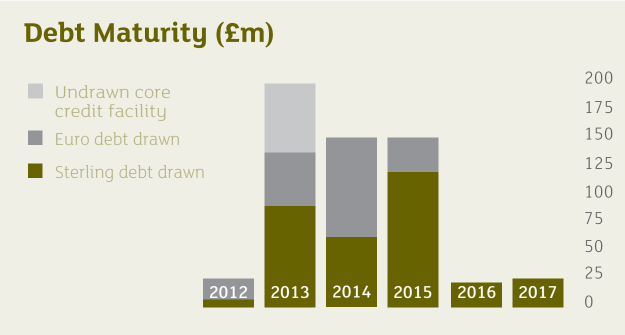
Total German debt increased by €5.4 million to €476.8 million at 30 December 2011 (2010: €471.4 million). At the applicable exchange rates this was equivalent to £398.2 million (2010: £405.7 million). The increase is due to the German joint venture drawing down €18.5 million to fund the Schwäbisch Hall acquisition, offset by €13.1 million of amortisation payments. On 15 July 2011 agreement was successfully reached to extend the maturity of €162.3 million debt in one of the portfolios by three years. The key terms of the extension include no change in the margin, but an extension fee of 10 basis points in year one, 25 basis points in year two and 100 basis points in year three and fixed LTV and ICR targets that commence in July 2012.

Total Junction debt fell by £125.5 million to £163.7 million at 30 December 2011 (2010: £289.2 million). This fall was due to debt repayments from the sale proceeds of Portsmouth, Swansea and Maidstone.

Total Waterside Lincoln debt is £13.6 million at 30 December 2011 (2010: £nil). During the year the Group drew down £13.6 million on a new four year facility from Deutsche PostBank to part fund the acquisition of Waterside Lincoln and capitalised related loan arrangement fees of £0.3 million. On 8 April 2011 a joint venture was formed by selling 50% of the Group's interest in Waterside with the debt being transferred into the joint venture.

### Maturity analysis

The chart below shows the maturity profile of the see-through debt and undrawn core credit facility at 30 December 2011:




### Covenants

The Group and its associates and joint ventures were compliant with their banking and debt covenants at 30 December 2011, except as disclosed below.

On 12 January 2012, the Group obtained a bank waiver for the Hemel Hempstead loan in relation to an anticipated covenant breach which would have triggered on 30 January 2012 following the administration of the anchor tenant (Luminar). It was agreed with the bank to make a cash deposit of £0.9 million. The waiver is valid until 29 April 2012, at which time the position will be reassessed in light of the submitted planning application for the redevelopment of the Hemel Hempstead property.

On 5 March 2012, the German joint venture obtained a one year bank waiver for two loans in the same portfolio which had marginally breached their LTV covenants at year end. As part of the waiver the LTV covenant was extended for the next test date in December 2012.

Further details on the various debt covenants are disclosed in the 'other information' section in covenant information.

### Interest rate hedging

The majority of current borrowing, both at Group level and in the funds and joint ventures, continues to be covered by interest rate swaps or caps. At 30 December 2011, the see-through valuation of the Group's swaps and caps was a liability of £18.8 million (2010: £22.9 million) which will not be crystallised unless the underlying contracts are closed out before their expiry date. During the year, The Mall, The Junction and Germany terminated swaps at a total cash cost of £13.2 million, of which the Group's share was £2.0 million.

### Cash distributions

The Group received total cash distributions of £15.7 million during the year comprising: £9.9 million from The Junction fund; £3.7 million from the German portfolio; £1.3 million from the X-Leisure fund; £0.5 million from X-Leisure Limited and £0.3 million from The Auchinlea Partnership.

## Profitability

### Recurring pre-tax profit

The Group's recurring pre-tax profit increased by £1.5 million to £16.4 million for the year ended 30 December 2011 (2010: £14.9 million). The recurring pre-tax profit is derived from two principal segments being Asset businesses and Earnings and the breakdown of recurring pre-tax profit by segment is as follows:

| | **Year to December 2011 £m** | Year to December 2010 £m |
|---|---|---|
| **Asset businesses** | | |
| UK property investment | **8.0** | 7.7 |
| German property investment | **7.9** | 5.6 |
| **Earnings businesses** | | |
| Property management | **4.5** | 5.8 |
| SNO!zone | **0.7** | 0.7 |
| **Non-segment item** | | |
| Central costs | **(4.7)** | (4.9) |
| **Recurring pre-tax profit** | **16.4** | 14.9 |

Property investment: The increase in recurring pre-tax profit of £0.3 million from the UK properties largely reflects reduced interest costs offsetting the property disposals that have taken place during the year. The recurring pre-tax profit from Germany in sterling terms has increased by £2.3 million due to reduced interest and property costs and stable rental income with rent indexation offsetting a lease break being exercised at the start of the year.

Property management: The recurring pre-tax profit has fallen by £1.3 million due to management fees falling by £0.6 million reflecting property disposals by The Mall and The Junction and the sharing of the German portfolio fees in the Garigal Asset Management GmbH associate from August 2010, combined with higher management expenses of £0.7 million due to cost inflation.

# Financial review continued

Performance fees: No performance fees have been recognised in 2011 (2010: £nil). The basis for calculating performance fees and the current status is disclosed in notes 1 and 37 of the financial statements.

## Profit before tax

The profit before tax was £23.4 million for the year ended 30 December 2011 (2010: £46.4 million) and is analysed below:

| | **Year to December 2011 £m** | Year to December 2010 £m |
|---|---|---|
| Recurring pre-tax profit | **16.4** | 14.9 |
| Property revaluation | **1.7** | 29.6 |
| Profit on disposal | **0.7** | 4.5 |
| Financial instruments revaluation | **2.6** | 0.6 |
| Investment income | **4.0** | - |
| Gain on investment in The Mall | **1.1** | - |
| Other items | **(3.1)** | (3.2) |
| Profit before tax | **23.4** | 46.4 |

As well as the recurring pre-tax profit discussed above, the other main factors behind the profit in the year were:

Property revaluation of £1.7 million driven primarily by gains in X-Leisure, The Junction and Xscape Braehead, offset by a fall in Germany, Hemel Hempstead and The Mall. This is discussed in more detail in the operating review.

Profit on disposal of £0.7 million due to asset sales primarily in The Junction offset by a small loss on disposal in The Mall.

Financial instrument revaluation of £2.6 million due to gains on the interest rate swaps hedging Great Northern, FIX, Xscape Braehead and X-Leisure and the gain on the unhedged and ineffective portion of the forward foreign exchange contract hedging the German portfolio.

Investment income of £4.0 million relates to the Group's share of the fair value uplift on the €18.0 million of junior debt that was acquired by the Group and the German joint venture partner shortly before the 2010 year end. The loan receivable was fair valued to €12.9 million as at the date of the successful debt extension in the relevant German joint venture portfolio in July 2011.

Gain on investment in The Mall related to the Group purchase of 13.6 million units in The Mall Fund at an average of £0.30 per unit for a total consideration of £4.0 million resulting in a gain on investment of £1.1 million.

Other items relate primarily to tax suffered in the German joint venture and various management incentive schemes which are disclosed in more detail in note 2a to the financial statements.

### Tax

The tax charge for the year was £2.3 million compared to £2.0 million in the prior year. The current tax charge of £2.1 million (2010: credit of £0.5 million) was primarily due to the restricted availability of brought forward tax losses which could be utilised during the year. The deferred tax charge of £0.2 million (2010: £2.5 million) is due to the reversal of certain deferred tax assets carried against the liability for interest rate swaps.

The current tax liability was £3.0 million at year end (2010: £5.8 million). The non-current liability of £5.0 million (2010: £10.0 million) largely reflects the outstanding amount on the settlement concluded with the tax authorities during 2009 in relation to the tax structuring of certain property disposals by the Group in 2004 and 2005. The final payment for this settlement is due by 31 December 2012.

## Property under management

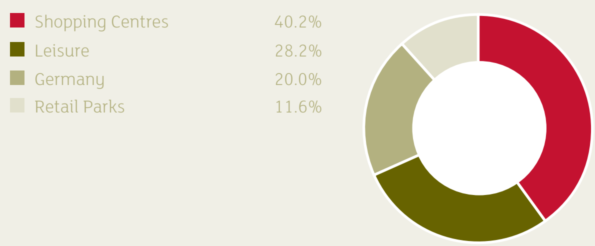
During the year, property under management fell due to property disposals, which was partially offset by two property acquisitions and an overall increase in property valuations. The overall impact on property under management is set out below.

| 100% | Valuation 30 December 2010[1] £m | Disposals/ additions £m | Other movements[2] £m | Revaluation £m | **Valuation 30 December 2011[1] £m** |
|---|---|---|---|---|---|
| The Mall | 1,128 | (159) | 8 | (6) | **971** |
| The Junction | 476 | (198) | 2 | 8 | **288** |
| X-Leisure | 528 | – | 1 | 36 | **565** |
| German joint venture | 496 | 19 | (14) | (5) | **496** |
| Other properties | 204 | 26 | (71) | 2 | **161** |
| **Property under management** | 2,832 | (312) | (74) | 35 | **2,481** |

[1] Valuation excludes adjustments to property valuations for tenant incentives and head leases treated as finance leases and trading properties are included at the lower of cost and net realisable value
[2] Primarily expiry of the Ilford shopping centre short term management contract and foreign exchange movements in Germany

The split of property under management by sector is similar to the prior year and at 30 December 2011 is as follows:

### Property under management by sector (%)




## Property acquisitions

On 22 February 2011, the Group completed the purchase of The Waterside Shopping Centre in Lincoln for £24.8 million at a 7.68% net initial yield. On 8 April 2011, the Group formed a joint venture with Karoo Investment Fund II S.C.A SICAV-SIF ("Karoo") by selling 50% of the Group's interest in The Waterside Shopping Centre.

On 30 December 2011, the German joint venture completed the purchase of a retail park in Schwäbisch Hall, Baden Württemberg, for €22.6 million at a 7.75% net initial yield.

## Property disposals

Properties disposed of during the year are set out below:

| | Date | Sales proceeds £m | Net initial yield % |
|---|---|---|---|
| **The Mall** | | | |
| Bristol | January | 50.2 | 7.0 |
| Barnsley | September | 26.1 | 8.6[1] |
| Middlesbrough | September | 82.0 | 8.6[1] |
| | | 158.3 | |
| **The Junction** | | | |
| Portsmouth | March | 60.9 | 5.8 |
| Swansea | June | 80.2 | 5.8 |
| Maidstone | September | 70.6 | 5.9 |
| | | 211.7 | |
| **Total** | | **370.0** | |

[1] Blended yield across two properties

During the year the German joint venture sold the Langburkersdorf property for €0.1 million at a small discount to the prior year valuation.

# Financial review continued

## SNO!zone Braehead disposal

On 16 December 2011 the Group disposed of 100% of its interest in Snozone (Braehead) Limited for cash consideration of £0.1 million and a profit on disposal of £0.1 million was recognised.

## Mall unit purchases

During the year, the Group purchased 13.6 million units in The Mall Fund at an average of £0.30 per unit for a total consideration of £4.0 million. This purchase was at a discount to the net asset value of The Mall and resulted in a gain on investment of £1.1 million. These purchases increased the holding in The Mall Fund by 1.44% to 18.16% at the end of the year.

On 8 February 2012, the Group purchased 18.7 million units in The Mall Fund at £0.30 per unit for a total consideration of £5.6 million and this further increased the holding in The Mall Fund from 18.16% to 20.15%.

## Foreign currency exposure management

The Group uses a forward foreign exchange contract as a hedge of its net investment in the German joint ventures. At 30 December 2011, this was achieved through a contract for €47.0 million (2010: €47.0 million) at a fixed exchange rate of 1.1797 (2010: 1.143) which hedges 81% (2010: 85%) of the Group's German investment. During the year, the Group crystallised a gain of £1.5 million in April 2011 and closed out the forward contract which matured on 27 June 2012 and entered into a new forward contract which extended the hedging arrangement until 28 March 2013. At 30 December 2011 the value of the contract was an asset of £0.6 million (2010: asset of £0.6 million).

To the extent the hedge is effective under accounting rules, valuation movements on the forward contract is shown in reserves, where they partially offset the gain or loss in the value of the net investment in the Group's German joint ventures.

## Financing strategy

Our financing structure needs to be flexible and cost effective and this is achieved through having cash of £20.0 million and an undrawn central revolving credit facility of £58.0 million at 30 December 2011. This gives the Group the scope to fund future property investments as opportunities arise.

At an associate and joint venture level, debt has been raised from a variety of sources, with a spread of maturities to mitigate refinancing risk as set out in the debt maturity analysis chart. Debt held in associates and joint ventures is non-recourse to the Group.

## Going concern

As stated in note 1 to the consolidated financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

**Charles Staveley**
Group Finance Director

# Principal risks and uncertainties

There are a number of risks and uncertainties which could have a material impact on the Group's future performance and could cause actual results to differ materially from expected and historical results. References to "the Group" include the funds and joint ventures in which Capital & Regional has an interest. The Group carries out a regular review of the major risks it faces and monitors the controls that have been put in place to mitigate them. Property risks are also monitored at various levels within divisional management.

| Risk | Impact | Mitigation |
|---|---|---|
| **Property risks** | | |
| Property investment market risks | | |
| • Weak economic conditions and poor sentiment in commercial real estate markets leading to low investor demand and market pricing correction | • Small changes in property market yields have a significant effect on the value of the properties owned by the Group<br>• Impact of leverage could magnify the effect on the Group's net assets | • Geographical and sector diversification of investments<br>• Monitoring of indicators of market direction and pursuit of opportunistic asset sales in those schemes and locations most likely to suffer adverse impact<br>• Review of debt levels and consideration of strategies to reduce if relevant |
| Impact of the economic environment (tenant risks) | | |
| • 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 revenues, lease incentive costs, void costs, available cash and the value of properties owned by the Group | • 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 |
| 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 for space and the levels of rents which can be achieved | • Strong location and dominance of shopping centres (predominantly South East England)<br>• Strength of the community shopping experience<br>• Increasingly retailers within our shopping centres use stores as collection points for purchases made by consumers online<br>• Monitoring of footfall for evidence of falling visitors to shopping centres (increased footfall recorded in 2011)<br>• Monitoring of retail trends and shopping behaviour<br>• Mobile smart phone marketing initiatives |
| Valuation risks | | |
| • In the absence of relevant transactional evidence, valuations can be inherently subjective leading to a degree of uncertainty | • Stated property valuations may not reflect the price received on sale | • Use of experienced, external valuers<br>• Rotation of valuers<br>• Valuations reviewed by internal valuation experts |

# Principal risks and uncertainties continued

| Risk | Impact | Mitigation |
|---|---|---|
| **Property management income risks** | | |
| • Fee income, although largely fixed, may still fall based on value of property under management<br>• Contracts allow for termination under certain circumstances, which are largely outside management's control | • Changes in property values, sales of properties or other events not wholly under management's control could result in a reduction in or the loss of property management income | • Monitoring of compliance with terms of contracts<br>• Close dialogue with other investors and stakeholders<br>• Diversification of source of management income<br>• Contracts have now been largely renegotiated to fix income<br>• Reduction of cost base as fee income falls to mitigate loss |
| **Nature of investments and relationships with key business partners** | | |
| • The market for the Group's investments can be relatively illiquid<br>• Restrictions on ability to exercise full control over underlying investments in joint ventures or fund structures | • Inability to sell investments or fully control exit/asset sale strategies could result in investments in associates and joint ventures not being realisable at reported values | • Close dialogue with other investors and stakeholders to align strategies and increase influence over the direction of investments<br>• Exercise of significant influence over associates and joint ventures through representation on management boards |
| **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 (interest, loan repayments, expenses, dividends) when due<br>• Limitation on financial and operational flexibility<br>• Cost of financing could be prohibitive | • Capital raising, debt refinancing and asset sales at both Group and fund levels have improved liquidity position, reduced the potential impact of falls in property values and positioned the Group to respond quickly to the turning point in the cycle<br>• Ensuring that there are significant undrawn facilities<br>• Option of further asset sales if necessary<br>• Efficient treasury management and regular proactive reporting of current and projected position to the board to ensure debt maturities are dealt with in good time |
| **Covenant compliance risks** | | |
| • Breach of any of 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 |

| Risk | Impact | Mitigation |
|---|---|---|
| **Foreign exchange exposure risks** | | |
| • Fluctuations in the exchange rate between sterling and the euro in respect of the Group's German joint venture<br>• Uncertainty over the Eurozone and the future of the Euro currency | • Adverse impact on sterling valuation of investments and income flows, and losses as a result of the Group having not, or not effectively, hedged its risk | • Exposure minimised by funding the German investment through euro denominated borrowings and hedging a large proportion of the remaining investment through derivatives<br>• Regular monitoring of the effectiveness of hedging and performance of derivative contracts |
| **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** | | |
| **Tax and regulation risks** | | |
| • Exposure to changes in tax legislation or the interpretation of tax legislation and property related regulations<br>• Potential exposure to tax liabilities in respect of previous transactions undertaken where the tax authorities disagree with the tax treatment adopted | • Tax related liabilities and other losses could arise | • Expert advice taken on tax positions and other regulations<br>• Maintenance of a regular dialogue with the tax authorities |
| **Loss of key management** | | |
| • Dependence of the Group's 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 the effectiveness with which the Group conducts its business | • Key management are paid market salaries and offered competitive incentive packages to ensure their retention<br>• Succession planning for key positions is undertaken<br>• Performance evaluation, training and development programmes are in place to maintain and enhance the quality of staff |

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

# Significant contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business.

- The asset and property management agreements in relation to The Mall and The Junction are considered to be essential for the Company, because of the fee income they generate for the Company's subsidiary CRPM and the significant influence they allow the Group to assert over the investments. The asset and property management agreements for X-Leisure and the German portfolio are also considered to be essential for the Company because of the fee income they generate for the Company's X-Leisure Limited joint venture and Garigal associate, and the significant influence they allow the Group to assert over the investments.

- The Bank of Scotland £58.0 million central credit facility which is currently undrawn but provides the Group with liquidity.

- The Company also acts as a guarantor of the Great Northern and Hemel Hempstead loans and the Group's central credit facility.

Certain of these agreements can be terminated in the event of a change of control of the Company as disclosed in the Directors' report.

# Board of directors

## Hugh Scott-Barrett
### Chief Executive, 53

Hugh has been Chief Executive since April 2008. He was previously a member of ABN AMRO's managing board and served as Chief Operating Officer between 2003 and 2005 and Chief Financial Officer from 2006 to July 2007. Hugh brings over 25 years' banking experience having also worked at SBC Warburg and Kleinwort Benson prior to joining ABN AMRO. He was educated both in Paris and at Oxford University. Hugh is a non-executive director of GAM Holding AG, a Swiss asset management company, and a non-executive director of The Goodwood Estate Company Limited.

## Kenneth Ford
### Executive Director, 58

Ken has been a director of Capital & Regional since 1997. Ken is responsible for the development of new business initiatives, the Xscape Braehead joint venture and the wholly-owned Hemel Hempstead property and is responsible for the oversight of the Group's shopping centre and retail park portfolios. He has been involved in commercial property for over 30 years.

## Xavier Pullen
### Executive Director, 60

Member of Responsible Business Committee

Xavier has been involved in the property industry for over 30 years and was a founder director of the Company in 1979. Xavier is responsible for supervising the German joint venture, the Group's trade park portfolio and the wholly-owned Great Northern property.

## Charles Staveley
### Group Finance Director, 48

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

## John Clare
### Chairman, 61

Chairman of Nomination Committee

John was Group Chief Executive of Dixons Group plc between 1993 and 2007 and a non-executive Director of Hammerson plc between 1988 and 2009. He is currently Chairman of Comet Group Limited and a non-executive director of the Department of Work and Pensions. John was appointed as a director and Chairman of the Company in 2010.

## Neno Haasbroek
### Non-Executive, 57

Neno was a co-founder and director of Attfund Limited (one of the largest private property investment companies in South Africa) until the company was restructured and sold to Hyprop Investments Limited (a company listed on the Johannesburg Stock Exchange in South Africa) on 1 September 2011. He is a director of the Parkdev Group of Companies, and serves on the board of a number of other companies, including The Karoo Investment Fund. He has a BSc Building Science degree from the University of Pretoria and an MBA from the University of the Witwatersrand. Neno was appointed a director of the Company in 2009.

# Board of directors continued

## Philip Newton
### Non-Executive, 63

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

Philip is the former CEO of Merchant Retail Group plc, owners of The Perfume Shop, a 150 store chain that he developed from its beginnings. He is Chairman of Windsor Vehicle Leasing Limited, a vehicle finance and fleet management company. His early career was in the District Valuer's Office and then the property development industry. Philip was appointed as a director of the Company in 2006.

## Louis Norval
### Non-Executive, 56

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 restructured and sold to Hyprop Investments Limited (a company listed on the Johannesburg Stock Exchange in South Africa) on 1 September 2011. He was appointed a non-executive director on the board of Hyprop Investments Limited. Louis is also Managing Director of the Parkdev Group of Companies, and serves on the board of a number of other companies. He graduated in BSc (QS) (with distinction) from the University of Pretoria. Louis was appointed a director of the Company in 2009.

## Manjit Wolstenholme
### Non-Executive, 47

Chairman of Audit Committee and member of Remuneration and Nomination Committees

After qualifying as a Chartered Accountant with Coopers & Lybrand, Manjit spent 13 years at Dresdner Kleinwort Wasserstein, latterly as co-Head of Investment Banking, where she was responsible for managing the division as well as advising clients on a wide range of transactions. She is also a non-executive director of Provident Financial plc, Albany Investment Trust, Future plc, Unite Group plc and non-executive governor of Manchester Academic Health & Science Centre. Manjit was appointed as a director of the Company in 2006.

## Tony Hales
### Non-Executive, 63

Member of Audit, Remuneration and Nomination Committees

Tony is currently Chairman of British Waterways, Senior Independent Director of International Personal Finance plc and chairs NAAFI Pension Fund Trustees. Tony was previously Chief Executive of Allied Domecq plc and a Non-Executive Director of HSBC Bank plc, as well as Chairman of Workspace Group plc, the leading provider of space to small and medium-sized enterprises across London since 2002. Tony was appointed as director of the Company in 2011.

# Directors' report

### Introduction
The directors present their report together with the audited financial statements for the year ended 30 December 2011.

### Results and proposed dividends
The consolidated income statement shows a profit on ordinary activities after taxation of £21.1 million (2010: £44.4 million).

The directors are not recommending the payment of a final dividend meaning that no dividend will be payable for the full year. The directors are committed to resuming dividends when it is prudent to do so. The current dividend policy links future payments to the Group's cash generating ability and will normally be restricted to not more than 50% of operating cash flow less interest and tax to comply with the undertakings given for the Group's banking arrangements. The directors intend to review this policy during the course of the year by which time progress in creating liquidity within the Group's investments in the funds and joint ventures should be further advanced.

### Principal activities, trading review and future developments
The principal activity of the Group is that of a specialist property company focusing on retail investments in the UK and Germany. The Group uses in-house asset and property management teams to maximise the value from the properties for investors and tenants. The Group has two investments in well established UK retail funds; a joint venture with a German retail property portfolio; and a number of interests in leisure and trade park properties.

A review of the activities and prospects of the Group is given in the Chairman's statement, the operating review and the financial review.

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

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

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

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

### Directors
The directors of the Company during the period were: H Scott-Barrett, J Clare, K Ford, N Haasbroek, P Newton, L Norval, X Pullen, C Staveley, M Wolstenholme, T Hales (appointed 1 August 2011) and P Stobart (retired 31 October 2011.

In connection with the Parkdev Investors' acquisition of Parkdev Firm Placed Shares and pursuant to the Relationship Agreement that the Parkdev Investors 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 the Parkdev Investors own 20% or more of the issued ordinary share capital in the Company and one non-executive director to the Board if the Parkdev Investors own less than 20%, but not less than 15% of the issued ordinary share capital in the Company. L Norval and N Haasbroek are Parkdev nominated non-executive directors.

In accordance with the Articles of Association, X Pullen, K Ford and P Newton will retire from the Board by rotation and offer themselves for re-election, T Hales, who having been appointed by the Board would vacate office at the conclusion of the AGM also offers himself for re-election.

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

### Directors' interests
The directors and, where relevant, their connected persons (within the meaning of Section 252 of the Companies Act 2006) are interested in 106,242,463 issued shares representing 30.3% of the issued ordinary share capital of the Company as detailed in the directors' remuneration report.

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

# Directors' report continued

## Substantial shareholdings

In addition to the interests of the directors, the Company has been notified pursuant to Section DTR5 of the FSA Disclosure & Transparency Rules of the following notifiable interests in its issued ordinary share capital at 29 February 2012 (the latest practicable date prior to the issue of this report):

| | Number of shares | % |
|---|---|---|
| Parkdev International Asset Managers | 81,312,484 | 23.19 |
| Laxey Partners | 34,261,291 | 9.77 |
| Standard Life Investments | 32,247,432 | 9.20 |
| Morgan Stanley Investment Management | 28,111,873 | 8.02 |
| Pinelake International | 18,924,243 | 5.40 |
| APG Asset Management | 15,820,147 | 4.51 |
| Legal & General Investment Management | 12,783,733 | 3.65 |

## Capital structure

The Company has one class of ordinary shares of 1 pence each with equal voting rights. In addition, the trustees of the Long Term Incentive Share Scheme have the right to vote on behalf of the Group's employees. Further information is given in notes 25 and 26 to the financial statements.

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

- The X-Leisure Limited asset management agreement with X-Leisure can be terminated by the fund partnership if there is a change of control where the beneficial interest in more than 50% of the issued share capital of X-Leisure Limited ceases to be held by a member of the Group and/or AREA.

- The £58 million core revolving credit facility can be called in if there is a change of control of the Company, which is defined to be either 50% of its issued share capital being held by or on behalf of a single entity or group, or 30% of the issued share capital being held by or on behalf of a single entity or group and more than 50% of the directors immediately following the completion of the Group's capital raising in September 2009 (including the two directors appointed by Parkdev) ceasing to be directors, or to constitute 50% of the board. If this occurs the bank has the right to repayment of the loan.

- In addition, certain taxes could be potentially levied, and certain tax losses could be lost in some circumstances where there are varying degrees of change of ownership of the Group's shares.

- Currently, The Mall has the right to remove CRPM as asset and property manager of the fund if there is a change of control of Capital & Regional plc. The Mall General Partner board has discretion on the removal of this provision once the Mall Bond Security Trustee has issued final confirmation of the fee arrangements. Discussions are ongoing with The Mall General Partner board related to the circumstances in which they would exercise their discretion on this provision.

## Use of financial derivatives

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

## Charitable donations

The main thrust of charitable support is at local level through the Group's associates and joint ventures. At Group level small donations have been made during the year totalling £10,818 (2010: £2,260).

## Political donations

The Group made no political donations during the year (2010: £nil).

## Payment of suppliers

The policy of the Group is to settle supplier invoices within the terms of trade agreed with individual suppliers. Where no specific terms have been agreed, the Group endeavours to make payment within one month of the receipt of the goods or service. At the year end, the Group had an average of 20 days (2010: 30 days) purchases outstanding.

## Purchase of own shares

At the balance sheet date, the Company had authority to purchase 10.0% of the issued share capital and this authority will be renewed at 10.0%.

## Shares acquired during the year

The Capital & Regional Employee Share Ownership Trust did not acquire any shares in 2011 (2010: nil). Details are set out in note 27 to the financial statements.

## Compliance with UK Corporate Governance Code

A statement on corporate governance is set out in the corporate governance report, which is incorporated in this report by reference.

## Responsible business

The responsible business statement is set out in the responsible business report on pages 45 to 55, which is incorporated in this report by reference.

## 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.

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.

## Stakeholder pensions

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

## Registered office

The Company's registered office address is 52 Grosvenor Gardens, London SW1W 0AU.

## Auditor information

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

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

By order of the Board

**Falguni Desai**
Company Secretary
6 March 2012

# Statement of directors' responsibilities

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 period.

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 Group'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 enable them to ensure that the financial statements 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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' responsibility statement**

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; and
- the Operating Review and Financial Review, which are incorporated by reference into the directors' 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 taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

**Hugh Scott-Barrett**
Chief Executive

**Charles Staveley**
Group Finance Director
6 March 2012

# Directors' remuneration report

Unaudited information

## Remuneration Committee

The Company has a Remuneration Committee ("the Committee") appointed by the Board, consisting entirely of non-executive directors, which is constituted in accordance with the recommendation of the UK Corporate Governance Code. P Newton acted as Chairman, with M Wolstenholme and P Stobart (retired 31 October 2011) the other members of the Committee. On 6 March 2012, T Hales was appointed as a member of the Committee. The terms of reference of the Remuneration Committee are available for inspection on the Group's website.

The Committee is responsible for setting the remuneration policy for the executive directors and senior employees. The Committee determines the terms of the service agreements, salaries and discretionary bonus payments, as well as deciding on the awards to be made to all participants in the Group's share schemes. Advice from independent external advisers is obtained when required and no independent advice was required during the year.

## Remuneration policy

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

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of directors' remuneration is performance related through the use of annual bonus and incentive schemes. Performance-related payments are deferred to aid retention, but are uncapped in line with practice in the private equity and property fund management industry. In addition, the Committee aims to achieve an appropriate balance between directors' remuneration packages and those of other key management.

## Basic salaries

The Committee's policy is to set the basic salaries of executive directors at levels which reflect their roles, experience and the practices in the employment market. The basic salaries have been set in the past with reference to the FTSE 350 Real Estate comparative group and this will be reviewed by the Committee on an ongoing basis.

From 1 January 2010, the executive directors voluntarily reduced their annual salaries for two years whilst the Group went through a period of strengthening the balance sheet and refocusing the business.

With effect from 1 January 2011, The Committee approved a 4.4% inflationary salary increase for the executive directors. The salary increase was applied to the reduced level of salaries.

Following expiry of the two year voluntary reduction in executive director salaries on 1 January 2012, the Committee considered it was appropriate to conduct a review of executive director salaries. This review used external benchmarking data to ensure that executive director salaries are in line with current market rates for similar sized listed property companies and director experience.

The executive directors' annual salaries are shown below:

| | Compound growth* % | 2012 £000 | **2011 £000** | 2010 £000 | 2009 £000 | 2008 £000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| H Scott-Barrett | 2.7 | 400 | **313** | 300 | 340 | 360 |
| X Pullen | 0.5 | 295 | **209** | 200 | 292 | 289 |
| C Staveley | 1.9 | 280 | **261** | 250 | 260 | 260 |
| K Ford | 1.4 | 295 | **261** | 250 | 282 | 279 |

* Compound growth per annum from 2008 to 2012 in executive directors' annual salaries

## Annual bonus scheme

The Committee may award cash bonuses to executive directors up to 100% of salary based on the Committee's independent assessment of the Group's financial performance during the year and the individual contribution made by each executive director. Individual contributions are assessed on financial results (performance against plan on net asset value and recurring profitability), business building (success in growing the business), leadership and team building. Based on the Committee's assessment of the 2011 business performance compared to the agreed financial plan and objectives, the executive directors have been awarded a total annual cash bonus of £0.6 million for 2011. The total annual bonus amount is disclosed on page 39.

# Directors' remuneration report continued

## Incentive schemes
The Group had four incentive schemes under which awards subsisted during the year:

- The Long Term Incentive Plan (the "2008 LTIP")
- The Save As You Earn Plan (the "SAYE Scheme")
- Matching Share Agreement for H Scott-Barrett (the "Matching Share Agreement")
- The Co-Investment Plan (the "COIP")

A summary of the principal features of the 2008 LTIP, the SAYE Scheme and the COIP is set out under "Audited information" below.

## Matching Share Agreement for H Scott-Barrett
As part of the negotiation to secure his appointment and also to demonstrate his commitment to the Group, H Scott-Barrett agreed to purchase shares in the Company on condition that he was provided with certain matching shares. Accordingly, H Scott-Barrett was granted an award of matching shares in accordance with Rule 9.4.2 of the Listing Rules. The principal terms of the incentive arrangement are set out below.

The Matching Share Agreement was entered into by the trustee of the Capital & Regional plc Employee Share Ownership Trust 2002 (the "Trustee") and H Scott-Barrett on 9 March 2008. Under the Matching Share Agreement, H Scott-Barrett agreed to acquire between 100,000 and 200,000 shares in the Company ("Acquired Shares") within 30 days of the announcement of the Group's results for the period ended 30 December 2007. H Scott-Barrett acquired 150,000 shares on 11 March 2008.

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

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

H Scott-Barrett has since waived his entitlement to any awards under Match 2 and Match 3. Following the Group's capital raise in September 2009, the shares subject to the Matching Share Agreement were adjusted by the same factor used in the rebasing of the SAYE Scheme. The award under Match 1 after adjustment was 302,055 shares.

The award under Match 1 vested on 11 March 2011 and 302,055 Matching Shares were transferred to H Scott-Barrett.

## Pension arrangements
The Group makes contributions, at proportional rates to basic salary, to defined contribution pension schemes of each executive director's choice, except in the case of X Pullen where a salary supplement of £51,773 was paid in lieu of pension contributions.

## Other benefits
Benefits consist of private medical insurance cover, permanent health insurance cover, critical illness cover and life cover.

## Service contracts
Each of the present executive directors has a rolling service agreement which can be terminated on one year's notice by either party. In the event of early termination of an executive director's agreement, the Committee will determine the amount of compensation (if any) to be paid by reference to the circumstances of the case at the time. It is the Committee's policy not to reward poor performance and to take account of the executive director's duty to mitigate loss. The dates of the executive directors' service agreements are as follows:

| | |
|---|---|
| H Scott-Barrett | 9 March 2008 |
| X Pullen | 28 October 1993 |
| K Ford | 17 May 1996 |
| C Staveley | 1 October 2008 |

The Group 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 Group. Directors are allowed to retain all remuneration arising from any external position.

X Pullen is a non-executive director for Brandeaux, a privately owned fund management group. H Scott-Barrett is a non-executive director of GAM Holding AG, a leading Swiss asset management company, and a non-executive director of The Goodwood Estate Company Limited. The Group does not consider that these appointments involve significant commitment or that the roles conflict with their duties to the Group. Any earnings received from the appointments are kept by the individuals concerned and have not been disclosed to the Group.

### Chairman and non-executive directors

Each non-executive director will receive fees of £40,000 per annum in 2012, compared to £36,000 per annum in 2009. From 1 January 2010, the non-executive directors voluntarily reduced their annual salaries for two years. The Senior Independent Director and Chairmen of the Audit and Remuneration Committees will receive an additional fee of £5,000 per annum. The Chairman will receive a total fee of £125,000 per annum.

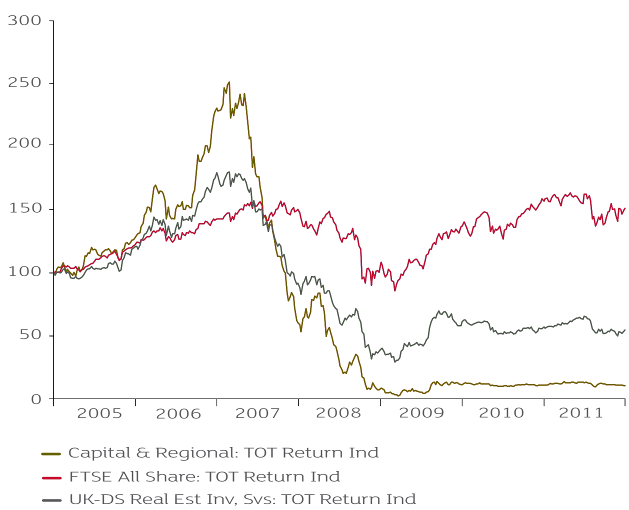
The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any incentive schemes.

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

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

### Performance graph

The graph below is prepared in accordance with the Directors' Remuneration Report Regulations 2002 and illustrates the Company's performance compared to a broad equity market index. The Group uses The Thomson Reuters Datastream Real Estate Index. Performance is measured by total shareholder return (share price growth plus dividends paid).




Audited information

### 2008 LTIP

The 2008 LTIP was set up to replace the 2002 LTIP but no awards were made under this scheme in 2008 or 2009. The rules of the 2008 LTIP originally permitted awards of up to 150% of salary on an annual basis (up to 200% in exceptional circumstances) but were amended in 2010 to allow one-off awards to be made up to 360% of salary. The Remuneration Committee made one-off awards to the executive directors during 2010 covering the three-year period 2010 to 2012 to address the need for management retention and incentivisation, whilst also reflecting the turnaround through which senior management were leading the Company.

On 14 June 2010 the Trustees of the LTIP granted awards to the following executive directors:

| Director | Shares awarded |
|---|---|
| H Scott-Barrett | 3,000,000 |
| K Ford | 2,000,000 |
| X Pullen | 2,000,000 |
| C Staveley | 2,000,000 |

The awards under the LTIP were based on achieving Total Shareholder Return ("TSR") targets over a three-year period, based on the average TSR over a 30 day period prior to the date of award and date of vesting. The targets and vesting levels are:

| Growth in TSR over period | Percentage of award vesting |
|---|---|
| Under 12% per annum | Nil |
| 12% per annum | 20% |
| Between 12% and 40% per annum | Pro-rata between 20% and 100% |
| 40% per annum or above | 100% |

Only 50% of the vested award will be capable of exercise at the end of the three year performance period with the remaining 50% deferred for a further twelve months in order to provide a further "lock-in" for participants.

# Directors' remuneration report continued

## SAYE Scheme

### Employee eligibility

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

### Savings contract

When an employee accepts an invitation to participate in an issue of SAYE Scheme options, he will be required to enter into a savings contract for a period of 3 or 5 years under which he must save between £5 and £250 per month (or such other minimum or maximum amount determined by the directors and permitted by legislation). The £250 limit is reduced by any other savings contract linked to this or any other savings related share option scheme. These contributions will be deducted from the employee's salary. If the participant ceases to make contributions before the third or fifth anniversary of the commencement of the savings contract, the option will lapse, except in the case of a deferral of contributions for a period of up to six months.

### Exercise price

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

### Exercise of options

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

On 1 February 2012, the first invitation made in 2008 matured and participants are eligible to exercise their options for up to six months from this date.

### Termination of employment

If a participant ceases to be employed within the Group during the savings period his option will lapse except where cessation is due to death, injury, disability, redundancy or retirement or as a result of the company or the part of the business by which the participant was employed ceasing to be a member or part of the Group, in which case the participant will be able to exercise his option within 6 months (or 12 months in the case of his personal representatives after death) from the date of cessation of employment, but only to the extent of his total savings plus any interest or bonus accrued.

### Takeover, reconstruction or winding up

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

### Invitations

The SAYE scheme was set up in 2008 when employees were invited to participate in the scheme. No invitations were made in 2009 or 2010 but a new invitation under this scheme was made to eligible employees in 2011.

## COIP

The COIP was designed to be operated in conjunction with the Group's annual bonus arrangements, with the Remuneration Committee inviting certain key employees to acquire shares in the Company from a proportion of their net (post tax) annual bonus and lodge such shares for the purposes of the COIP (the "Lodged Shares").

Participants received an award (the "COIP Award") enabling them to acquire additional matching shares at the end of a performance period based on the number of Lodged Shares which had been acquired, subject to the satisfaction of performance conditions and continued employment. The number of matching shares which were awarded to a participant was limited to two shares for every one Lodged Share for executive directors and one share for every one Lodged Share for other employees.

COIP Awards were subject to the following performance targets based on Total Shareholder Return (TSR) and no re-testing of the performance criteria can occur. The award had two parts each giving a 2:1 match for executive directors and a 1:1 match for other participants:

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

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

The Lodged Shares are owned by the participants and cannot be forfeited by participants regardless of performance. Any increases or decreases in the value of the Lodged Shares will therefore be received or borne by the participants who shall be entitled to exercise the voting power attaching to those shares and shall be entitled to receive dividends.

Awards under the COIP were outstanding to the following executive directors as at 30 December 2011:

| Director | Shares Purchased | Maximum Matching Award |
|---|---|---|
| K Ford | 125,000 | 503,425 |
| X Pullen | 100,000 | 402,740 |
| C Staveley | 25,000 | 100,685 |

No further COIP awards have been made since 2008 and the Remuneration Committee has agreed that no new COIP awards will be made in the near future. On 31 December 2011, the 2008 COIP award lapsed as the performance criteria were not met.

## Directors' emoluments

| | Salary and fees £000 | Bonus £000 | Benefits £000 | Pension £000 | **2011 Total £000** | 2010 Total £000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| H Scott-Barrett | 313 | 220 | 3 | – | **536** | 302 |
| K Ford | 261 | 165 | 3 | 42 | **471** | 295 |
| X Pullen | 209 | 86 | 3 | 52 | **350** | 254 |
| C Staveley | 261 | 165 | 2 | 39 | **467** | 291 |
| **Non-executive directors** | | | | | | |
| J Clare | 125 | – | – | – | **125** | 63 |
| N Haasbroek | 33 | – | – | – | **33** | 33 |
| P Newton | 39 | – | – | – | **39** | 39 |
| L Norval | 33 | – | – | – | **33** | 33 |
| M Wolstenholme | 39 | – | – | – | **39** | 39 |
| T Hales† | 16 | – | – | – | **16** | – |
| **Previous non-executive directors** | | | | | | |
| P Stobart* | 33 | – | – | – | **33** | 39 |
| T Chandos | – | – | – | – | **–** | 51 |
| A Coppin | – | – | – | – | **–** | 29 |
| Total | 1,362 | 636 | 11 | 133 | **2,142** | 1,468 |

* Retired from the board during the year
† Appointed to the board during the year

# Directors' remuneration report continued

## Interests in shares

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

| | **30 December 2011 Shares** | 30 December 2010 Shares |
|---|---|---|
| H Scott-Barrett | **1,202,055** | 825,000 |
| X Pullen | **2,796,181** | 2,796,181 |
| K Ford | **1,851,710** | 1,745,042 |
| C Staveley | **233,121** | 233,121 |
| J Clare | **224,350** | 160,000 |
| N Haasbroek | **99,429,309** | 92,705,500 |
| L Norval | **99,636,559** | 92,909,750 |
| P Newton | **163,800** | 13,800 |
| M Wolstenholme | **84,687** | 84,687 |
| T Hales | **50,000** | n/a |
| P Stobart | **–** | – |

L Norval and N Haasbroek are each beneficially interested in the shares registered in the name of Parkdev International Asset Managers (Pty) Limited and Pinelake International Limited.

There have been no changes to the directors' interests in shares between 30 December 2011 and the date of this report, except for N Haasbroek and L Norval who have acquired an additional 1,420,478 shares on 5 January 2012.

## Approval

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

**Falguni Desai**
Company Secretary
6 March 2012

# Corporate governance report

## Introduction

The Board of directors is accountable to the Company's shareholders for the management and control of the Group's activities and is committed to high standards of corporate governance. This report and the directors' remuneration report describe how the Company complies with the provisions of the UK Combined Code on Corporate Governance Code ("the Code").

## Statement of compliance

The Company has complied throughout the year ended 30 December 2011 with the provisions set out in Section 1 of the UK Corporate Governance Code with the following exceptions:

- The Audit and Remuneration Committees did not comprise of three members throughout the year as P Stobart retired on 31 October 2011. On 6 March 2012, a third member for both Committees was appointed.
- P Stobart continued to serve as the Senior Independent Director as required by the Code until he retired on 31 October 2011. Philip Newton was appointed the new Senior Independent Director on 6 March 2012.

The Board has considered these matters and considers that this non-compliance with the Code does not impede the effective operation of the Board or the Committees in light of the strength and skills of the independent non-executive directors.

This section applies to the Capital & Regional plc Group and all its subsidiaries.

## Application of the principles

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

## The Board of directors

Details of the directors are set out before the Directors' report. The Company is controlled through the Board of directors which comprised the Chairman, four executive and five non-executive directors. During the year, P Stobart retired on 31 October 2011 and T Hales was appointed on 1 August 2011.

## Board balance and independence

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

L Norval and N Haasbroek as non-executive directors are not considered independent for the purposes of the Code, as they represent a significant shareholder of the Company.

P Stobart continued to serve as the Senior Independent Director as required by the Code until he retired on 31 October 2011.

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

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

## Board effectiveness

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

The responsibilities, which the Board has delegated, are given to committees that operate within specified terms of reference and authority limits, which are reviewed annually or in response to a change in circumstances. The executive directors take operational decisions and also approve certain transactions within defined limited parameters. An Executive Directors' Committee meets on a weekly basis and deals with all major decisions of the Group not requiring full Board approval or authorisation by other Board committees.

# Corporate governance report continued

The Executive Directors' Committee is quorate with three executive directors in attendance; if decisions are not unanimous the matter is referred to the Board for approval. Minutes from the Executive Directors' Committee meetings are circulated to the Board.

The Audit Committee, Remuneration Committee and Nomination Committee consist solely of non-executive directors and meet at least twice a year.

## Re-election

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

## Performance evaluation

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

## Information and professional development

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

Induction training is given to all new directors appointed to the Company and consists of an introduction to the Board, onsite visits to properties managed by the Group, an introduction to the divisional teams, an induction pack and access to independent advisers. The ongoing training requirements of the directors are reviewed on a regular basis and undertaken individually, as necessary, although it is recognised that all members of the Board experience continuous professional development from working together.

This is achieved by virtue of the dynamic and diverse mix of the Board members, and their sharing of knowledge and experiences gained from a range of commercial backgrounds.

## Nomination Committee

The Committee comprises of J Clare (Chairman), M Wolstenholme, T Hales (appointed 1 August 2011) and P Stobart (retired on 31 October 2011). The Nomination Committee meets as required to select and recommend to the Board suitable candidates for both executive and non-executive appointments to the Board. On an annual basis, the Nomination Committee also considers succession planning for the Board. The Board members are given an opportunity to meet the individual concerned prior to any formal decision. The terms of reference of the Nomination Committee are available for inspection on the Group's website.

## Board and committee meetings

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

Board meeting attendance:

| | Scheduled | Ad hoc | Total |
|---|---|---|---|
| **Number of meetings** | **5** | **1** | **6** |
| Attended by: | | | |
| J Clare | 5 | 1 | 6 |
| K Ford | 5 | 1 | 6 |
| X Pullen | 5 | 1 | 6 |
| H Scott-Barrett | 5 | 1 | 6 |
| C Staveley | 5 | 1 | 6 |
| N Haasbroek | 5 | 1 | 6 |
| L Norval | 5 | – | 5 |
| P Newton | 5 | 1 | 6 |
| M Wolstenholme | 5 | 1 | 6 |
| T Hales* | 1 | 1 | 2 |
| P Stobart* | 4 | 1 | 5 |

* These directors became eligible to attend meetings on appointment to the Board or were no longer eligible to attend once they had ceased to be directors.

Other committee meeting attendance:

| | Audit Committee | Remuneration Committee | Nomination Committee | Responsible Business Committee |
|---|---|---|---|---|
| **Number of meetings** | **4** | **4** | **1** | **4** |
| Attended by: | | | | |
| J Clare | – | – | 1 | – |
| P Newton | – | 4 | – | 4 |
| X Pullen | – | – | – | 4 |
| M Wolstenholme | 4 | 4 | 1 | – |
| T Hales* | 2 | – | – | – |
| P Stobart* | 3 | 1 | 1 | – |

* These directors became eligible to attend meetings on appointment to the Board or were no longer eligible to attend once they had ceased to be directors and they attended all of the meetings they were eligible to attend.

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

## Directors' remuneration

The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each executive director. The statement of remuneration policy and details of each director's remuneration are set out in the directors' remuneration report.

## Shareholder relations

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

Announcements are made to the London Stock Exchange and the business media concerning business developments to provide wider dissemination of information. In particular, regular announcements of fund unit valuations provide an update on the progress of the business. Registered shareholders are sent copies of both the annual report and the interim report. The Group's website is kept up to date with all announcements, reports and shareholder circulars.

## Accountability and audit

### Financial reporting

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

### Internal control

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

In accordance with the revised version of the Turnbull Committee on internal control and the Code, an ongoing process has been established for identifying, evaluating and managing risks faced by the Group and the Board is satisfied that its process accords with the guidance in these documents. This process has been in place for the year under review to the date of approval of these financial statements. Each year the Board conducts a review of the effectiveness of the current system of internal control.

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

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

- Defined organisational responsibilities and authority limits exist throughout the Group. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to.

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# Corporate governance report continued

- Financial reporting to the Board with regular reports from the Fund Managers of The Mall, The Junction and X-Leisure funds, the Property and Asset Manager for the German portfolio and for the Group as a whole, including the preparation of budgets and forecasts, cash management, variance analysis, property, taxation and treasury reports and a report on financing.

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

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

## Audit Committee

The Audit Committee usually consists of three non-executive directors. M Wolstenholme acted as Chairman throughout the year, T Hales was appointed on 1 August 2011 and P Stobart was a member until his retirement from the board on 31 October 2011. On 6 March 2012, P Newton was appointed a member of the Committee. The qualifications of the Audit Committee members are set out in the directors' biographies.

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

The Audit Committee is also responsible for reviewing the cost-effectiveness and the volume of non-audit services provided to the Group by its external auditors. The Group does not impose an automatic ban on the Group's external auditors undertaking non-audit work, and details of fees paid to the Group's external auditors are detailed in note 8 to the financial statements. The Group's aim is always to have any non-audit work involving the Group's external auditors carried out in a manner that affords value for money and ensures independence is maintained by monitoring this on a case by case basis.

The Group's policy is that the audit firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group. The Audit Committee reviews and makes recommendations to the Board for the re-appointment of the Group's external auditors. In order to maintain independence the audit partner of the Group's external auditors is subject to rotation at regular intervals.

The Audit Committee normally meets four times a year; there is one meeting to approve the audit plan and the meetings take place prior to the interim and final announcements. The first of the pre-announcement meetings is held early enough to allow the Committee members to have input into the presentation of the financial statements. The Chairman of the Audit Committee reports back to the Board on the key conclusions.

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

- Financial reporting: during the year the Committee reviewed the interim and annual financial statements. The Committee received a report from the external auditors setting out accounting or judgmental issues which required its attention, and considered papers prepared by management both on these issues and on the impact of any changes in accounting standards. The auditors' reports were based on a full audit (annual report) and a high level review (interim report) respectively. The Committee also advised the Board on a number of other matters.

- Internal Controls and Risk Management: the Committee met with the external auditors to deal with any significant internal control matters. In the year under review the Committee met with the external auditors on four occasions. The Committee also approved the periodic risk reviews that were carried out by the Group.

- Internal Audit: The Group does not have an internal audit function but carries out periodic control reviews, the results of which are discussed with the Committee. The Committee will continue to review the position, but the belief at present is that the current size and complexity of the Group does not justify establishing an internal audit function.

## Going concern

In compliance with the Code and the Guidance on Going Concern and Liquidity Risk Guidance for Direction UK Companies 2009 the directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board believes that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the financial statements are prepared on a going concern basis. Further details are included in note 1 to the financial statements.

**Falguni Desai**
Company Secretary
6 March 2012

# Responsible business

## Overview
The Group's strategy is to remain at the forefront of innovative responsible business in its sector and to ensure that the Group makes a positive impact in the following four key areas: the Marketplace; the Environment; the Workplace; and the Community.

The Group believes that the value of its business is best enhanced by respecting the interests of all its stakeholders and that the creation of long term financial returns is dependent on effective management of environmental and social performance.

We work closely with some of our specialist support partners, The Carbon Trust; British Council Of Shopping Centres (BCSC); Investors in People; Enterprise UK; and Royal Society for the Prevention of Accidents (ROSPA).

The information below summarises our strategy, objectives and performance for 2011 and presents our objectives and targets for 2012.

## Responsible Business Committee
The Responsible Business Committee provides the strategic direction and a forum for support to those accountable for responsible business at the operating level. The Responsible Business Committee met four times during 2011. The Committee consisted of two Board directors, P Newton (Chairman) and X Pullen, as well as representatives at the operating level. The Committee reports regularly to the Board.

## The Marketplace
The Group's strategy is to engage with customers, suppliers and stakeholders, to understand their needs and identify ways of improving our collective responsible business performance. We recognise the positive impact our customers and suppliers can have on our sustainability efforts and will continue to work in partnership to deliver our goals.

| 2011 objectives | 2011 performance | 2011 KPI |
|---|---|---|
| 1 Obtain regular customer and stakeholder feedback and respond accordingly | • Objective achieved with regular contact throughout the year with all of our key retailers via face to face meetings and visits to retailer head offices. | • 16 meetings held with retailer head office teams |
| | • Bi-monthly retailer meetings are hosted by the General Managers at every site; an example action from these meetings is agreement on the extension of opening hours at key periods. | • An average of 30 consumer comments per week logged at each Mall |
| | • Consumer comments are logged at our Ask Me Points in each Mall property. These are reviewed weekly by the management team and actions as a result of the comments are reported in the malls monthly business report. | • 54 on site retailer meetings hosted by Mall General Managers |
| | • Other key highlights were the BCSC conference with over 100 individual meetings in three days held on the Capital & Regional stand and the Property Management Association (PMA) event that we hosted which was attended by 35 retailers. | |

# Responsible business continued

| | 2011 objectives | 2011 performance | 2011 KPI |
|---|---|---|---|
| 2 | Encourage inward investment from retailers into our town centres | • Objective achieved through new lettings during the year and significant new shop fit outs by Arcadia in Luton and Lincoln and BHS in Maidstone.<br>• Development of our properties continued in 2011 with completion of the extension to The Mall Blackburn. The Mall Blackburn has undergone a significant refurbishment programme involving the redevelopment of the south east 'Lord Square' corner of the site. Working in close partnership with Blackburn and Darwen Borough Council the 200,000 sq ft Lord Square extension was completed in June 2011, revitalizing the scheme and feeding in to the wider regeneration of the town centre. The extension is nearly fully let and has provided modern and sustainable retail space, attracting retailers such as Primark, Costa Coffee, H&M and a brand new Council Market to the scheme. The project has also helped to boost the centre's footfall, with an 11% year on year rise.<br>• We have provided input into The Portas Report and are involved in further consultation on the implementation of its findings.<br>• The Management team provided input into Business in The Community "Seeing is Believing" retailer and town centre workshop which aimed to identify and document best practice retailer and town centre management examples. | • 23 major fit outs and 50 minor fit outs during 2011<br>• £66m Blackburn extension completed in June 2011<br>• BCSC Gold Award success for The Best Refurbishment at Blackburn<br> |
| 3 | Retain ROSPA Gold Award status | • Objective achieved as The Mall was awarded the Gold Medal in April 2011 in recognition of five consecutive gold awards. | • Received the Gold Medal recognising five consecutive gold awards from 2007 to 2011 |
| 4 | Support the Health and Safety Executive (HSE) Workplace Transport Initiative | • Objective achieved through the use of the safety checklist tool and the implementation was checked as part of our annual compliance audit, which is conducted by an external risk management organisation. The compliance audits of all Mall and Junction sites were completed during April to October with no major issues identified as actions. | • Greater than 90% compliance audit scores at all sites |
| 5 | Increase awareness of the impact of slips, trips and falls utilising the HSE Shattered Lives Campaign | • Objective achieved to reduce slips particularly in wet weather by working in partnership with our retailers, to install slip resistance surfaces to certain high risk areas. This has been a huge success where applied by reducing slips to zero in those areas previously prone to slipping incidents. | • 60% of all first aid incidences at shopping centres were slip, trip and fall incidents |

Other Marketplace highlights during the year included:

| | |
|---|---|
| **Best Service Charge Provider 2011** | • In December 2011, we were awarded the PMA's coveted "Best Service Charge Provider of the Year" award. This award is voted for by the retailers' property teams and was in recognition of the work we delivered ahead of other shopping centre owners. This award was won based on our impressive commitment to deliver a value for money at Mall service and for the measurement and effectiveness of our marketing campaigns which are both key factors for retailers in the current challenging economic environment. |
| **Safety and security** | • All shopping centres and retail parks have state of the art CCTV which is centrally managed and monitored to improve safety and security for retailers, consumers and staff. This proved to be of significant value during the riots in 2011. The systems allowed monitoring of property and people and was utilised by the Police and other authorities during and post the riots and led to the subsequent conviction of a number of offenders.<br><br>• The Junction concluded a detailed health and safety compliance audit on all 38 contractors that are used across the retail park portfolio.<br><br>• All shopping centres and retail parks have been awarded the safe parking accreditation 'Park Mark', a recognised standard awarded by the Association of Chief Police Officers.<br><br>• The Community Safety Accreditation Scheme (CSAS) is a police led initiative where specially trained security officers are awarded additional police powers. The security teams at two of the shopping centres currently hold CSAS accreditation. |
| **Sustainability** | The sustainability accreditation scheme EnviroMall engages and informs customers and suppliers each year on the importance of taking proactive steps to reduce the impact shoppers and a shopping centre can have on the environment. This included:<br>• Battery recycling working with Battery Back, where The Mall promoted and encouraged people to recycle their batteries as part of the European Directive on battery recycling.<br>• Each individual Mall proactively works with local retailers and shoppers on a range of environmental issues, for example, providing Christmas card recycling bins and a fashion show to promote recycled fabrics.<br>• The MallSecure contract continued to deliver an excellent overall security service to our Malls recording an annual average performance score against the contract KPI's of 96% (2010: 94%). |

Our 2012 objectives and KPI targets are:

| | 2012 objectives | 2012 KPI target |
|---|---|---|
| 1 | Perform a full review of the Major Incident Management Plan (MIMP) to include post riots security and retail engagement in disabled evacuation. To be audited in the 2012 C&R Safe Compliance Audit | • 100% of MIMPs to be audited with no issues raised and E-Permits system in place |
| 2 | To improve the accuracy of reporting of key statistics including slips, trips and falls to enable more detailed root cause analysis | • 10% reduction in slips, trips and falls |

# Responsible business continued

| 2012 objectives | | 2012 KPI target |
|---|---|---|
| 3 | Through the implementation of the Mall Maintain Project the vendor base will be reduced, Group purchasing power increased and improved risk management controls for planned preventative maintenance (PPM) tasks and routine repairs | • Zero enforcement challenges on Mall Maintain contract<br>• Minimum of 95% completion rate of PPMs |
| 4 | Update the C&R Safe compliance audit to challenge the already high levels of compliance and drive best practice performance | • Greater than 90% average audit score across the group |
| 5 | Retain ROSPA Gold Award status | • Six consecutive gold awards from 2007 to 2012 |
| 6 | To achieve a minimum score of 90% for the annual technical Structured Site Visit for each property | • 90% minimum score |

**BCSC Gold Award for Mall Blackburn refurbishment**

Before

After

## The Environment

The Group's strategy is to adopt a proactive approach to tackling our impact on the environment. For many years we have worked hard 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, refurbishment or building phase.

| 2011 objectives | 2011 performance | 2011 KPI |
|---|---|---|
| **1** Continue reducing carbon output across all of the Group's operations | • Objective achieved with energy monitoring now in place at all Group properties that we manage and there has been a reduction in our carbon output during the year compared to 2010. | • 7% reduction in carbon output across the Group (total reduction of 1,426 tonnes) |
| **2** The Mall portfolio to deliver the objectives of the Environmental Impact Improvement Plan | • Objective achieved, other than water consumption which has increased due to the number of new lettings and the developments at Blackburn and Luton. There are a number of Malls which have increased consumption in residential and commercial office space.<br>• The Mall portfolio set the following targets for 2011: energy reduction target 4%; water reduction target 5%; recycling target was 68% of waste recycled with 85% diverted from landfill.<br>• As an example, five years ago the Mall Wood Green was recycling 5% of waste produced and by 2011 waste recycling was is 90%. | • 9% reduction in energy<br>• 3% increase in water use<br>• 72% waste recycled<br>• 86% diverted from landfill |
| **3** Meet all carbon reduction commitment regulations to retain the Carbon Trust Standard in 2011 | • Objective achieved with Carbon Reduction Commitment evidence packs in place for the business and the Carbon Trust Standard retained for 2011. | • Carbon Trust Standard retained |
| **4** Install automatic meter readers (AMR) for all electrical supplies to accurately bill, monitor and target energy usage at Junction retail park sites | • Objective partially achieved, the team have now issued instructions to implement the installation of AMR across all existing non-half hourly supply sites which will commence in the first half of 2012. | • Implementation now scheduled for 2012 |
| **5** Roll out the Tennant ECH2O floor scrubbing machines which utilise electrically charged and oxygenated water and eliminate the need for cleaning chemicals | • Objective achieved with the new Tennant ECH2O machines introduced at the shopping centres on a site by site basis as new machinery is required and this will continue throughout the term of the contract with Insitu. New floor cleaning technology products continue to help reduce the risk of accidents caused by slippery floors. | • Three shopping centres with ECH20 machines and new units currently being trialled |

# Responsible business continued

| 2011 objectives | 2011 performance | 2011 KPI |
|---|---|---|
| 6 Continue to deliver high standards of cleaning and hygiene in the Mall public spaces whilst challenging the existing operations to deliver improved value, efficiency and environmental impact | • Objective achieved through our excellent on site teams and new MallClean partner (Insitu). The average performance measurement score remained consistently high during 2011 despite enhanced KPI's and measurement criteria.<br>• New recycling initiatives at our Malls most notably in Sutton Coldfield, Blackburn and Wood Green have contributed significantly. These initiatives continue to increase the amount of waste recycled from our Malls and may be adopted in other schemes as examples of best practice. | • The Mall Clean contract achieved an average Brand Standard Performance Management ('BSPM') score of 94.8% in 2011 |
| 7 Maintain the highest possible performance in the annual C&R Safe compliance audits with the minimum our 90% pass for all sites | • Objective achieved with unannounced audits completed at every shopping centre. Announced audits were completed at every retail park. All of the Mall shopping centres and The Junction retail parks achieved 90% average pass rate or above.<br>• The Junction now has a fully integrated health and safety management system. The Junction will undertake unannounced audits of all parks in 2012. | • 96% average Mall pass rate<br>• 90% average Junction pass rate |

Other Environmental highlights during the year included:

| | |
|---|---|
| **GRESB Green Star award** | • This award involves 340 real estate funds worldwide, with over US$1 trillion of assets under management. Only 65 Green Stars were awarded and the Mall Fund was placed 5th in Europe. |
| **Energy savings** | • Across the Group a total energy saving of £275,000 was achieved which contributed to a reduction in service charge of between 1% and 2%. |

Our 2012 objectives and KPI targets are:

| 2012 objectives | 2012 KPI target |
|---|---|
| 1 To continue to reduce our environmental impact through the use of five year carbon plans; operational improvements; low carbon retrofit and plant replacement projects | • 5% reduction in energy<br>• 5% reduction in water use<br>• 85% waste recycled<br>• 90% diverted from landfill |
| 2 Meet all carbon reduction commitment regulations to retain the Carbon Trust Standard in 2012 and reduce carbon impact by 4% across the Group | • Retain Carbon Trust Standard<br>• 4% reduction in carbon across the Group |
| 3 Install automatic meter readers (AMR) for all electrical supplies to accurately bill, monitor and target energy usage at Junction retail park sites | • 100% Junction retail parks with AMR installed |

## The Work Place

The Group's strategy is to engage, develop and reward our people, retaining our reputation as the 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. 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.

| | 2011 objectives | 2011 performance | 2011 KPI |
|---|---|---|---|
| 1 | Retain Investors in People (IiP) accreditation in our shopping centre business | • Objective achieved with the IiP assessment completed and award successfully achieved in June 2011. | • IiP accreditation retained |
| 2 | Continue to attract and retain the very best people | • Objective achieved with high level of staff retention during the year. Opportunities for career development were maximised and internal appointments encouraged. Exit interviews were held with departing employees. | • 94 % Group retention<br>• 75% vacancies filled by internal appointments |
| 3 | Maintain high levels of communication across the company | • Objective achieved with the publication of our in-house magazine Arc in June and December 2011.<br>• A full programme of on site management meetings has taken place throughout the year, with on average the General, Operating and Marketing managers meeting three times with their peers for a full day operational communications meeting and best practice sharing event.<br>• Your Voice is our all employee meeting held at each shopping centre at least twice a year. | • Two editions of Arc<br>• Bi-annual Your Voice meetings completed |
| 4 | Launch of the C&R People learning programme contributing to our 'be all you can be' approach to training and development for all our people | • Objective achieved with the successful delivery of management skills programmes; customer service programmes; technical and CPD learning. | • 260 delegate days of training delivered across the Group |
| 5 | Continue to provide a working environment which reflects our values and ensures the health and wellbeing of all our people, in turn allowing them to contribute to their full potential to our business performance | • Objective achieved with managers and leaders taking every opportunity to restate our values and approach to employee wellbeing and health.<br>• All sickness absence is monitored closely and return to work interviews conducted; low levels of absence were recorded.<br>• We monitor the usage of the Employee Assistance Programmes in place.<br>• Annual Performance Reviews are offered with every employee. These provide an invaluable exchange of performance information and objective setting on an individual basis, outlining every employee's annual development and training plan. | • 3% sickness absence rate<br>• 92% performance reviews completed |

# Responsible business continued

| 2011 objectives | 2011 performance | 2011 KPI |
|---|---|---|
| 6 Deliver a Learning Legacy programme which combines training and development objectives with responsible business | • Objective achieved with the C&R Legacy programme launched in September 2011. Two groups of staff made up of all levels and job types from both on site and central office locations have attended three day programmes in Manchester and Kent. | • 112 training days invested in the Legacy programme |
| 7 Continue to provide a safe and healthy environment in which to work by staying focussed on aspects of health, safety and wellbeing | • Objective achieved with meetings held on a bi-monthly basis at all shopping centres. These meetings are chaired by the General Manager and all employees and service partners are encouraged to attend. The feedback from these meetings fed into the Group H&S committee meeting by the National Compliance Manager. | • 0% employee Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)<br>• 6% contractor and sub-contractor RIDDOR |

## C&R Legacy programme:

Legacy is a team development programme which allows employees to contribute over 2.5 days to a specific project working with our charity partner Fairbridge.

Fairbridge works with young people aged 13-25 that other organisations find difficult to engage – giving them the motivation, self-confidence and skills they need to change their lives.

The first two projects were completed at Fairbridge centres in Manchester and Chatham and were focussed around refurbishing the facilities and improving the working environment for the young people. The Partnership Development Manager for Fairbridge Manchester commented:

"I was impressed with the work ethic and the professionalism of the C&R teams. The amount that you achieved in a relatively short period of time was admirable. Thank you again for not only giving up your time but for really putting 1000% into the Legacy project, you have made a lasting impact that will be enjoyed by Fairbridge young people for years to come."

Our 2012 objectives and KPI targets are:

| | 2012 objectives | 2012 KPI target |
|---|---|---|
| 1 | To evaluate engagement and satisfaction levels by conducting an employee survey | • Greater than 60% response rate<br>• Greater than 70% satisfaction level |
| 2 | To build training and development initiatives around the specific operational needs of the business and deliver a full programme of customer service and sales training to all appropriate staff | • Greater than 200 delegate days of training delivered across the Group |
| 3 | To evolve and implement the Legacy 2012 Programme and further develop relationships with our charity partners | • Greater than 50 training days invested in the Legacy programme |
| 4 | Implementation of the Continuous Improvement Plan agreed with Investors in People following reassessment in 2011 | • Successful implementation of the plan |

# Responsible business continued

## The Community

The Group's strategy is to have a key role in the regeneration of the communities and environments in which we operate. We work closely with key stakeholders to ensure we listen, engage and use feedback to develop or refine our approach. We use social media, such as Facebook, to collect feedback and respond. We aim to provide safe, welcoming, clean and attractive shopping and leisure venues where people choose to shop, work and socialise. We aim to make a positive contribution to each local community by being a responsible, socially aware and a proactive partner.

| | 2011 objectives | 2011 KPI target | 2011 KPI |
|---|---|---|---|
| 1 | To continue fund raising under the Mallcares programme | • Objective achieved with the total raised exceeding the target of £765,900 by 9%. | • £841,664 charity funds raised |
| 2 | Invest in our local communities supporting urban regeneration and creating employment | • Ongoing objective with The Junction and The Mall continuing to work towards getting schemes fully let and hence maximising employment opportunities.<br>• The Group have submitted planning permission for the redevelopment of the Hemel Hempstead which will regenerate the site during 2012 and 2013. | – |
| 3 | Assess feasibility of setting up site recycling schemes which will include tenants waste on our retail park sites | • Objective partially achieved with community recycling banks now on site at Thurrock and Bristol which have received positive feedback from customers. After further consultation with our retailers there are limited opportunities to further progress the tenant waste initiative as most retailers are locked into national waste contracts. | • Two recycling banks installed |
| 4 | Increase involvement in the leadership of the local Business Crime Partnerships | • Ongoing objective with progress made in forging relationships with local police and attending crime partnership meetings.<br>• The Junction team are currently looking to set up a Thurrock retail crime forum for 'Lakeside' retail, in conjunction with CSC.<br>• Our Mall Operations Managers and Security Managers continue to support drive Local Business Crime Partnerships particularly in Luton and Camberley. | – |
| 5 | Counter terrorism risk assessments to be developed for each site | • Objective achieved with counter terrorism risk assessments completed by the National Counter Terrorism Security Office (NaCTSO) at all shopping centres except for Wood Green and Lincoln which are planned for the first quarter of 2012.<br>• The Junction is working with Thurrock Council and Police to develop a Counter Terrorism Emergency Strategy for Thurrock. | • 90% of counter terrorism assessments completed |

| 2011 objectives | | 2011 KPI target | 2011 KPI |
|---|---|---|---|
| 6 | Implement across our shopping centres the Derwent Initiative (Leisurewatch programme) which equips our management and security teams who deal with the issues of child protection in public spaces | • Objective achieved with full implementation in the Mall Blackburn to lead this important ongoing objective. It will continue to be implemented at specific sites during 2012 as the need is identified with each local Police child protection unit. | • One programme fully implemented |

### LandAid Foundation Partner:

Capital & Regional has committed to becoming a Foundation Partner to LandAid for the next three years. This requires a charitable donation of £10,000 per annum. During the year staff members have been involved in various fund raising activities including a 5km race, treasure hunt and annual dinner.

LandAid is the property industry's charity with a focus on helping the young and disadvantaged access the facilities, skills and opportunities to achieve their potential and thrive within their local community. LandAid's ten year goal is to provide across the whole of the UK to a network of dedicated facilities, funded or owned by LandAid, to benefit the young and disadvantaged. For more information on this charity visit: www.landaid.org

Our 2012 objectives and KPI targets are:

| 2012 objectives | | 2012 KPI target |
|---|---|---|
| 1 | Increase our involvement as a LandAid Foundation Partner and make a contribution in pro bono expertise if possible | • Greater than 20 employee days |
| 2 | Following the 2011 riots, maintain close working relationships with local police and ensure our centre teams are actively part of local crime prevention initiatives as we strive to improve the community safety in our town centres | • 5% reduction in incidents of recorded crime |
| 3 | Contribute to the revival of the High Street through industry bodies such as BCSC, Business in The Community and The Association of Town Centre Management. Use our own local influence in towns that we invest in to promote positive policy aimed at high street regeneration. | - |

# Consolidated income statement

For the year to 30 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Revenue | 3 | **28.9** | 30.7 |
| Cost of sales | 4 | **(11.7)** | (10.4) |
| **Gross profit** | | **17.2** | 20.3 |
| Administrative costs | | **(11.2)** | (11.8) |
| Share of profit in associates and joint ventures | 18a | **22.3** | 45.2 |
| Loss on revaluation of investment properties | 12a | **(1.5)** | (0.2) |
| Other gains and losses | 5 | **–** | (0.9) |
| **Profit on ordinary activities before financing** | | **26.8** | 52.6 |
| Finance income | 6 | **2.3** | 1.2 |
| Finance costs | 7 | **(5.7)** | (7.4) |
| **Profit before tax** | 8 | **23.4** | 46.4 |
| Tax | 10a | **(2.3)** | (2.0) |
| **Profit for the year** | | **21.1** | 44.4 |
| Basic earnings per share | 11a | **6p** | 13p |
| Diluted earnings per share | 11a | **5p** | 13p |

All results derive from continuing operations and the profit for the current and preceding year is fully attributable to equity shareholders.

# Consolidated statement of comprehensive income

For the year to 30 December 2011

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit for the year | **21.1** | 44.4 |
| Exchange differences on translation of foreign operations | **(1.3)** | (2.6) |
| Gain on a hedge of a net investment taken to equity | **0.9** | 2.2 |
| Other comprehensive income | **(0.4)** | (0.4) |
| **Total comprehensive income for the year** | **20.7** | 44.0 |

The total comprehensive income for the current year and preceding year is fully attributable to equity shareholders.

# Consolidated balance sheet

At 30 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 12a | **8.5** | 10.0 |
| Goodwill | 13 | **1.8** | 1.9 |
| Plant and equipment | 14 | **0.7** | 0.9 |
| Available for sale investments | 15 | **0.3** | 0.3 |
| Receivables | 16 | **33.3** | 25.9 |
| Investment in associates | 18b | **120.2** | 110.8 |
| Investment in joint ventures | 18c | **27.2** | 25.7 |
| **Total non-current assets** | | **192.0** | 175.5 |
| **Current assets** | | | |
| Trading properties | 12a | **71.5** | 70.8 |
| Receivables | 19 | **5.0** | 7.1 |
| Cash and cash equivalents | 20 | **20.0** | 25.7 |
| **Total current assets** | | **96.5** | 103.6 |
| **Total assets** | 2b | **288.5** | 279.1 |
| **Current liabilities** | | | |
| Bank loans | 23a | **(5.0)** | (0.6) |
| Trade and other payables | 21 | **(10.0)** | (10.9) |
| Current tax liabilities | | **(3.0)** | (5.8) |
| **Total current liabilities** | | **(18.0)** | (17.3) |
| **Non-current liabilities** | | | |
| Bank loans | 23a | **(61.6)** | (68.8) |
| Other payables | 22 | **(4.0)** | (4.8) |
| Deferred tax liabilities | 10c | **(3.9)** | (3.7) |
| Non-current tax liabilities | 10e | **(5.0)** | (10.0) |
| **Total non-current liabilities** | | **(74.5)** | (87.3) |
| **Total liabilities** | 2b | **(92.5)** | (104.6) |
| **Net assets** | | **196.0** | 174.5 |
| **Equity** | | | |
| Share capital | 25 | **9.9** | 9.9 |
| Other reserves | 28 | **72.8** | 153.2 |
| Capital redemption reserve | | **4.4** | 4.4 |
| Own shares held | 27 | **(6.8)** | (9.7) |
| Retained earnings | | **115.7** | 16.7 |
| **Equity shareholders' funds** | | **196.0** | 174.5 |
| Basic net assets per share | 30 | **£0.56** | £0.50 |
| EPRA triple net assets per share | 30 | **£0.56** | £0.50 |
| EPRA net assets per share | 30 | **£0.63** | £0.57 |

These financial statements were approved by the Board of directors, authorised for issue and signed on their behalf on 6 March 2012 by:

**Charles Staveley**
Group Finance Director

# Consolidated statement of changes in equity

For the year to 30 December 2011

| | Share capital £m | Other reserves: Special reserve £m | Other reserves: Merger reserve £m | Other reserves: Acquisition reserve £m | Other reserves: Foreign currency reserve £m | Other reserves: Net investment hedging reserve £m | Capital redemption reserve £m | Own shares held £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 30 December 2009** | **9.9** | **79.5** | **60.3** | **9.5** | **10.0** | **(5.7)** | **4.4** | **(9.7)** | **(28.4)** | **129.8** |
| Profit for the year | – | – | – | – | – | – | – | – | 44.4 | 44.4 |
| Other comprehensive income for the year | – | – | – | – | (2.6) | 2.2 | – | – | – | (0.4) |
| **Total comprehensive income for the year** | – | – | – | – | (2.6) | 2.2 | – | – | 44.4 | 44.0 |
| Credit to equity for equity-settled share-based payments | – | – | – | – | – | – | – | – | 0.7 | 0.7 |
| **Balance at 30 December 2010** | **9.9** | **79.5** | **60.3** | **9.5** | **7.4** | **(3.5)** | **4.4** | **(9.7)** | **16.7** | **174.5** |
| Profit for the year | – | – | – | – | – | – | – | – | 21.1 | 21.1 |
| Other comprehensive income for the year | – | – | – | – | (1.3) | 0.9 | – | – | – | (0.4) |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** | **(1.3)** | **0.9** | **–** | **–** | **21.1** | **20.7** |
| Credit to equity for equity-settled share-based payments | – | – | – | – | – | – | – | – | 0.8 | 0.8 |
| Transfer between reserves | – | (79.5) | – | – | – | – | – | – | 79.5 | – |
| Other movements | – | – | – | – | (0.5) | – | – | 2.9 | (2.4) | – |
| **Balance at 30 December 2011** | **9.9** | **–** | **60.3** | **9.5** | **5.6** | **(2.6)** | **4.4** | **(6.8)** | **115.7** | **196.0** |

# Consolidated cash flow statement

For the year to 30 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Net cash from operations | 29 | **8.2** | 2.9 |
| Distributions received from associates | 18b | **11.2** | 6.3 |
| Distributions received from joint ventures | 18c | **4.5** | 3.4 |
| Interest paid | | **(5.3)** | (5.7) |
| Interest received | | **0.1** | 0.2 |
| Income taxes paid | | **(9.9)** | (4.3) |
| **Cash flows from operating activities** | | **8.8** | 2.8 |
| **Investing activities** | | | |
| Purchase of investment property | 12a | **(26.1)** | – |
| Sale of equity interest in subsidiary to joint venture partner | 32a | **6.4** | – |
| Disposal of SNO!zone Braehead subsidiary | 32b | **(0.1)** | – |
| Purchase of plant and equipment | 14 | **(0.3)** | (0.4) |
| Investment in associates | 18b | **(4.0)** | (2.7) |
| Investment in joint ventures | 18c | **(1.2)** | – |
| Loans to joint ventures | | **(1.3)** | (0.9) |
| Loans repaid by joint ventures | | **1.2** | 0.5 |
| Sale of investment properties | | **–** | 12.5 |
| Sale of MEN Arena joint venture | | **–** | 5.7 |
| Share buy-backs from joint ventures | | **–** | 0.6 |
| **Cash flows from investing activities** | | **(25.4)** | 15.3 |
| **Financing activities** | | | |
| Bank loans drawn down | 23a | **13.6** | – |
| Bank loans repaid | | **(3.2)** | (9.9) |
| Loan arrangement costs | 23a | **(0.3)** | – |
| Settlement of forward foreign exchange contract | | **1.5** | – |
| Premium cost of interest rate swaption | 24b | **(0.7)** | – |
| **Cash flows from financing activities** | | **10.9** | (9.9) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5.7)** | 8.2 |
| Cash and cash equivalents at the beginning of the year | | **25.7** | 17.5 |
| **Cash and cash equivalents at the end of the year** | 20 | **20.0** | 25.7 |

# Notes to the financial statements

For the year to 30 December 2011

## 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 is 52 Grosvenor Gardens, London, SW1W 0AU. 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 37. They are prepared on the historical cost basis except for the revaluation of certain properties and financial instruments. 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.

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

#### Developments – during 2011

During 2011 the new standards and amendments that have been issued and adopted by EU and the Group have not resulted in a material change to the consolidated financial statements.

#### Other changes

The accounting policy for Investment properties has been updated following the purchase of an investment property during the year.

#### Developments – not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (amended) Severe hyperinflation and removal of fixed dates for first time adopters
- IFRS 7 (amended) Disclosures – Transfers of financial assets
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair value measurement
- IAS 1 (amended) Presentation of items of other comprehensive income
- IAS 12 (amended) Deferred tax: Recovery of underlying assets
- IAS 19 (revised) Employee benefits
- IAS 27 (revised) Separate financial statements
- IAS 28 (revised) Investments in associates and joint ventures

The directors are assessing the impact that the adoption of these standards may have on the financial statements of the Group in future periods. The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements, however it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

## 1 Significant accounting policies continued

**Going concern**

The Group prepares cash flow and covenant compliance forecasts to demonstrate that it has adequate resources available to continue in operation for the foreseeable future, being at least 12 months from the date of this report. In these forecasts the directors specifically consider anticipated future market conditions and the Group's principal risks and uncertainties. The directors believe that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the annual report and financial statements.

**Critical accounting judgements**

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 judgements, apart from those involving estimation uncertainty which are dealt with separately, 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. The critical accounting judgements are:

Operating segments

An assessment of whether certain operating segments have characteristics that are sufficiently similar to allow them to be aggregated into a single segment for reporting in note 2a.

Property valuation

Reliance upon the work undertaken at 30 December 2011 by independent professional qualified valuers, as disclosed in note 12b, in assessing the fair value of certain of the Group's investment and trading properties.

An assessment of the directors' valuations of the investment properties owned by FIX UK as disclosed in note 12b.

Associates

An assessment of whether the Group exercises significant influence over its investments in The Mall, The Junction and X-Leisure, as discussed in note 18b.

Derivative financial instruments

Reliance upon the work undertaken at 30 December 2011 by independent third party experts in assessing the fair values of the Group's derivative financial instruments, which are disclosed in notes 16, 19, 22 and 24f.

Lease classification

Consideration of the potential transfer of risks and rewards of ownership in accordance with IAS 17 Leases for all properties leased to tenants. The directors have determined that all such leases are operating leases.

Performance fees

The likelihood that CRPM, X-Leisure Limited and Garigal will receive performance fee revenue under their respective asset and property management contracts. The directors have concluded that it is not yet probable that any amounts will be received but the performance criteria are disclosed in note 37.

# Notes to the financial statements continued

For the year to 30 December 2011

## 1 Significant accounting policies continued

### Key sources of estimation uncertainly

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are:

#### Taxation

An assessment of the likelihood that potential historic tax liabilities will arise as well as the impact of changes in recent legislation, case law and accounting standards, along with future projections for the Group, in determining the current and deferred tax assets, liabilities and charge to the income statement, as disclosed in note 10.

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires estimates of the expected life of the X-Leisure fund, the future cash flows expected to arise from the management contract and an appropriate discount rate applied for the calculation of present value. The assumptions used to determine whether the goodwill is impaired are disclosed in note 13.

#### Impairment of loan receivable in Euro B-Note Holding Limited

Determining whether the subordinated loan receivable held indirectly by Euro B-Note Holding Limited is impaired requires an estimation of the credit risk of the relevant German joint venture portfolio. An independent valuation was obtained as at 30 June 2011 for the loan receivable fair value at the time of the debt refinancing. This fair value was based on the future cash flows expected to arise from the loan receivable and an appropriate discount rate of 15.35% applied for the calculation of the present value. This discount rate assumes that the loan principal is discounted by 12.0% per annum to reflect credit risk. The discount rate was based on a risk adjusted yield curve. Subsequent to the refinancing the loan receivable is held at amortised cost and tested for impairment at each reporting date. At 30 December 2011 management performed an impairment review over the relevant German joint venture portfolio which included an assessment of the actual and forecast loan to value, liquidity, net rental income and contribution. This impairment assessment resulted in the loan receivable being carried at €13.5 million compared to a nominal value of €18.0 million as disclosed in 18b.

The directors believe that the estimates and associated assumptions used in the preparation of the financial statements are reasonable, but actual outcomes may differ from those anticipated and so the judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Principal accounting policies

The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company at 30 December and entities controlled by the Company (its subsidiaries) made up to 31 December each year. 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 period for subsidiaries 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.

## 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 given, 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 period 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.

### Investments in associates and joint ventures

A joint venture is an entity over which the Group has joint control, which is the contractually agreed sharing of control over an economic activity which exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

In accordance with IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, associates and joint ventures are accounted for under the equity method, whereby the consolidated balance sheet and income statement incorporate the Group's share of net assets and profits or losses after tax. The profits or losses include revaluation movements on investment properties. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the associate and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

The reporting period for associates and joint ventures ends on 31 December and their financial statements are equity accounted to this date. In accordance with IAS 39 Financial Instruments: Recognition and Measurement, associates and joint ventures are reviewed at the end of the reporting period to determine whether any impairment loss should be recognised.

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired and is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any equity interest in the entity already held by the acquirer over the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. The impairment is calculated on the value in use of the goodwill and is recognised immediately in the income statement and not subsequently reversed. Where the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any equity interest in the entity already held by the acquirer, the excess is recognised immediately in the income statement as a bargain purchase gain.

# Notes to the financial statements continued

For the year to 30 December 2011

## 1 Significant accounting policies continued

### Foreign currency

#### Foreign currency transactions

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

#### Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rates ruling at the balance sheet date. The operating income and expenses of foreign operations are translated into sterling at the average exchange rates for the period. Significant transactions, such as property sales, are translated at the foreign exchange rate ruling at the date of each transaction. The principal exchange rate used to translate foreign currency denominated amounts in the balance sheet is the rate at the end of the year: £1 = €1.1972 (2010: £1 = €1.1618). The principal exchange rate used for the income statement is the average rate for the year: £1 = €1.1522 (2010: £1 = €1.1657).

#### 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.

### Plant and equipment

Plant and equipment is stated at the lower of cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and land, 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.

#### Refurbishment expenditure

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

## 1 Significant accounting policies continued

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. Properties held for sale are shown at fair value less costs of disposal.

Trading properties

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

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.

Tenant leases and incentives

Incentives and costs associated with entering into tenant leases are amortised over a straight line basis over the term of the lease.

Operating leases

Annual rentals under operating leases are charged to the income statement on a straight line basis over the term of the lease.

**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.

Available for sale financial assets

The Group has investments in unlisted shares and unit trusts that are not traded in an active market but whose fair value the directors consider can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income, with the exception of impairment losses which are recognised in the income statement. Dividends are recognised in the income statement when the Group's right to receive the dividends is established.

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.

# Notes to the financial statements continued

For the year to 30 December 2011

## 1 Significant accounting policies continued

### 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.

### 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

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

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

## 1 Significant accounting policies continued

Deferred tax is provided using the balance sheet liability method on these temporary differences with the exception of goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates applicable at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

**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 2008 LTIP, the COIP, the Matching Share Agreement and the SAYE scheme are calculated using Monte Carlo simulations or 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**

Management fees

Management fees are recognised, in line with the property management contracts, in the period to which they relate. They include income in relation to services provided by CRPM to associates and joint ventures for asset and property management, project co-ordination, procurement, and management of service charges and directly recoverable expenses. Income earned by X-Leisure Limited and Garigal for similar services is recognised in the share of profit/(loss) in associates and joint ventures.

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. Performance fees may be earned as follows:

- The Mall: by CRPM on property level outperformance relative to the IPD Shopping Centre Index (taking the 30 June 2010 valuation as the start point) of more than 50 basis points provided that the fund level return is greater than zero, payable at the end of the life of the fund or on an exit event, which is defined as a listing, sale of all the interests in the fund or the making of a cash offer which is accepted by a majority of the investors in the fund. For i) between 50 basis points and 150 basis points, CRPM receives 10% of the outperformance proceeds; ii) for between 150 basis points and 300 basis points of outperformance, CRPM receives 15% of the outperformance proceeds; and iii) for over 300 basis points of outperformance, CRPM receives no additional fee to ensure excessive risks are not taken. The provisions in the management agreements relating to removal for underperformance, which currently apply with effect from 31 December 2012, have been amended such that the GP board will only have the right to remove CRPM as the asset and property manager in the event of underperformance of at least 100 basis points below the IPD Shopping Centre Index over the period ending 31 December 2014. The above changes will be effective from 21 July 2010 when the Mall Bond Security Trustee has issued final confirmation of the fee arrangements.

# Notes to the financial statements continued

For the year to 30 December 2011

## 1 Significant accounting policies continued

- The Junction: by CRPM on any realised geared returns in excess of an internal rate of return of 15% over the period from May 2009 to the disposal of the entire portfolio or the expiry of the fund.
- X-Leisure: by X-Leisure Limited on any realised geared return in excess of an internal rate of return of 15% over the period from August 2009 to the disposal of the entire portfolio on the expiry of the fund or its conversion into a listed structure. An interim performance fee may be earned on the same basis if the X-Leisure portfolio is reduced to nine properties or fewer.
- German portfolio: by Garigal on any realised geared returns in excess of an internal rate of return of 12% over the period from June 2010 to the disposal of the entire portfolio or its conversion into a listed structure, subject to a maximum of €15 million.

Provisions for performance fees payable by the underlying 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 37.

### Net rental income

Net rental income is gross rental income adjusted for tenant incentives, recognised on a straight line basis over the term of the underlying lease, less expenses directly related to letting and holding the properties.

### 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.

### Finance costs

All borrowing costs are recognised under Finance costs in the income statement in the period in which they are incurred. Finance costs also include the amortisation of loan issue costs, 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 The Mall, The Junction, X-Leisure, the German joint venture, CRPM and SNO!zone. Other segments not individually reportable in the asset businesses are the Group's remaining associates and joint ventures, comprising FIX UK, Xscape Braehead, The Waterside Lincoln Limited Partnership, The Auchinlea Partnership, PPCR Group (put into liquidation in 2011), Sauchiehall Centre (put into liquidation in 2011) and MEN Arena (sold in 2010), and its wholly owned properties, comprising Great Northern Warehouse, Hemel Hempstead and 10 Lower Grosvenor Place/Beeston Place (sold in 2010). These have been combined into the "Other" segment as they meet the aggregation criteria under IFRS 8. Other segments not individually reportable in the earnings businesses are X-Leisure Limited and Garigal Asset Management GmbH, which are included with CRPM in the "Property management" segment as they also meet the aggregation criteria under IFRS 8. Non-segment items include Group overheads incurred by Capital & Regional plc and other subsidiaries, and the interest expense on the Group's central borrowing facility.

The Group's asset business segments (The Mall, The Junction, X-Leisure, the German joint venture and Other segments) derive their revenue from the rental of investment and trading properties. The Group's earnings business segments (the Property management and SNO!zone segments) derive their revenue from the management of property funds and joint ventures and the operation of indoor ski slopes. The split of revenue between these classifications satisfies the requirement of IFRS 8 to report revenues from different products and services. Depreciation and the variable overhead 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 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.

## 1 Significant accounting policies continued

Inter-segment revenue and expenses represent items eliminated on consolidation and are accounted for on an arm's length basis. Management fees and other revenue items in the property management segment are earned from the asset business segments, where they are included under property and void costs. Since these asset business segments are proportionately consolidated, the costs would not eliminate against the income and have therefore not been split out separately as inter-segment expenses.

## 2a Operating segments

| | | Asset businesses | | | | | Earnings businesses | | Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year to 30 December 2011** | Note | The Mall £m | The Junction £m | X-Leisure £m | Germany £m | Other £m | Property management £m | SNO!zone £m | **Total reportable segments £m** | Non-segment items £m | **Total £m** |
| Rental income from external sources | 2b | 16.0 | 3.0 | 5.1 | 19.3 | 12.4 | – | – | **55.8** | – | **55.8** |
| Property and void costs | | (4.0) | (0.6) | (1.0) | (2.6) | (1.8) | – | – | **(10.0)** | – | **(10.0)** |
| Net rental income | | 12.0 | 2.4 | 4.1 | 16.7 | 10.6 | – | – | **45.8** | – | **45.8** |
| Interest income | | – | – | – | 0.8 | – | – | – | **0.8** | – | **0.8** |
| Interest expense | | (8.1) | (2.1) | (2.7) | (9.6) | (8.1) | – | – | **(30.6)** | – | **(30.6)** |
| **Contribution** | | 3.9 | 0.3 | 1.4 | 7.9 | 2.5 | – | – | **16.0** | – | **16.0** |
| Management fees | 2b | – | – | – | – | – | 12.7 | – | **12.7** | – | **12.7** |
| Management expenses | – | – | – | – | – | – | (8.1) | – | **(8.1)** | (3.9) | **(12.0)** |
| SNO!zone income | 2b | – | – | – | – | – | – | 12.4 | **12.4** | – | **12.4** |
| SNO!zone expenses | | – | – | – | – | – | – | (11.5) | **(11.5)** | – | **(11.5)** |
| Depreciation | | – | – | – | – | – | (0.2) | (0.2) | **(0.4)** | – | **(0.4)** |
| Inter-segment revenue | 2b | – | – | – | – | – | 0.1 | – | **0.1** | – | **0.1** |
| Inter-segment expenses | | – | – | – | – | (0.1) | – | – | **(0.1)** | – | **(0.1)** |
| Interest income on central cash | | – | – | – | – | – | – | – | **–** | 0.1 | **0.1** |
| Interest expense on central facility | | – | – | – | – | – | – | – | **–** | (0.9) | **(0.9)** |
| **Recurring pre-tax profit** | | 3.9 | 0.3 | 1.4 | 7.9 | 2.4 | 4.5 | 0.7 | **21.1** | (4.7) | **16.4** |
| Variable overhead | | – | – | – | – | – | (0.6) | – | **(0.6)** | (1.1) | **(1.7)** |
| Revaluation of investment properties | | (1.1) | 1.2 | 4.2 | (2.4) | (0.9) | – | – | **1.0** | – | **1.0** |
| Profit/(loss) on disposals | | (0.7) | 1.5 | – | (0.1) | – | – | – | **0.7** | – | **0.7** |
| Impairment reversal of trading properties | 4 | – | – | – | – | 0.7 | – | – | **0.7** | – | **0.7** |
| Impairment of goodwill | 5 | – | – | – | – | – | (0.1) | – | **(0.1)** | – | **(0.1)** |
| Gain on financial instruments | | 0.1 | 0.1 | 0.3 | 0.7 | 1.4 | – | – | **2.6** | – | **2.6** |
| Investment income | | – | – | – | 4.0 | – | – | – | **4.0** | – | **4.0** |
| Other items | | 1.1 | – | – | (1.1) | – | (0.1) | 0.1 | **–** | (0.2) | **(0.2)** |
| Profit/(loss) before tax | | 3.3 | 3.1 | 5.9 | 9.0 | 3.6 | 3.7 | 0.8 | **29.4** | (6.0) | **23.4** |
| Tax charge | 10a | | | | | | | | | | **(2.3)** |
| **Profit after tax** | | | | | | | | | | | **21.1** |
| Total assets | 2b | 212.9 | 41.3 | 71.0 | 277.3 | 171.6 | 7.4 | 2.1 | **783.6** | 17.0 | **800.6** |
| Total liabilities | 2b | (148.0) | (24.2) | (40.5) | (222.6) | (148.8) | (4.5) | (2.0) | **(590.6)** | (14.0) | **(604.6)** |
| **Net assets** | | 64.9 | 17.1 | 30.5 | 54.7 | 22.8 | 2.9 | 0.1 | **193.0** | 3.0 | **196.0** |

# Notes to the financial statements continued

For the year to 30 December 2011

## 2a Operating segments continued

| | | Asset businesses | | | | | Earnings businesses | | Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year to 30 December 2010** | Note | The Mall £m | The Junction £m | X-Leisure £m | Germany £m | Other £m | Property management £m | SNO!zone £m | **Total reportable segments £m** | Non-segment items £m | **Total £m** |
| Rental income from external sources | 2b | 19.5 | 4.0 | 5.1 | 19.0 | 12.2 | – | – | **59.8** | – | **59.8** |
| Property and void costs | | (5.1) | (0.5) | (1.2) | (3.4) | (1.4) | – | – | **(11.6)** | – | **(11.6)** |
| Net rental income | | 14.4 | 3.5 | 3.9 | 15.6 | 10.8 | – | – | **48.2** | – | **48.2** |
| Interest income | | 0.1 | – | – | 0.5 | – | – | – | **0.6** | – | **0.6** |
| Interest expense | | (10.1) | (3.4) | (2.7) | (10.5) | (8.8) | – | – | **(35.5)** | – | **(35.5)** |
| **Contribution** | | 4.4 | 0.1 | 1.2 | 5.6 | 2.0 | – | – | **13.3** | – | **13.3** |
| Management fees | 2b | – | – | – | – | – | 13.3 | – | **13.3** | – | **13.3** |
| Management expenses | | – | – | – | – | – | (7.3) | – | **(7.3)** | (4.0) | **(11.3)** |
| SNO!zone income | 2b | – | – | – | – | – | – | 12.5 | **12.5** | – | **12.5** |
| SNO!zone expenses | | – | – | – | – | – | – | (11.5) | **(11.5)** | – | **(11.5)** |
| Depreciation | | – | – | – | – | – | (0.2) | (0.3) | **(0.5)** | – | **(0.5)** |
| Inter-segment revenue | 2b | – | – | – | – | 0.1 | 0.1 | – | **0.2** | – | **0.2** |
| Inter-segment expenses | | – | – | – | – | (0.1) | (0.1) | – | **(0.2)** | – | **(0.2)** |
| Interest income on central cash | | – | – | – | – | – | – | – | **–** | 0.1 | **0.1** |
| Interest expense on central facility | | – | – | – | – | – | – | – | **–** | (1.0) | **(1.0)** |
| **Recurring pre-tax profit** | | 4.4 | 0.1 | 1.2 | 5.6 | 2.0 | 5.8 | 0.7 | **19.8** | (4.9) | **14.9** |
| Variable overhead | | – | – | – | – | – | (0.7) | – | **(0.7)** | (0.6) | **(1.3)** |
| Revaluation of investment properties | | 17.6 | 3.1 | 8.1 | 0.2 | 0.6 | – | – | **29.6** | **–** | **29.6** |
| Profit/(loss) on disposal | | 3.0 | 1.8 | 0.2 | (0.6) | 0.1 | – | – | **4.5** | – | **4.5** |
| Impairment reversal of trading properties | 4 | – | – | – | – | 0.1 | – | – | **0.1** | – | **0.1** |
| Impairment of goodwill | 5 | – | – | – | – | – | (0.7) | – | **(0.7)** | – | **(0.7)** |
| (Loss)/gain on financial instruments | | (0.2) | (1.4) | (1.0) | 2.6 | 0.6 | – | – | **0.6** | – | **0.6** |
| Other items | | – | – | – | (1.9) | (1.3) | 0.5 | 1.9 | **(0.8)** | (0.5) | **(1.3)** |
| Profit/(loss) before tax | | 24.8 | 3.6 | 8.5 | 5.9 | 2.1 | 4.9 | 2.6 | **52.4** | (6.0) | **46.4** |
| Tax charge | 10a | | | | | | | | | | **(2.0)** |
| **Profit after tax** | | | | | | | | | | | **44.4** |
| Total assets | 2b | 225.6 | 67.5 | 67.0 | 275.0 | 152.2 | 8.8 | 2.5 | **798.6** | 24.0 | **822.6** |
| Total liabilities | 2b | (168.0) | (43.7) | (41.0) | (226.6) | (143.1) | (4.5) | (2.3) | **(629.2)** | (18.9) | **(648.1)** |
| **Net assets** | | 57.6 | 23.8 | 26.0 | 48.4 | 9.1 | 4.3 | 0.2 | **169.4** | 5.1 | **174.5** |

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

| Revenue | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Rental income from external sources | 2a | **55.8** | 59.8 |
| Inter-segment revenue | 2a | **0.1** | 0.2 |
| Management fees | 2a | **12.7** | 13.3 |
| SNO!zone income | 2a | **12.4** | 12.5 |
| Revenue for reportable segments | | **81.0** | 85.8 |
| Elimination of inter-segment revenue | | **(0.1)** | (0.2) |
| Rental income earned by associates and joint ventures | 18d, 18e | **(48.4)** | (52.2) |
| Management fees earned by associates and joint ventures | 18d, 18e | **(3.6)** | (2.7) |
| **Revenue per consolidated income statement** | 3 | **28.9** | 30.7 |
| **Revenue for reportable segments by country** | | | |
| UK | | **60.4** | 66.5 |
| Germany | | **20.6** | 19.3 |
| Revenue for reportable segments | | **81.0** | 85.8 |

Revenue is attributed to countries on the basis of the location of the underlying properties. Revenue from the Group's major customer is management fee income from The Mall LP, included in the property management segment, which represented £7.1 million (2010: £8.9 million) of the Group's total revenue of £28.9 million (2010: £30.7 million). Further information on related party transactions is disclosed in note 37 to the financial statements.

| Assets | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Total assets of reportable segments | 2a | **783.6** | 798.6 |
| Adjustment for associates and joint ventures | | **(512.1)** | (543.5) |
| Non-segment assets | 2a | **17.0** | 24.0 |
| **Group assets** | | **288.5** | 279.1 |
| **Liabilities** | | | |
| Total liabilities of reportable segments | 2a | **(590.6)** | (629.2) |
| Adjustment for associates and joint ventures | | **512.1** | 543.5 |
| Non-segment liabilities | 2a | **(14.0)** | (18.9) |
| **Group liabilities** | | **(92.5)** | (104.6) |
| **Net assets by country** | | | |
| UK | | **140.1** | 123.6 |
| Germany | | **55.9** | 50.9 |
| **Group net assets** | | **196.0** | 174.5 |

# Notes to the financial statements continued

For the year to 30 December 2011

## 3 Revenue

| Statutory | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| **Asset businesses** | | | |
| Gross rent from wholly owned investment properties | | **1.0** | 0.9 |
| Gross rent from wholly owned trading properties | | **6.4** | 6.7 |
| Gross rent from wholly owned properties | | **7.4** | 7.6 |
| **Earnings businesses** | | | |
| Management fees | | **9.1** | 10.6 |
| SNO!zone income | 2a | **12.4** | 12.5 |
| **Revenue per consolidated income statement** | 2b | **28.9** | 30.7 |
| Finance income | 6 | **2.3** | 1.2 |
| **Total revenue** | | **31.2** | 31.9 |

Management fees represent revenue earned by the Group's wholly-owned CRPM subsidiary.

With effect from 21 July 2010, the fee basis earned by CRPM for asset and property management on The Mall changed from a percentage of property under management to a fixed fee of £4.5 million per annum. 25% of this fee is subject to reduction on a sliding scale from 100% to 75% if the valuation of the properties in the fund falls to between £850 million and £600 million. The above fee basis will be effective from 21 July 2010 when the Mall Bond Security Trustee has issued final confirmation of the fee arrangements.

## 4 Cost of sales

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Property costs of wholly owned properties | | **0.3** | 0.2 |
| Void costs of wholly owned properties | | **0.4** | 0.4 |
| SNO!zone expenses | | **11.7** | 9.9 |
| Impairment reversal of trading properties | 12a | **(0.7)** | (0.1) |
| **Total cost of sales** | | **11.7** | 10.4 |

## 5 Other gains and losses

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Profit on sale of SNO!zone Braehead subsidiary | 32b | **0.1** | – |
| Loss on sale of MEN Arena joint venture | | **–** | (0.2) |
| Impairment of goodwill | 13 | **(0.1)** | (0.7) |
| **Total other gains and losses** | | **–** | (0.9) |

## 6 Finance income

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Interest receivable | | **1.3** | 1.2 |
| Gain in fair value of financial instruments: | | | |
| — Interest rate swaps | | **0.5** | – |
| — Ineffective portion of forward foreign exchange contracts | | **0.2** | – |
| — Unhedged element of forward foreign exchange contracts | | **0.3** | – |
| **Total finance income** | 3 | **2.3** | 1.2 |

## 7 Finance costs

| | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **4.8** | 4.8 |
| Interest receivable on swaps | **(0.5)** | (0.4) |
| Interest payable | **4.3** | 4.4 |
| Amortisation of loan issue costs | **0.4** | 0.5 |
| Other interest payable | **1.0** | 1.3 |
| Loss in fair value of financial instruments: | | |
| — Interest rate swaps | **–** | 1.1 |
| — Ineffective portion of forward foreign exchange contracts | **–** | 0.1 |
| — Unhedged element of forward foreign exchange contracts | **–** | – |
| **Total finance costs** | **5.7** | 7.4 |

## 8 Profit before tax

The profit before tax has been arrived at after charging the following items:

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Depreciation of plant and equipment | 14 | **0.4** | 0.5 |
| Property revaluation | 12a | **1.5** | 0.2 |
| Impairment of goodwill | 13 | **0.1** | 0.7 |
| Impairment of trade receivables | 19 | **–** | 0.1 |
| Staff costs | 9 | **13.5** | 13.5 |
| Auditors' remuneration | | **0.2** | 0.2 |

# Notes to the financial statements continued

For the year to 30 December 2011

## 8 Profit before tax continued

**Auditors' remuneration**

The analysis of the auditors' remuneration is as follows:

| | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | **0.1** | 0.1 |
| Fees payable to the Company's auditor and their associates for other services to the Group – the audit of the Company's subsidiaries | **0.1** | 0.1 |
| **Total audit fees for the Company and its subsidiaries** | **0.2** | 0.2 |
| Fees payable to the Company's auditor and their associates for other services to the Group – the audit of the Company's affiliates | **0.1** | 0.1 |
| **Total audit fees** | **0.3** | 0.3 |
| Tax compliance services | **0.1** | 0.1 |
| Other non-audit services | **0.1** | – |
| **Total non-audit fees** | **0.2** | 0.1 |
| **Total fees paid to auditor and their associates** | **0.5** | 0.4 |

Included in other non-audit services is an amount for audit related assurance services of £41,500 (2010: £40,000), which related to the review of the Group's interim report.

The fees in relation to the audit of the Company's affiliates have been disclosed gross and have not been pro-rated to reflect the Company's equity investmenst percentage.

Of the tax compliance services payable to the Company's auditors, £15,000 (2010: £nil) was payable by the Company, with the balance of the fee relating to amounts incurred by affiliates.

No services were provided pursuant to contingent fee arrangements.

## 9 Staff costs

All remuneration, including directors, is paid by either CRPM or the SNO!zone companies.

| | Note | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m |
|---|---|---|---|
| Salaries | | **10.5** | 10.9 |
| Ex-gratia payments | | **–** | 0.3 |
| Discretionary bonuses | | **1.0** | 0.3 |
| Share-based payments | 26 | **0.8** | 0.7 |
| | | **12.3** | 12.2 |
| Social security | | **1.1** | 1.2 |
| Other pension costs | | **0.1** | 0.1 |
| | | **13.5** | 13.5 |

Except for the directors, the Company has no employees. The costs of the directors shown in the directors' remuneration report are borne by CRPM and appropriate amounts recharged to the Company.

## 9 Staff costs continued

### Staff numbers

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

| | Year to 30 December 2011 Number | Year to 30 December 2010 Number |
|---|---|---|
| CRPM | **84** | 91 |
| SNO!zone | **251** | 253 |
| Total staff numbers | **335** | 344 |

## 10 Tax

## 10a Tax charge

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| **Current tax charge/(credit)** | | | |
| UK corporation tax | | **2.2** | – |
| Adjustments in respect of prior years | | **(0.2)** | (0.6) |
| Foreign tax | | **0.1** | 0.1 |
| Total current tax charge/(credit) | | **2.1** | (0.5) |
| **Deferred tax charge** | | | |
| Origination and reversal of temporary timing differences | | **0.2** | 2.5 |
| Total deferred tax charge | 10c | **0.2** | 2.5 |
| **Total tax charge** | 10b | **2.3** | 2.0 |

£nil (2010: £nil) of the tax charge relates to items included in other comprehensive income.

## 10b Tax charge reconciliation

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Profit before tax | | **23.4** | 46.4 |
| Profit multiplied by the UK corporation tax rate of 26.5% (2010: 28%) | | **6.2** | 13.0 |
| Non-allowable expenses and non-taxable items | | **(2.5)** | (1.0) |
| Utilisation of tax losses | | **(1.1)** | (0.7) |
| Tax on realised gains/(losses) | | **(0.2)** | (1.5) |
| Unrealised (gains)/losses on investment properties not taxable | | **0.1** | (8.2) |
| Temporary timing and controlled foreign companies income | | **0.1** | 1.0 |
| Adjustments in respect of prior years | | **(0.3)** | (0.6) |
| Total tax charge | 10a | **2.3** | 2.0 |

# Notes to the financial statements continued
For the year to 30 December 2011

## 10c Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements during the current and preceding year.

| | Note | Capital allowances £m | Other timing differences £m | **Total deferred tax liability £m** |
|---|---|---|---|---|
| At 30 December 2009 | | (4.9) | 3.7 | **(1.2)** |
| Deferred tax charge | | – | (2.5) | **(2.5)** |
| At 30 December 2010 | | (4.9) | 1.2 | **(3.7)** |
| Deferred tax charge | 10a | (0.3) | 0.1 | **(0.2)** |
| **At 30 December 2011** | | (5.2) | 1.3 | **(3.9)** |

The reduction in the UK corporation tax rate at 1 April 2012 from 26% to 25% was substantively enacted on 5 July 2011. Consequently, the UK corporation tax rate at which deferred tax is booked in the financial statements is 25% (2010: 27%).

There are no temporary differences relating to the unremitted earnings of subsidiaries as the Groups overseas subsidiaries are controlled foreign companies under UK tax legislation and their profits are treated as taxable in the UK in the year they arise. No deferred tax asset has been recognised in respect of temporary differences arising from investments in associates and interests in joint ventures of £2.2 million (2010: £3.0 million) as it is not certain that a deduction will be available when the asset crystallises.

## 10d Unused tax losses

The Group has £55.8 million (2010: £111.4 million) of unused revenue tax losses, all of which are in the UK. Unused revenue tax losses have reduced over the period in mitigation of historic tax matters following further negoitations with the tax authorities. A deferred tax asset of £0.5 million (2010: £0.6 million) has been recognised in respect of £2.1 million (2010: £2.2 million) of these losses, based on future profit forecasts. No deferred tax asset has been recognised in respect of the remainder owing to the unpredictability of future profit streams and other reasons which may restrict the utilisation of the losses. The Group has unused capital losses of £21.4 million (2010: £21.5 million) that are available for offset against future gains but 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.

## 10e Factors affecting tax

The calculation of the Group's tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. The Group has undertaken a number of other significant transactions in prior years which still need to be agreed with the tax authorities. The Group has assessed the potential exposure in respect of these transactions and maintains a limited provision on the expectation that no material liability will arise. The Group continues to monitor the position together with its advisers and is seeking to agree these outstanding matters with the tax authorities.

The Budget on 23 March 2011 revised the previously announced phased reduction in the UK statutory corporation tax rate. The rate is now proposed to reduce to 23% (previously 24%) by 1 April 2014. The reduction in the UK corporation tax rate at 1 April 2012 from 26% to 25% was substantively enacted on 5 July 2011. This change will not have a significant impact on the Group.

In 2009 agreement was reached with the tax authorities related to tax structuring of previous property disposals by the Group in 2004 and 2005 which resulted in a liability of £19.5 million including interest. During the period £10.0 million was paid and as at 30 December 2011 the non-current corporate tax liability related to this was £5.0 million.

# 11 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:

## 11a Earnings per share calculation

| | | Year to 30 December 2011 | | | Year to 30 December 2010 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Basic** | **Diluted** | **EPRA diluted** | Basic | Diluted | EPRA diluted |
| **Profits (£m)** | | | | | | | |
| Profit for the year | | **21.1** | **21.1** | **21.1** | 44.4 | 44.4 | 44.4 |
| Revaluation of investment properties | 11b | **–** | **–** | **(1.0)** | – | – | (29.6) |
| Profit on disposal of investment properties (net of tax) | 11b | **–** | **–** | **(0.5)** | – | – | (3.2) |
| Movement in fair value of financial instruments (net of tax) | 11b | **–** | **–** | **(2.0)** | – | – | 0.1 |
| Impairment of goodwill | 13 | **–** | **–** | **0.1** | – | – | 0.7 |
| Deferred tax charge on capital allowances | 10c | **–** | **–** | **0.3** | – | – | – |
| | | **21.1** | **21.1** | **18.0** | 44.4 | 44.4 | 12.4 |
| **Weighted average number of shares (m)** | | | | | | | |
| Ordinary shares in issue | 25 | **350.6** | **350.6** | **350.6** | 350.6 | 350.6 | 350.6 |
| Own shares held | | **(1.8)** | **(1.8)** | **(1.8)** | (2.2) | (2.2) | (2.2) |
| Dilutive contingently issuable shares and share options | | **–** | **0.2** | **0.2** | – | 0.5 | 0.5 |
| | | **348.8** | **349.0** | **349.0** | 348.4 | 348.9 | 348.9 |
| **Earnings per share (pence)** | | **6p** | **6p** | **5p** | 13p | 13p | 4p |

At the end of the year, the Group had 15,569,672 (2010: 14,671,893) share options and contingently issuable shares granted under share-based payment schemes that could potentially have diluted basic 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.

## 11b Reconciliation of earnings figures included in earnings per share calculations

| | | Year to 30 December 2011 | | | Year to 30 December 2010 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Revaluation movements** | **Profit/(loss) on disposal** | **Movement in fair value of financial instruments** | Revaluation movements | Profit/(loss) on disposal | Movement in fair value of financial instruments |
| Associates | 18d | **3.5** | **0.8** | **1.2** | 28.4 | 5.0 | (1.4) |
| Joint ventures | 18e | **(1.0)** | **(0.1)** | **0.4** | 1.4 | (0.3) | 3.2 |
| Wholly owned | | **(1.5)** | **–** | **1.0** | (0.2) | (0.2) | (1.2) |
| Tax effect | | **–** | **(0.2)** | **(0.6)** | – | (1.3) | (0.7) |
| Total | 11a | **1.0** | **0.5** | **2.0** | 29.6 | 3.2 | (0.1) |

# Notes to the financial statements continued

For the year to 30 December 2011

## 12 Property assets

## 12a Wholly-owned properties

| | Note | Freehold investment properties £m | Leasehold investment properties £m | Sub-total investment properties £m | Freehold trading properties £m | **Total property assets £m** |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 30 December 2009 | | 0.2 | 10.0 | 10.2 | 70.7 | **80.9** |
| Impairment reversal of trading properties | | – | – | – | 0.1 | **0.1** |
| Revaluation movement | | – | (0.2) | (0.2) | – | **(0.2)** |
| At 30 December 2010 | | 0.2 | 9.8 | 10.0 | 70.8 | **80.8** |
| Acquisition | 18c | 26.1 | – | 26.1 | – | **26.1** |
| Disposal into a joint venture | 18c | (26.1) | – | (26.1) | – | **(26.1)** |
| Impairment reversal of trading properties | | – | – | – | 0.7 | **0.7** |
| Revaluation movement | | – | (1.5) | (1.5) | – | **(1.5)** |
| **At 30 December 2011** | | **0.2** | **8.3** | **8.5** | **71.5** | **80.0** |

The Group did not have any wholly owned development property in either the current year or the preceding year. The Group has pledged land and buildings with a carrying amount of £79.8 million (2010: £80.6 million) to secure banking facilities granted to the Group, including amounts relating to trading properties of £71.5 million (2010: £70.8 million). Those banking facilities restrict the remittance of income from the properties to elsewhere in the Group.

## 12b Property assets summary

| | Note | **30 December 2011 Valuation £m** | 30 December 2010 Valuation £m |
|---|---|---|---|
| **Wholly owned** | | | |
| Investment properties at fair value | | **8.5** | 10.0 |
| Trading properties at the lower of cost and net realisable value | | **72.0** | 72.0 |
| Unamortised tenant incentives on trading properties | | **(0.5)** | (1.2) |
| | | **80.0** | 80.8 |
| **Joint ventures (100%)** | | | |
| Investment properties at fair value | | **575.9** | 546.7 |
| Unamortised tenant incentives on investment properties | | **(6.0)** | (5.8) |
| | 18e | **569.9** | 540.9 |
| **Associates (100%)** | | | |
| Investment properties at fair value | | **1,871.7** | 2,217.5 |
| Head leases treated as finance leases on investment properties | | **70.2** | 84.8 |
| Unamortised tenant incentives on investment properties | | **(44.8)** | (49.3) |
| Held for sale properties at fair value | | **84.2** | 50.0 |
| | 18d | **1,981.3** | 2,303.0 |

## 12b Property assets summary continued

**Valuations**

In addition to the wholly-owned properties shown above, the Group's property assets include its share in the investment properties held by its associates and joint ventures. External valuations at 30 December 2011 were carried out on £2,479.7 million (2010: £2,760.5 million) of the property assets held by the Group and its associates and joint ventures, of which the Group's share was £650.2 million (2010: £670.0 million).

The valuations were carried out by independent qualified professional valuers from CB Richard Ellis Limited, Cushman & Wakefield LLP, DTZ Debenham Tie Leung Limited and Jones Lang LaSalle Limited. 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 valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

Directors' valuations at 30 December 2011 were carried out on £132.6 million (2010: £135.7 million) of the property assets of the Group's associates and joint ventures, of which the Group's share was £26.7 million (2010: £27.3 million). The valuations were carried out by Kenneth Ford BSc FRICS and were arrived at by reference to market evidence of transaction prices for similar properties.

## 13 Goodwill

| | **30 December 2011 £m** | 30 December 2010 £m |
|---|---|---|
| At the start of the year | **1.9** | 2.6 |
| Impairment losses for the year | **(0.1)** | (0.7) |
| At the end of the year | **1.8** | 1.9 |

The goodwill carried in the Group balance sheet relates to the management contracts for the X-Leisure fund held by the Group's X-Leisure Limited joint venture. The management contracts are co-terminus with the life of the X-Leisure fund. The goodwill is tested annually for impairment or more frequently if there are indications that it might be impaired. An impairment review was carried out at 30 December 2011 to calculate the recoverable amount of the goodwill based on its value in use, derived from the forecast cash flows generated by the management contracts.

The following key assumptions were applied to the forecast cash flows: (i) the pre-tax rate used to discount the expected cash flows is 9.5% (2010: 11.2%); (ii) management fees receivable are in line with the asset management contract, including both a fixed element and a variable amount dependent on the growth in net operating income of the X-Leisure fund; (iii) fixed and variable administration costs, are assumed to grow by 2.4% per annum beyond the three-year period modelled in the Group's forecasts; (iv) a performance fee is received on the expiry of the fund based on current forecasts of performance; and (v) the expiry date of the X-Leisure fund is 31 December 2014, with a 50% chance that the life of the fund will be extended to 31 December 2021. If the termination date of the fund were to be the initial expiry date of 31 December 2014, there would be an additional impairment of £0.2 million in the year.

# Notes to the financial statements continued

For the year to 30 December 2011

## 14 Plant and equipment

| | **30 December 2011 £m** | 30 December 2010 £m |
|---|---|---|
| **Cost or valuation** | | |
| At the start of the year | **2.7** | 4.4 |
| Additions | **0.3** | 0.5 |
| Disposals | **(0.7)** | (2.2) |
| At the end of the year | **2.3** | 2.7 |
| **Accumulated depreciation** | | |
| At the start of the year | **(1.8)** | (3.4) |
| Charge for the year | **(0.4)** | (0.5) |
| Eliminated on disposal | **0.6** | 2.1 |
| At the end of the year | **(1.6)** | (1.8) |
| **Carrying amount** | | |
| At the end of the year | **0.7** | 0.9 |

## 15 Available for sale investments

| | **30 December 2011 £m** | 30 December 2010 £m |
|---|---|---|
| **Fair value** | | |
| At the start of the year | **0.3** | 0.3 |
| Revaluation movement | **–** | – |
| At the end of the year | **0.3** | 0.3 |

Available for sale investments comprises of £303,682 (2010: £290,175) representing a 0.3% interest in units of the Paddington Central II and III Unit Trusts, and £10,000 (2010: £10,000) representing a 49.99% interest in Bestpark Investments Limited, which is treated as an investment as the Group does not exercise significant influence or control over the entity. On 12 January 2012 the Group disposed of its 0.3% interest in the units of the Paddington Central III Unit Trust for £0.3 million.

## 16 Non-current receivables

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| **Financial assets** | | |
| Loans to joint ventures | **32.1** | 24.7 |
| Non-derivative financial assets | **32.1** | 24.7 |
| Financial assets carried at fair value through the profit or loss: | | |
| — Foreign exchange forward contracts | **0.6** | – |
| — Interest rate swaption | **0.2** | – |
| | **32.9** | 24.7 |
| **Non-financial assets** | | |
| Prepayments – tenant incentives | **0.4** | 1.2 |
| | **33.3** | 25.9 |

Interest is payable on loans to joint ventures at normal commercial rates. The Group has pledged loans to joint ventures with a carrying amount of £15.0 million (2010: £14.6 million) to secure banking facilities granted to the Group.

## 17 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note G to the Company financial statements.

The terms of the Group's central borrowing facility may restrict the ability of Capital & Regional Holdings Limited and its subsidiaries to make cash distributions or repay loans and advances to the Company or elsewhere in the Group if they would thereby cause a default on the facility.

The terms of the borrowing facilities for the Great Northern and Hemel Hempstead properties include cash sweeps that restrict the ability of Morrison Merlin Limited and Capital & Regional Hemel Hempstead (Jersey) Limited to make cash distributions or repay loans and advances to the Company or elsewhere in the Group as disclosed in note 20.

## 18 Investment in associates and joint ventures

### 18a Share of results

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Share of results of associates | 18b | **16.7** | 38.4 |
| Share of results of joint ventures | 18c | **5.6** | 6.8 |
| | | **22.3** | 45.2 |

# Notes to the financial statements continued

For the year to 30 December 2011

## 18b Investment in associates

| | Note | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|---|
| At the start of the year | | **110.8** | 76.4 |
| Investment in associates | | **4.0** | 2.7 |
| Share of results of associates | 18a, 18d | **16.7** | 38.4 |
| Dividends and capital distributions received | 37 | **(11.2)** | (6.3) |
| Foreign exchange differences | | **(0.1)** | – |
| Impairments | | **–** | (0.4) |
| At the end of the year | 18d | **120.2** | 110.8 |

The Group's associates are:

| | Group interest At the start of the year % | Average during the year % | At the end of the year % |
|---|---|---|---|
| The Mall Limited Partnership | 16.72 | 16.94 | 18.16 |
| The Junction Limited Partnership | 13.29 | 13.29 | 13.29 |
| X-Leisure Limited Partnership | 11.93 | 11.93 | 11.93 |
| The FIX UK Limited Partnership | 20.00 | 20.00 | 20.00 |
| Garigal Asset Management GmbH ("Garigal") | 30.06 | 30.06 | 30.06 |
| Euro B-Note Holding Limited | 49.90 | 49.90 | 49.90 |

Whilst the Group holds less than 20% in The Mall Limited Partnership, The Junction Limited Partnership and X-Leisure Limited Partnership, they are accounted for as associates as the Group has significant influence arising from its representation on the General Partner boards. The Group holds 20% of The FIX UK Limited Partnership and exercises significant influence through its representation on the General Partner board and holds 30.06% of Garigal and exercises significant influence through its representation on the advisory board. The Group holds an effective 49.90% of Euro B-Note Holding Limited and exercises significant influence through its ownership interest.

### The Mall Limited Partnership

During the second half of 2011, the Group purchased 13.6 million units in The Mall Fund at an average of £0.30 per unit for a total consideration of £4.0 million resulting in a gain on investment of £1.1 million as disclosed in note 18d. These purchases increased the holding in The Mall Fund by 1.44% to 18.16% at the end of the year.

On 8 February 2012, the Group purchased 18.7 million units in The Mall Fund at £0.30 per unit for a total consideration of £5.6 million and this increased the holding in The Mall Fund from 18.16% to 20.15%.

## 18b Investment in associates continued

### The Junction Limited Partnership

Under the terms of The Junction Limited Partnership fund's open offer in 2009 the Group's share fell to 13.44% and adjustments could be made to the price at which new units were issued to reflect the recoverability of debtors and the expected costs of certain remedial works. At 30 December 2011, the expected impact of these adjustments would mean the Group's share in the fund would be reduced to 13.29% (2010: 13.29%).

### X-Leisure Limited Partnership

On 18 March 2011, Hermes sold their investments in X-Leisure and X-Leisure Limited to AREA which resulted in amendments to management contracts but has no material impact on the Group.

### Euro B-Note Holding Limited

As disclosed in note 18d, during the year investment income of £4.0 million was recognised which relates to the Group's share of the fair value uplift on the €18.0 million of junior debt that was acquired by the Group and the German joint venture partner shortly before the 2010 year end. The loan receivable was fair valued to €12.9 million as at the date of the successful debt extension in the relevant German joint venture portfolio in July 2011 and is being carried at amortised cost of €13.5 million (Group share of £5.6 million) as at 30 December 2011.

### Cash distributions

The borrowing arrangements of The Mall, The Junction, X-Leisure and FIX UK include certain terms including cash sweeps that may restrict their ability to make cash distributions to the Group as follows:

- The Mall is unable to make distributions as long as its LTV is above 60% and its debt above £600 million.
- The Junction is able to make distributions and made a distribution to the Group of £9.9 million during the year.
- X-Leisure is able to make distributions and made a distribution to the Group of £1.3 million during the year.
- FIX UK is unable to make distributions until the expiry of its loans in February 2013.

# Notes to the financial statements continued

For the year to 30 December 2011

## 18c Investment in joint ventures

| | Note | **30 December 2011 £m** | 30 December 2010 £m |
|---|---|---|---|
| At the start of the year | | **25.7** | 30.3 |
| Investment in joint ventures | | **1.2** | – |
| Share of results of joint ventures | 18a, 18e | **5.6** | 6.8 |
| Dividends and capital distributions received | 37 | **(4.5)** | (3.4) |
| Foreign exchange differences | | **(0.8)** | (1.5) |
| Share buy backs from joint ventures | | **–** | (0.6) |
| Net assets of MEN Arena joint venture disposed of | | **–** | (5.9) |
| At the end of the year | 18e | **27.2** | 25.7 |

The Group's significant joint ventures are:

| | Group interest | | |
|---|---|---|---|
| | At the start of the year % | Average during the year % | At the end of the year % |
| German portfolio | 50.00 | 50.00 | 50.00 |
| X-Leisure Limited | 50.00 | 50.00 | 50.00 |
| Xscape Braehead Partnership | 50.00 | 50.00 | 50.00 |
| The Auchinlea Partnership | 50.00 | 50.00 | 50.00 |
| Waterside Lincoln Limited Partnership | – | 50.00 | 50.00 |

The Group's investments in joint ventures include its share of the German portfolio is (49.6%), and its investments in X-Leisure Limited (50%), Xscape Braehead Partnership (50%), The Waterside Lincoln Limited Partnership (50%) and The Auchinlea Partnership (50%). The Group's share in the German portfolio is accounted for at 50% as the minority interests are included as a liability on the joint venture balance sheet.

### German portfolio

The €162.3 million debt in one of the German portfolios matured in July 2011. As anticipated, as part of the refinancing process a covenant breach was triggered in April 2011 and a standstill agreement was agreed for a period until 14 July 2011. On 15 July 2011 agreement was successfully reached to extend the maturity of the €162.3 million debt by three years. The key terms of the debt extension include no change in the margin, but an extension fee of 10 basis points in year one, 25 basis points in year two and 100 basis points in year three and fixed LTV and ICR targets that commence in July 2012.

The Group invested €1.4 million (£1.2 million) into the German portfolio during the year to fund the purchase of Schwäbisch Hall on 30 December 2011 and various debt refinancing costs.

During the year the German portfolio made distributions to the Group of €4.3 million (£3.7 million).

## 18c Investment in joint ventures continued

X-Leisure Limited

On 18 March 2011, Hermes sold their investments in X-Leisure and X-Leisure Limited to AREA which resulted in amendments to management contracts but has no material impact on the Group.

During the year X-Leisure Limited made distributions to the Group of £0.5 million.

The Auchinlea Partnership

During the year The Auchinlea Partnership made distributions to the Group of £0.3 million.

Waterside Lincoln Limited Partnership

On 22 February 2011, the Group completed the purchase of The Waterside Shopping Centre ("Waterside") in Lincoln for total cash consideration of £26.1 million, being a property cost of £24.8 million and directly related transaction costs of £1.3 million. The acquisition was completed utilising a new four year £13.6 million facility from Deutsche PostBank, together with existing cash resources.

On 8 March 2011, the Group conditionally exchanged contracts with Karoo Investment Fund II S.C.A SICAV-SIF ("Karoo") to form a joint venture by selling 50% of the Group's interest in Waterside ("the Disposal"). As the Group and Karoo have common significant shareholders the formation of the joint venture was conditional upon shareholder approval which was granted on 1 April 2011.

On 8 April 2011 the Group completed the Disposal. The Group initially acquired the Waterside through an English Limited Partnership consisting of a General Partner and two equal Limited Partners. In order to form the joint venture, the Group sold the entire share capital of one of the Limited Partners and 50% of the share capital of the General Partner to Karoo. Under the terms of the Disposal it was agreed that Karoo would fund half of the total costs and related expenses incurred by the Group in acquiring Waterside. Accordingly, the total amount paid by Karoo was £6.4 million comprising a purchase price for the shares being sold of £58k and £6.37 million of financing that had been provided by the Group to complete the purchase of Waterside. Following the Disposal the Group's remaining 50% interest in Waterside is classified as a loan to joint venture amounting to £6.4 million at 30 December 2011. The profit during the period from the date of purchase on 22 February 2011 to the date of disposal on 8 April 2011 was £0.1 million.

# Notes to the financial statements continued

For the year to 30 December 2011

## 18d Analysis of investment in associates

| | Note | The Mall £m | The Junction £m | X-Leisure £m | Others £m | **Year to 30 December 2011 Total £m** | Year to 30 December 2010 Total £m |
|---|---|---|---|---|---|---|---|
| **Income statement (100%)** | | | | | | | |
| Revenue – gross rent | | 94.5 | 22.3 | 42.4 | 10.9 | **170.1** | 197.8 |
| Property and management expenses | | (18.4) | (2.8) | (7.6) | (1.1) | **(29.9)** | (34.0) |
| Void costs | | (5.3) | (0.5) | (1.6) | (0.3) | **(7.7)** | (10.3) |
| Net rent | | 70.8 | 19.0 | 33.2 | 9.5 | **132.5** | 153.5 |
| Net interest payable | | (47.7) | (15.8) | (22.4) | (9.2) | **(95.1)** | (119.0) |
| Contribution | | 23.1 | 3.2 | 10.8 | 0.3 | **37.4** | 34.5 |
| Revenue - management fees | | – | – | – | 4.3 | **4.3** | 0.9 |
| Management expenses | | – | – | – | (2.9) | **(2.9)** | (0.8) |
| Revaluation of investment properties | | (5.9) | 8.1 | 35.5 | (3.8) | **33.9** | 194.4 |
| Profit/(loss) on sale of investment properties | | (4.4) | 11.2 | – | – | **6.8** | 33.5 |
| Fair value of interest rate swaps | | 0.2 | 0.4 | 2.8 | 3.7 | **7.1** | (13.7) |
| Investment income | 18b | – | – | – | 8.1 | **8.1** | – |
| Profit before tax | | 13.0 | 22.9 | 49.1 | 9.7 | **94.7** | 248.8 |
| Tax | | – | – | – | (0.4) | **(0.4)** | – |
| Profit after tax | | 13.0 | 22.9 | 49.1 | 9.3 | **94.3** | 248.8 |
| **Balance sheet (100%)** | | | | | | | |
| Investment properties | 12b | 933.2 | 275.9 | 557.3 | 130.7 | **1,897.1** | 2,253.0 |
| Investment properties held for sale | 12b | 84.2 | – | – | – | **84.2** | 50.0 |
| Other assets | | 154.8 | 34.6 | 38.0 | 22.6 | **250.0** | 264.3 |
| Current liabilities | | (50.2) | (6.3) | (22.7) | (7.0) | **(86.2)** | (203.4) |
| Non-current liabilities | | (764.7) | (175.7) | (317.1) | (126.1) | **(1,383.6)** | (1,611.2) |
| **Net assets (100%)** | | 357.3 | 128.5 | 255.5 | 20.2 | **761.5** | 752.7 |
| **Income statement (Group share)** | | | | | | | |
| Revenue – gross rent | | 16.0 | 3.0 | 5.1 | 2.2 | **26.3** | 30.6 |
| Property and management expenses | | (3.1) | (0.5) | (0.8) | (0.1) | **(4.5)** | (5.4) |
| Void costs | | (0.9) | (0.1) | (0.2) | (0.1) | **(1.3)** | (1.6) |
| Net rent | | 12.0 | 2.4 | 4.1 | 2.0 | **20.5** | 23.6 |
| Net interest payable | | (8.1) | (2.1) | (2.7) | (1.8) | **(14.7)** | (18.1) |
| Contribution | | 3.9 | 0.3 | 1.4 | 0.2 | **5.8** | 5.5 |
| Revenue - management fees | | – | – | – | 1.3 | **1.3** | 0.3 |
| Management expenses | | – | – | – | (0.9) | **(0.9)** | (0.3) |
| Revaluation of investment properties | 11b | (1.1) | 1.2 | 4.2 | (0.8) | **3.5** | 28.4 |
| Profit/(loss) on sale of investment properties | 11b | (0.7) | 1.5 | – | – | **0.8** | 5.0 |
| Fair value of interest rate swaps | 11b | 0.1 | 0.1 | 0.3 | 0.7 | **1.2** | (1.4) |
| Investment income | 18b | – | – | – | 4.0 | **4.0** | – |
| Gain recognised on investment in Mall | 18b | 1.1 | – | – | – | **1.1** | – |
| Gain recognised on investment in Garigal | | – | – | – | – | **–** | 0.9 |
| Profit before tax | | 3.3 | 3.1 | 5.9 | 4.5 | **16.8** | 38.4 |
| Tax | | – | – | – | (0.1) | **(0.1)** | – |
| Profit after tax | 18b | 3.3 | 3.1 | 5.9 | 4.4 | **16.7** | 38.4 |
| **Balance sheet (Group share)** | | | | | | | |
| Investment properties | | 169.5 | 36.7 | 66.5 | 26.1 | **298.8** | 340.4 |
| Investment properties held for sale | | 15.3 | – | – | – | **15.3** | 8.4 |
| Other assets | | 28.1 | 4.6 | 4.5 | 8.4 | **45.6** | 42.4 |
| Current liabilities | | (9.1) | (0.8) | (2.7) | (1.6) | **(14.2)** | (31.0) |
| Non-current liabilities | | (138.9) | (23.4) | (37.8) | (25.2) | **(225.3)** | (249.4) |
| **Net assets (Group share)** | 18b | 64.9 | 17.1 | 30.5 | 7.7 | **120.2** | 110.8 |

## 18e Analysis of investment in joint ventures

| | Note | German portfolio £m | Others £m | **Year to 30 December 2011 Total £m** | Year to 30 December 2010 Total £m |
|---|---|---|---|---|---|
| **Income statement (100%)** | | | | | |
| Revenue – gross rent | | 38.6 | 5.6 | **44.2** | 44.2 |
| Property and management expenses | | (5.1) | (0.9) | **(6.0)** | (8.0) |
| Void costs | | (0.2) | (0.6) | **(0.8)** | (0.2) |
| Net rent | | 33.3 | 4.1 | **37.4** | 36.0 |
| Net interest payable | | (19.3) | (4.1) | **(23.4)** | (26.1) |
| Contribution | | 14.0 | – | **14.0** | 9.9 |
| Revenue - management fees | | – | 4.7 | **4.7** | 4.7 |
| Management expenses | | – | (3.9) | **(3.9)** | (3.5) |
| Revaluation of investment properties | | (4.8) | 2.9 | **(1.9)** | 3.8 |
| Loss on sale of investment properties | | (0.1) | – | **(0.1)** | (0.6) |
| Fair value of interest rate swaps | | 0.4 | 0.3 | **0.7** | 6.7 |
| Write-off of SNO!zone tenant incentives | | – | – | **–** | (2.1) |
| Profit before tax | | 9.5 | 4.0 | **13.5** | 18.9 |
| Tax | | (2.1) | (0.2) | **(2.3)** | (4.1) |
| Profit after tax | | 7.4 | 3.8 | **11.2** | 14.8 |
| **Balance sheet (100%)** | | | | | |
| Investment properties | 12b | 495.6 | 74.3 | **569.9** | 540.9 |
| Other assets | | 15.9 | 13.8 | **29.7** | 36.6 |
| Current liabilities | | (38.6) | (6.6) | **(45.2)** | (173.7) |
| Non-current liabilities | | (406.6) | (93.4) | **(500.0)** | (352.7) |
| **Net assets (100%)** | | 66.3 | (11.9) | **54.4** | 51.1 |
| **Income statement (Group share)** | | | | | |
| Revenue – gross rent | | 19.3 | 2.8 | **22.1** | 21.6 |
| Property and management expenses | | (2.5) | (0.5) | **(3.0)** | (3.7) |
| Void costs | | (0.1) | (0.3) | **(0.4)** | (0.1) |
| Net rent | | 16.7 | 2.0 | **18.7** | 17.8 |
| Net interest payable | | (9.6) | (2.0) | **(11.6)** | (12.8) |
| Contribution | | 7.1 | – | **7.1** | 5.0 |
| Revenue - management fees | | – | 2.3 | **2.3** | 2.4 |
| Management expenses | | – | (1.9) | **(1.9)** | (1.8) |
| Revaluation of investment properties | 11b | (2.4) | 1.4 | **(1.0)** | 1.4 |
| Loss on sale of investment properties | 11b | (0.1) | – | **(0.1)** | (0.3) |
| Fair value of interest rate swaps | 11b | 0.2 | 0.2 | **0.4** | 3.2 |
| Write-off of SNO!zone tenant incentives | | – | – | **–** | (1.0) |
| Profit before tax | | 4.8 | 2.0 | **6.8** | 8.9 |
| Tax | | (1.1) | (0.1) | **(1.2)** | (2.1) |
| Profit after tax | 18c | 3.7 | 1.9 | **5.6** | 6.8 |
| **Balance sheet (Group share)** | | | | | |
| Investment properties | | 247.8 | 37.1 | **284.9** | 270.5 |
| Other assets | | 8.0 | 6.9 | **14.9** | 18.3 |
| Current liabilities | | (19.3) | (3.3) | **(22.6)** | (86.8) |
| Non-current liabilities | | (203.3) | (46.7) | **(250.0)** | (176.3) |
| **Net assets (Group share)** | 18c | 33.2 | (6.0) | **27.2** | 25.7 |

# Notes to the financial statements continued

For the year to 30 December 2011

## 19 Current receivables

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | **0.7** | 1.7 |
| Amounts owed by associates | **1.4** | 1.4 |
| Amounts owed by joint ventures | **0.2** | 0.2 |
| Other receivables | **0.9** | 0.9 |
| Accrued income | **0.5** | 0.6 |
| Non-derivative financial assets | **3.7** | 4.8 |
| Financial assets carried at fair value through the profit or loss: | | |
| - Foreign exchange forward contracts | **–** | 0.6 |
| | **3.7** | 5.4 |
| **Non-financial assets** | | |
| Prepayments | **1.3** | 1.7 |
| | **5.0** | 7.1 |

Trade receivables largely comprise amounts owed by tenants of the Group's wholly owned properties. Before accepting a new tenant, a review of its creditworthiness is carried out using an external credit scoring system and other publicly available financial information. Included in the non-derivative financial assets balance are receivables with a carrying amount of £1.1 million (2010: £2.3 million) which are past due at the reporting date for which the Group has not provided, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds collateral of £0.1 million (2010: £0.2 million) over trade receivables as security deposits held in rent accounts. The average age of trade receivables is 35 days (2010: 31 days).

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| **Analysis of non-derivative current financial assets** | | |
| Not past due | **2.6** | 2.5 |
| Past due but not individually impaired: | | |
| Less than 1 month | **0.4** | 1.2 |
| 1 to 3 months | **0.1** | 0.3 |
| 3 to 6 months | **–** | – |
| Over 6 months | **0.6** | 0.8 |
| | **3.7** | 4.8 |

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| **Allowances for doubtful receivables** | | |
| At the start of the year | **0.8** | 0.8 |
| Additional allowances created | **–** | 0.1 |
| Utilised during the year | **(0.6)** | (0.1) |
| At the end of the year | **0.2** | 0.8 |

## 20 Cash and cash equivalents

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| Cash at bank | **16.2** | 23.0 |
| Security deposits held in rent accounts | **0.1** | 0.2 |
| Other restricted balances | **3.7** | 2.5 |
| | **20.0** | 25.7 |

Other restricted balances include amounts subject to a charge against various borrowings and may therefore not be available for general use by the Group.

The analysis of cash and cash equivalents by currency is as follows:

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| Sterling | **19.7** | 25.2 |
| Euro | **0.3** | 0.5 |
| | **20.0** | 25.7 |

## 21 Current payables

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| **Financial liabilities** | | |
| Trade payables | **0.4** | 0.2 |
| Accruals | **4.1** | 2.0 |
| Payable to associates | **0.7** | 0.7 |
| Other payables | **1.7** | 3.4 |
| Non-derivative financial liabilities | **6.9** | 6.3 |
| **Non-financial liabilities** | | |
| Deferred income | **1.9** | 3.4 |
| Other taxation and social security | **1.2** | 1.2 |
| | **10.0** | 10.9 |

The average age of trade payables is 20 days (2010: 30 days) and no amounts incur interest (2010: £nil).

# Notes to the financial statements continued

For the year to 30 December 2011

## 22 Non-current payables

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| **Financial liabilities** | | |
| Accruals | **0.2** | 0.3 |
| Other payables | **0.3** | – |
| Non-derivative financial liabilities | **0.5** | 0.3 |
| Financial liabilities carried at fair value through profit or loss: | | |
| — Interest rate swaps | **3.5** | 4.5 |
| | **4.0** | 4.8 |

## 23 Borrowings
## 23a Summary of borrowings

The Group generally borrows on a secured basis and borrowings are arranged to ensure an appropriate maturity profile and to maintain short term liquidity. Short, medium and long term funding is raised principally through revolving credit facilities from a range of banks and financial institutions. There were no defaults or other breaches of financial covenants that were not waived under any of the Group's borrowings during the current year or the preceding year.

| Borrowings at amortised cost | Note | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|---|
| **Secured** | | | |
| Fixed and swapped bank loans | 23d | **59.6** | 60.8 |
| Variable rate bank loans | 23d | **7.6** | 9.7 |
| Total borrowings before costs | 23b | **67.2** | 70.5 |
| Unamortised issue costs | | **(0.6)** | (1.1) |
| **Total borrowings after costs** | | **66.6** | 69.4 |
| **Analysis of total borrowings after costs** | | | |
| Current | | **5.0** | 0.6 |
| Non-current | | **61.6** | 68.8 |
| **Total borrowings after costs** | | **66.6** | 69.4 |

Borrowings financing certain wholly owned properties are secured by charges on those properties, which are carried at £79.8 million (2010: £80.6 million) as disclosed in note 12a. The Group's central borrowing facility is secured by charges over the units the Group holds in The Mall, The Junction and X-Leisure funds carried at £112.5 million (£2010: £107.4 million) as disclosed in note 18d, charges over certain holdings in and loans to the German joint venture carried at £34.9 million (2010: £35.6 million), and guarantees by the Company.

As disclosed in note 18c, during the year the Group drew down £13.6 million on a new four year facility from Deutsche PostBank to part fund the acquisition of Waterside and capitalised related loan arrangement fees of £0.3 million. On 8 April 2011 a joint venture was formed by selling 50% of the Group's interest in Waterside. At 30 December 2011 the Deutsche PostBank debt is disclosed in see-through debt as part of the Group share of joint venture borrowings. The movement during the year on the Group balance sheet related to the Deutsche PostBank borrowing was:

## 23a Summary of borrowings continued

| Statutory balance sheet — Deutsche PostBank | 30 December 2011 £m |
|---|---|
| At the start of year | – |
| Bank loan drawn down | **13.6** |
| Loan arrangement costs | **(0.3)** |
| Borrowing after costs | **13.3** |
| Disposal into a joint venture | **(13.3)** |
| **At the end of the year** | – |

## 23b Maturity of borrowings

| | Note | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|---|
| From two to five years | | – | 63.6 |
| From one to two years | | **61.9** | 5.9 |
| Due after more than one year | | **61.9** | 69.5 |
| Current | | **5.3** | 1.0 |
| | 23a | **67.2** | 70.5 |

## 23c Undrawn committed facilities

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| Expiring between one and two years | **58.0** | – |
| Expiring between two and five years | – | 58.0 |

The undrawn amount represents the balance on the Group's central revolving credit facility. Under the terms of the loan covenants, as disclosed in note 24e, £58.0 million (2010: £58.0 million) was actually available for drawdown at year end. The Articles of the Company also restrict borrowing but this did not limit the amount available for drawdown on the facility during the current year or the preceding year.

# Notes to the financial statements continued

For the year to 30 December 2011

## 23d Interest rate and currency profile of borrowings

| | Note | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|---|
| **Fixed and swapped rate borrowings** | | | |
| 6% to 7% | | **59.6** | 60.8 |
| | 23a | **59.6** | 60.8 |
| **Floating rate borrowings** | 23a | **7.6** | 9.7 |
| | | **67.2** | 70.5 |

All loans are sterling denominated with the weighted average length of fix being 1.8 years (2010: 2.8 years). Floating rate borrowings bear interest based on three month LIBOR.

## 24 Financial instruments and risk management

## 24a Overview

### Capital risk management

The Group manages its capital to ensure that all entities in the Group will be able to continue as going concerns while maximising the returns to shareholders through the optimisation of the debt and equity balance. The overall strategy of reducing the Group's levels of balance sheet and see-through debt remained unchanged from 2010.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23a; cash and cash equivalents as disclosed in note 20; 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 but does not set specific targets for gearing ratios. 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. The Group has met its objectives for managing capital during 2011, with a reduction in its net debt to equity ratios largely as a result of property disposals.

## 24a Overview continued

### Gearing ratios

| Statutory | Note | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|---|
| Debt before unamortised issue costs | 23a | **67.2** | 70.5 |
| Cash and cash equivalents | 20 | **(20.0)** | (25.7) |
| Group net debt | | **47.2** | 44.8 |
| Cash adjustment[1] | | **–** | 5.0 |
| Adjusted group net debt | | **47.2** | 49.8 |
| Equity | | **196.0** | 174.5 |
| Debt to equity ratio | | **34%** | 40% |
| Net debt to equity ratio | | **24%** | 26% |
| Adjusted net debt to equity ratio | | **24%** | 29% |

| See-through | Note | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|---|
| Debt before unamortised issue costs | 24f | **497.0** | 532.2 |
| Cash and cash equivalents | | **(56.8)** | (64.7) |
| See-through net debt | | **440.2** | 467.5 |
| Cash adjustment[1] | | **–** | 5.0 |
| German debt adjustment[2] | | **(7.5)** | (7.8) |
| Adjusted see-through net debt | | **432.7** | 464.7 |
| Equity | | **196.0** | 174.5 |
| Debt to equity ratio | | **254%** | 305% |
| Net debt to equity ratio | | **225%** | 268% |
| Adjusted net debt to equity ratio | | **221%** | 266% |
| Property assets - wholly owned | 12a | **80.0** | 80.8 |
| Investment properties - associates | 18d | **314.1** | 348.8 |
| Investment properties - joint ventures | 18e | **284.9** | 270.5 |
| Property value | | **679.0** | 700.1 |
| Debt to property value ratio | | **73%** | 76% |
| Net debt to property value ratio | | **65%** | 67% |
| Adjusted net debt to property value ratio | | **64%** | 66% |

[1] Adjusted for the £5.0 million tax payment made on 31 December 2010 related to current tax liabilities recorded at 30 December 2010
[2] Adjusted for the Group's share of the €18.0 million German junior debt acquired during 2010

# Notes to the financial statements continued

For the year to 30 December 2011

## 24a Overview continued

### Categories of financial assets/(liabilities)

| | Note | 2011 Carrying value £m | 2011 Gain/(loss) to income £m | 2011 (Loss)/gain to equity £m | 2010 Carrying value £m | 2010 Gain/(loss) to income £m | 2010 (Loss)/gain to equity £m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Investments | 15 | **0.3** | – | – | 0.3 | – | – |
| **Available for sale** | | **0.3** | – | – | 0.3 | – | – |
| Loans to joint ventures | 16 | **32.1** | **1.2** | **(0.4)** | 24.7 | 1.1 | (1.1) |
| Current receivables | 19 | **3.7** | – | – | 4.8 | (0.1) | – |
| Cash and cash equivalents | 20 | **20.0** | **0.1** | – | 25.7 | 0.1 | – |
| **Loans and receivables** | | **55.8** | **1.3** | **(0.4)** | 55.2 | 1.1 | (1.1) |
| Foreign exchange forward contracts | 16,19 | **0.6** | **0.5** | **0.9** | 0.6 | (0.1) | 2.2 |
| **Derivatives in effective hedges** | | **0.6** | **0.5** | **0.9** | 0.6 | (0.1) | 2.2 |
| Interest rate swaption | 16 | **0.2** | **(0.5)** | – | – | – | – |
| **Assets at fair value held for trading** | | **0.2** | **(0.5)** | – | – | – | – |
| **Financial liabilities** | | | | | | | |
| Current payables | 21 | **(6.9)** | **0.5** | – | (6.3) | (0.3) | – |
| Non-current payables | 22 | **(0.5)** | – | – | (0.3) | – | – |
| Current borrowings | 23a | **(5.0)** | – | – | (0.6) | – | – |
| Non-current borrowings | 23a | **(61.6)** | **(4.7)** | – | (68.8) | (5.9) | – |
| **Liabilities at amortised cost** | | **(74.0)** | **(4.2)** | – | (76.0) | (6.2) | – |
| Interest rate swaps | 22 | **(3.5)** | **1.0** | – | (4.5) | (1.1) | – |
| **Liabilities at fair value held for trading** | | **(3.5)** | **1.0** | – | (4.5) | (1.1) | – |
| **Total financial (liabilities)/assets** | | **(20.6)** | **(1.9)** | **0.5** | (24.4) | (6.3) | 1.1 |

### 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 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.

## 24b Interest rate risk

The Group normally raises bank debt on a floating rate basis and fixes a substantial portion of the interest payments by entering into interest rate swaps. The Group's objective in managing its interest rate risk is to ensure that it always maintains sufficient headroom to cover interest payments from anticipated cash flows and the directors regularly review the ratio of fixed to floating rate debt to assist this process. The Group is exposed to fair value risk from its fixed rate debt and interest rate risk from its floating rate debt, loans to joint ventures and cash. The Group does not hedge account its interest rate swaps and states them at fair value with changes in fair value included in the income statement.

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

| | Maturity date | Notional principal £m | Contract Fixed rate % | **Fair value 30 December 2011 £m** | Gain/(loss) to income 2010 £m | Fair value 30 December 2010 £m |
|---|---|---|---|---|---|---|
| Interest rate swap | 10 October 2013 | 59.6[1] | 4.42 | **(3.5)** | 1.0 | (4.5) |
| Interest rate swaption[2] | 2 September 2017 | 50.0 | 2.75 | **0.2** | (0.5) | – |

[1] The notional principal at 30 December 2010 was £60.8m
[2] The premium paid during the year was £0.7m and the exercise date of the interest rate swaption is 2 September 2013

### Sensitivity analysis

The following table shows the Group's sensitivity to a 1% increase or decrease in Sterling and Euro 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 1%. The income statement impact includes the effect of a 1% decrease or increase in interest rates on the market values of interest rate derivatives.

| | **1% increase in interest rates** | | **1% decrease in interest rates** | |
|---|---|---|---|---|
| | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m |
| Floating rate loans and cash — gain/(loss) | **(0.4)** | 0.5 | **0.4** | (0.5) |
| Interest rate derivatives — gain/(loss) | **8.0** | 11.2 | **(8.0)** | (11.2) |
| Impact on the income statement — gain/(loss) | **7.6** | 11.7 | **(7.6)** | (11.7) |
| Impact on equity — gain/(loss) | **7.6** | 11.7 | **(7.6)** | (11.7) |

## 24c Credit risk

The Group's principal financial assets are loans to joint ventures, 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 to joint ventures, and trade and other receivables, which are principally amounts due from associates and joint ventures and from tenants. As a result there is a concentration of credit risk arising from the Group's exposure to these associates and joint ventures but the Group does not consider this risk to be material as it is mitigated by the significant influence that it is able to exercise through its holdings and management responsibilities in relation to those associates and joint ventures. Credit risk arising from tenants is mitigated as the Group monitors credit ratings for significant tenants and there is an allowance for doubtful receivables that represents the estimate of potential losses in respect of 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.

# Notes to the financial statements continued

For the year to 30 December 2011

## 24d Currency risk

The Group publishes its consolidated financial statements in Sterling but has investments and loans to its German joint venture portfolio which have the Euro as their functional currency. Therefore the Group is subject to currency risk due to exchange rate movements which affect the translation of results and underlying net assets of the German joint venture portfolio.

### Net investment hedge

The Group uses a forward foreign exchange contract as a hedge of its net investment in the German joint ventures. At 30 December 2011, this was achieved through a contract for €47.0 million (2010: €47.0 million) at a fixed exchange rate of 1.1797 (2010: 1.143) which hedges 81% (2010: 85%) of the Group's German investment. During the year the Group closed out the previous forward contract which matured on 27 June 2012 and entered into a new forward contract which extended the hedging arrangement until 28 March 2013.

Only the spot element of the forward foreign exchange contracts is designated as the hedging instrument, determined as the undiscounted difference between the spot rate on the trade date and the spot rate on the revaluation date applied to the notional. The unhedged forward element of the fair value is determined as the total fair value less the spot element. Changes in the forward element of the fair value are reported through the income statement as finance income or finance costs as appropriate. During the year, this change in the unhedged element of the fair value was a gain of £0.3 million (2010: £nil) as disclosed in note 6. During the year, the ineffective portion of the hedge resulted in a gain of £0.2 million (2010: charge of £0.1 million) to the income statement as disclosed in note 6.

### Sensitivity analysis

The following table shows the Group's sensitivity to a 10% strengthening or weakening in Sterling against the Euro. To calculate the impact on the income statement for the year the average exchange rate has been decreased or increased by 10%. The translational effect on equity is limited due to the Euro hedging in place. The effect on equity is calculated by decreasing or increasing the closing exchange rate with an adjustment for the movement in the currency hedge. It is assumed that the net investment hedge will be 100% effective.

| | **10% strengthening in sterling** | | **10% weakening in sterling** | |
|---|---|---|---|---|
| | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m |
| Impact on the income statement - gain/(loss) | **(0.8)** | (0.6) | **0.9** | 0.7 |
| Impact on equity - gain/(loss) | **(1.2)** | (0.4) | **2.1** | 1.5 |

## 24e Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The day-to-day operations of the Group are largely funded through the items included in the breakdown of recurring profit included in note 2a. The majority of income within recurring profit is received quarterly, since the inflows and outflows from net rental income and net interest payable generally coincide with English quarter days, and property management fees are billed to the funds quarterly. As a result, the Group normally has sufficient funds to cover recurring administrative expenses which occur throughout the year. Liquidity risk therefore arises principally from the need to make payments for non-recurring items, such as tax payments and the close out of derivative financial instruments. Payments may also be necessary against bank debt facilities to prevent covenant breaches on loans related to the Group's wholly owned properties or to cover losses in the Group's joint ventures, or to repay loans when they fall due.

## 24e Liquidity risk continued

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 eighteen 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 is the £58.0 million (2010: £58.0 million) core revolving credit facility, expiring in September 2013, which was undrawn and fully available for draw down at the end of the year as disclosed in note 23c.

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.

| **2011** | 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** | | | | | | | |
| Available for sale investments | 15 | | **0.3** | – | – | – | **0.3** |
| Non-current receivables | 16 | **4.2** | – | **10.6** | **21.5** | – | **32.1** |
| Current receivables | 19 | | **3.7** | – | – | – | **3.7** |
| Cash and cash equivalents | 20 | **0.5** | **20.0** | – | – | – | **20.0** |
| | | | **24.0** | **10.6** | **21.5** | – | **56.1** |
| **Financial liabilities** | | | | | | | |
| Borrowings — fixed and swapped bank loans[1] | 23a | **6.30** | – | **(59.6)** | – | – | **(59.6)** |
| Borrowings — variable rate bank loans | 23a | **3.49** | **(5.3)** | **(2.3)** | – | – | **(7.6)** |
| Current payables | 21 | | **(6.9)** | – | – | – | **(6.9)** |
| Non-current payables | 22 | | – | **(0.5)** | – | – | **(0.5)** |
| | | | **(12.2)** | **(62.4)** | – | – | **(74.6)** |

| 2010 | 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** | | | | | | | |
| Available for sale investments | 15 | | 0.3 | – | – | – | 0.3 |
| Non-current receivables | 16 | 4.97 | – | 3.7 | 21.0 | – | 24.7 |
| Current receivables | 19 | | 4.8 | – | – | – | 4.8 |
| Cash and cash equivalents | 20 | 0.75 | 25.7 | – | – | – | 25.7 |
| | | | 30.8 | 3.7 | 21.0 | – | 55.5 |
| **Financial liabilities** | | | | | | | |
| Borrowings — fixed and swapped bank loans | 23a | 6.26 | – | – | (60.8) | – | (60.8) |
| Borrowings — variable rate bank loans | 23a | 3.24 | (1.0) | (5.9) | (2.8) | – | (9.7) |
| Current payables | 21 | | (6.3) | – | – | – | (6.3) |
| Non-current payables | 22 | | – | – | (0.3) | – | (0.3) |
| | | | (7.3) | (5.9) | (63.9) | – | (77.1) |

[1] The maturity is the same as the contractual repricing of the Group's fixed and swapped bank loans

# Notes to the financial statements continued

For the year to 30 December 2011

## 24e Liquidity risk 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.

| **2011** | 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** |
|---|---|---|---|---|---|---|---|
| Non-interest bearing | (6.9) | (0.5) | – | – | – | – | **(7.4)** |
| Variable interest rate instruments | (7.5) | (63.4) | – | – | – | – | **(70.9)** |
| | (14.4) | (63.9) | – | – | – | – | **(78.3)** |

| 2010 | 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 |
|---|---|---|---|---|---|---|---|
| Non-interest bearing | (6.3) | – | (0.3) | – | – | – | (6.6) |
| Variable interest rate instruments | (3.1) | (8.5) | (65.8) | – | – | – | (77.4) |
| | (9.4) | (8.5) | (66.1) | – | – | – | (84.0) |

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 and foreign currency rates as illustrated by the yield curves existing at the reporting date.

| **2011** | 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 swaps | (2.0) | (1.5) | – | – | – | – | **(3.5)** |
| Interest rate swaption | – | – | 0.1 | 0.1 | – | – | **0.2** |
| Foreign exchange forward contract | – | 0.6 | – | – | – | – | **0.6** |
| | (2.0) | (0.9) | 0.1 | 0.1 | – | – | **(2.7)** |

| 2010 | 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 swaps | (2.1) | (1.6) | (0.8) | – | – | – | (4.5) |
| Foreign exchange forward contract | 0.6 | – | – | – | – | – | 0.6 |
| | (1.5) | (1.6) | (0.8) | – | – | – | (3.9) |

## 24f Fair values of financial instruments

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

| | Note | Notional principal £m | 2011 Book value £m | 2011 Fair value £m | 2010 Book value £m | 2010 Fair value £m |
|---|---|---|---|---|---|---|
| **Financial liabilities not at fair value through income statement** | | | | | | |
| Sterling denominated loans | 23a | | **(67.2)** | **(67.2)** | (70.5) | (70.5) |
| Total on balance sheet borrowings | | | **(67.2)** | **(67.2)** | (70.5) | (70.5) |
| Group share of associate borrowings | | | **(202.7)** | **(202.7)** | (237.7) | (237.7) |
| Group share of joint venture borrowings | | | **(227.1)** | **(228.2)** | (224.0) | (225.3) |
| **Total see-through borrowings** | 24a | | **(497.0)** | **(498.1)** | (532.2) | (533.5) |
| **Derivative assets/(liabilities) at fair value through income statement** | | | | | | |
| Sterling interest rate swaps | 22 | **59.6** | **(3.5)** | **(3.5)** | (4.5) | (4.5) |
| Sterling interest rate swaption | 16 | **50.0** | **0.2** | **0.2** | – | – |
| Foreign exchange forward contracts | 16,19 | **39.3** | **0.6** | **0.6** | 0.6 | 0.6 |
| Total on balance sheet derivatives | | | **(2.7)** | **(2.7)** | (3.9) | (3.9) |
| Group share of Sterling interest rate swaps in associates and joint ventures | | **321.8** | **(13.1)** | **(13.1)** | (15.5) | (15.5) |
| Group share of Euro interest rate swaps in joint ventures | | **167.6** | **(2.4)** | **(2.4)** | (2.9) | (2.9) |
| **Total see-through derivatives** | | | **(18.2)** | **(18.2)** | (22.3) | (22.3) |
| Less foreign exchange forward contracts | | | **(0.6)** | **(0.6)** | (0.6) | (0.6) |
| **Total see-through interest rate derivatives** | 30 | | **(18.8)** | **(18.8)** | (22.9) | (22.9) |

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

Details of the Group's cash and deposits are disclosed in note 20 and their fair values and those of all other financial assets and liabilities are equal to their book values.

**Fair value measurements recognised in the consolidated balance sheet**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the financial statements continued

For the year to 30 December 2011

## 24f Fair values of financial instruments continued

| | Note | 2011 Level 2 £m | 2011 Level 3 £m | 2011 Total £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available for sale investments | 15 | – | **0.3** | **0.3** |
| Interest rate swaption | 16 | **0.2** | – | **0.2** |
| Foreign exchange forward contracts | 16,19 | **0.6** | – | **0.6** |
| | | **0.8** | **0.3** | **1.1** |
| **Financial liabilities** | | | | |
| Interest rate swaps | 22 | **(3.5)** | – | **(3.5)** |
| | | **(3.5)** | – | **(3.5)** |

There were no transfers between Level 1 and Level 2 in the year. Since the only Level 3 fair value measurements in the year related to available for sale investments, the reconciliation of the movement in these measurements is disclosed in note 15.

## 24g Breach of loan agreements

On 12 January 2012, the Group obtained a bank waiver for the Hemel Hempstead loan in relation to an anticipated covenant breach which would have triggered on 30 January 2012 following the administration of the anchor tenant. It was agreed with the bank to make a cash deposit of £0.9 million. The waiver is valid until 29 April 2012, at which time the position will be reassessed in light of the submitted planning application for the redevelopment of the Hemel Hempstead property.

On 5 March 2012, the German joint venture obtained a one year bank waiver for two loans in the same portfolio which had marginally breached their LTV covenants at year end. As part of the waiver the LTV covenant was extended for the next test date in December 2012.

## 25 Share capital

| | Number of authorised shares | | Number of shares issued and fully paid | | Nominal value of shares issued and fully paid | |
|---|---|---|---|---|---|---|
| | **2011 Number** | 2010 Number | **2011 Number** | 2010 Number | **2011 £m** | 2010 £m |
| **Ordinary shares of 1p each** | | | | | | |
| At the start and end of the year | **857,589,603** | 857,589,603 | **350,612,754** | 350,612,754 | **3.5** | 3.5 |
| **Deferred shares of 9p each** | | | | | | |
| At the start and end of the year | **71,348,933** | 71,348,933 | **71,348,933** | 71,348,933 | **6.4** | 6.4 |
| **Total called-up share capital** | | | **421,961,687** | 421,961,687 | **9.9** | 9.9 |

The Company has one class of Ordinary shares which carry voting rights but no right to fixed income. Deferred shares carry neither voting nor dividend rights.

## 26 Share-based payments

The Group's share-based payments comprise the SAYE scheme, the 2008 LTIP, the Matching Share Agreement and the COIP. Full details of each of the schemes are disclosed in the Directors' remuneration report on pages 36 to 39. In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant, calculated using either a Black-Scholes option pricing model or a Monte Carlo simulation.

### Analysis of income statement charge

| | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m |
|---|---|---|
| 2008 LTIP | **0.8** | 0.4 |
| Matching Share Agreement | **–** | 0.3 |
| Equity-settled share-based payments | **0.8** | 0.7 |
| Cash-settled share-based payments — Employers' National Insurance | **–** | 0.1 |

### Movements during the year

| | **SAYE scheme** | | | **Matching** | |
|---|---|---|---|---|---|
| | **Invitation I** | **Invitation II** | **2008 LTIP** | **share agreement** | **COIP** |
| Outstanding at 30 December 2009 | 795,369 | – | 13,500,000 | 302,055 | 1,202,080 |
| Granted during the year | – | – | – | – | – |
| Exercised during the year | (23,695) | – | – | – | – |
| Forfeited/lapsed/expired during the year | (80,348) | – | (500,000) | – | – |
| Outstanding at 30 December 2010 | 691,326 | – | 13,000,000 | 302,055 | 1,202,080 |
| Granted during the year | – | 499,567 | 500,000 | – | – |
| Exercised during the year | (22,984) | – | – | (302,055) | – |
| Forfeited/lapsed/expired during the year | (66,437) | (12,261) | – | – | – |
| Outstanding at 30 December 2011 | 601,905 | 487,306 | 13,500,000 | – | 1,202,080 |
| Exercisable at the end of the year | – | – | – | – | – |
| Fair value of award at grant date | £0.15 | £0.05 | £0.20 | £4.76 | £0.14 |
| Weighted average exercise price | 22.8p | 36.7p | 0.0p | 0.0p | 0.0p |
| Weighted average remaining contractual life | 0.59 years | 3.33 years | n/a | n/a | n/a |

On 1 November 2011 a new invitation ('invitation II') to participate in the SAYE scheme was made to employees.

The 2008 LTIP awards are subject to a performance condition based on growth of total shareholder return (TSR) as disclosed in the Directors' remuneration report on page 37.

On 31 December 2011 all of the COIP lapsed as the performance criteria were not met.

On 1 February 2012, the first SAYE scheme invitation ('invitation I') matured and participants are eligible to exercise their options for up to six months from this date.

# Notes to the financial statements continued

For the year to 30 December 2011

## 26 Share-based payments continued

### Assumptions

The key assumptions and inputs used in the fair value models were:

| | SAYE scheme | | | | |
|---|---|---|---|---|---|
| | Invitation I | Invitation II | 2008 LTIP | Matching share agreement | COIP |
| Share price at grant date | 45.5p | 34.0p | 31.9p | 553.0p | 44.75p |
| Exercise price | 46.0p | 36.7p | 0.0p | 0.0p | 0.0p |
| Expected volatility | 84% | 56% | 83% | 37% | 84% |
| Expected life (years) | 3.12 | 3.00 | 3.00 | 2.99 | 3.04 |
| Risk free rate | 2.28% | 3.51% | 1.58% | 3.78% | 2.58% |
| Expected dividend yield | 11.0% | 14.7% | 0% | 4.9% | 11.2% |
| Lapse rate | 40% | 2% | 0% | 0% | 0% |
| Correlation | n/a | n/a | n/a | 30% | 29% |

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

## 27 Own shares

| | Own shares £m |
|---|---|
| At the start of the year | **9.7** |
| Disposed of on exercise of options | **(2.9)** |
| **At the end of the year** | **6.8** |

The own shares reserve represents the cost of shares in the Company purchased in the market. At 30 December 2011, the Capital & Regional plc 2002 Employee Share Trust (the "ESOT") held 1,841,102 (2010: 2,166,141) 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 2011 was £0.6 million (2010: £0.7million).

## 28 Reserves

The special reserve arose on the cancellation of the Company's share premium account in 2009 when £141.0 million of the share premium account was credited to retained earnings and the balance of £79.5 million remained in the special reserve pending consent from all of the Company's creditors. During the year the special reserve of £79.5 million was transferred to retained earnings following the resolution of the outstanding required consent from the Company's creditors.

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.

The acquisition reserve of £9.5 million relates to the purchase of the entire ordinary share capital of Morrison Merlin Limited in 2005, prior to which it had been a joint venture in which the Group had a 50% interest. The balance on the reserve arose from the difference at the date of acquisition between the carrying value of the Group's existing interest and its fair value. The reserve will remain on the balance sheet until Morrison Merlin Limited is sold.

The foreign currency reserve of £5.6 million and the net investment hedging reserve deficit of £2.6 million respectively show foreign exchange translation differences from the Group's investment in its German joint venture and any hedges of that investment.

## 29 Reconciliation of net cash from operations

| | Note | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|---|
| Profit on ordinary activities before financing | | **26.8** | 52.6 |
| Adjusted for: | | | |
| Share of profit in associates and joint ventures | 18a | **(22.3)** | (45.2) |
| Loss on revaluation of investment properties | 12a | **1.5** | 0.2 |
| Loss on sale of MEN Arena joint venture | | **–** | 0.2 |
| Impairment of goodwill | 13 | **0.1** | 0.7 |
| Impairment reversal of trading properties | 12a | **(0.7)** | (0.1) |
| Depreciation of other fixed assets | 14 | **0.4** | 0.5 |
| Decrease in receivables | | **2.3** | 0.4 |
| Decrease in payables | | **(0.7)** | (7.1) |
| Non-cash movement relating to share-based payments | 26 | **0.8** | 0.7 |
| **Net cash from operations** | | **8.2** | 2.9 |

## 30 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 2011 | | | 30 December 2010 |
|---|---|---|---|---|---|
| | Note | Net assets £m | Number of shares (m) | Net assets per share (£) | Net assets per share (£) |
| **Basic net assets** | | **196.0** | **350.6** | **0.56** | 0.50 |
| Own shares held | 27 | **–** | **(1.8)** | | |
| Dilutive contingently issuable shares and share options | | **–** | **0.2** | | |
| Fair value of fixed rate loans (net of tax) | | **(0.8)** | | | |
| **EPRA triple net assets** | | **195.2** | **349.0** | **0.56** | 0.50 |
| Exclude fair value of fixed rate loans (net of tax) | | **0.8** | | | |
| Exclude fair value of see-through interest rate derivatives | 24f | **18.8** | | | |
| Exclude deferred tax on unrealised gains and capital allowances | | **3.5** | | | |
| **EPRA net assets** | | **218.3** | **349.0** | **0.63** | 0.57 |

# Notes to the financial statements continued

For the year to 30 December 2011

## 31 Return on equity

| | 30 December 2011 £m | 30 December 2010 £m |
|---|---|---|
| Total comprehensive income attributable to equity shareholders | **20.7** | 44.0 |
| Opening equity shareholders' funds | **174.5** | 129.8 |
| Return on equity | **11.9%** | 33.9% |

## 32 Disposal of subsidiaries

## 32a Waterside Lincoln Limited Partnership

As disclosed in note 18c, on 8 April 2011 the Group disposed of 50% of its interest in the Waterside Lincoln Limited Partnership. The net assets of Waterside Lincoln Limited Partnership at the date of disposal were:

| | 8 April 2011 £m |
|---|---|
| Investment property | **26.1** |
| Non-current liabilities | **(13.3)** |
| Net assets disposed of | **12.8** |
| Gain on disposal | – |
| **Total consideration** | **12.8** |
| Satisfied by: | |
| Cash and cash equivalents | **6.4** |
| Fair value of equity interest and shareholder loan to joint venture | **6.4** |
| | **12.8** |
| Net cash inflow arising from disposal: | |
| Consideration received in cash and cash equivalents | **6.4** |

## 32b Snozone Braehead

On 16 December 2011 the Group disposed of 100% of its interest in Snozone (Braehead) Limited for cash consideration of £0.1 million. The net assets of Snozone (Braehead) Limited at the date of disposal were £nil and a profit on disposal of £0.1 million was recognised.

| | 16 December 2011 £m |
|---|---|
| Net cash outflow arising from disposal: | |
| Consideration received in cash and cash equivalents | **0.1** |
| Less: cash and cash equivalents disposed of | **(0.2)** |
| | **(0.1)** |

## 32b Snozone Braehead continued

The results of the Snozone Braehead subsidiary which have been included in the consolidated income statement were as follows:

| | Period to 16 December 2011 £m | Period to 30 December 2010 £m |
|---|---|---|
| SNO!zone income | **2.7** | 2.7 |
| SNO!zone expenses | **(2.8)** | (3.0) |
| Recurring pre-tax loss | **(0.1)** | (0.3) |
| Other non-recurring items | **–** | 1.9 |
| (Loss)/profit after tax | **(0.1)** | 1.6 |

## 33 Lease arrangements

**The Group as lessee — operating leases**

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

| | Year to 30 December 2011 £m | Year to 30 December 2010 £m |
|---|---|---|
| **Lease payments** | | |
| Within one year | **(2.2)** | (2.0) |
| Between one and five years | **(7.4)** | (7.6) |
| After five years | **(21.7)** | (25.7) |
| | **(31.3)** | (35.3) |
| **Sublease receipts** | | |
| Between one and five years | **0.1** | 0.1 |
| | **0.1** | 0.1 |

Operating lease payments are denominated in sterling and have an average remaining lease length of 15 years (2010: 17 years) and rentals are fixed for an average of 3 years (2010: 9 years). During the year there were no contingent rents (2010: £nil) and the Group incurred lease payments recognised as an expense of £2.2 million (2010: £2.3 million).

# Notes to the financial statements continued

For the year to 30 December 2011

## 33 Lease arrangements continued

### The Group as lessor

The Group leases out all of its investment properties under operating leases for average lease terms of 10 years (2010: 12 years) to expiry. The most significant leasing arrangements are summarised in the fund portfolio information. 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 2011 Total £m** | 30 December 2010 Total £m |
|---|---|---|---|---|---|---|---|---|---|
| The Mall | 8.4 | 79.2 | 245.2 | 157.8 | 57.2 | 29.8 | 132.2 | **701.4** | 833.8 |
| The Junction | 11.2 | 17.4 | 69.4 | 78.2 | 41.9 | 19.0 | – | **225.9** | 374.1 |
| X-Leisure | 13.6 | 40.1 | 155.6 | 177.3 | 102.6 | 36.6 | 18.5 | **530.7** | 564.2 |
| FIX UK | 6.9 | 10.2 | 33.4 | 19.9 | 7.6 | 2.1 | 0.1 | **73.3** | 63.8 |
| Total associates | | 146.9 | 503.6 | 433.2 | 209.3 | 87.5 | 150.8 | **1,531.3** | 1,835.9 |
| German portfolio | 7.0 | 37.5 | 110.8 | 67.1 | 24.4 | 4.0 | – | **243.8** | 243.5 |
| Other joint ventures | 11.6 | 6.3 | 22.6 | 21.0 | 12.7 | 8.9 | – | **71.5** | 62.9 |
| Total joint ventures | | 43.8 | 133.4 | 88.1 | 37.1 | 12.9 | – | **315.3** | 306.4 |
| Wholly owned | 10.5 | 6.7 | 25.9 | 29.9 | 10.4 | 3.8 | – | **76.7** | 97.2 |
| Total | | 197.4 | 662.9 | 551.2 | 256.8 | 104.2 | 150.8 | **1,923.3** | 2,239.5 |

There was no contingent rent (2010: £nil) recognised in income from wholly owned properties during the year.

## 34 Capital commitments

At 30 December 2011 the Group's share of the capital commitments of its associates, joint ventures and wholly owned properties was £0.5 million (2010: £2.5 million). This comprised £0.4 million (2010: £1.3 million) relating to The Mall, £nil million (2010: £0.5 million) relating to The Junction and £0.1 million (2010: £0.7 million) relating to other assets.

## 35 Contingent liabilities

Other than the tax-related contingent liabilities disclosed in note 10e, there were no other contingent liabilities at the end of either the current year or the preceding year.

## 36 Events after the balance sheet date

### Paddington Central III Unit Trust disposal

On 12 January 2012, the Group disposed of its 0.3% interest in the units of the Paddington Central III Unit Trust for £0.3 million.

### Breach of loan agreement

On 12 January 2012, the Group obtained a bank waiver for the Hemel Hempstead loan in relation to an anticipated covenant breach which would have triggered on 30 January 2012 following the administration of the anchor tenant. It was agreed with the bank to make a cash deposit of £0.9 million. The waiver is valid until 29 April 2012, at which time the position will be reassessed in light of the submitted planning application for the redevelopment of the Hemel Hempstead property.

On 5 March 2012, the Germany joint venture obtained a one year bank waiver for two loans in the same portfolio which had marginally breached their LTV covenants at year end. As part of the waiver the LTV covenant was extended for the next test date in December 2012.

### Mall unit purchase

On 8 February 2012, the Group purchased 18.7 million units in The Mall Fund at £0.30 per unit for a total consideration of £5.6 million and this increased the holding in The Mall Fund from 18.16% to 20.15%.

## 37 Related party transactions

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

| | Interest received | | Distributions received | |
|---|---|---|---|---|
| | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m |
| **Associates** | | | | |
| The Junction Limited Partnership | **–** | – | **9.9** | 5.6 |
| X-Leisure Limited Partnership | **–** | – | **1.3** | 0.7 |
| | **–** | – | **11.2** | 6.3 |
| **Joint ventures** | | | | |
| Xscape Braehead Partnership | **0.6** | 0.5 | **–** | – |
| The Auchinlea Partnership | **–** | – | **0.3** | – |
| X-Leisure Limited | **–** | – | **0.5** | 0.3 |
| German joint venture companies | **0.7** | 0.6 | **3.7** | 3.1 |
| | **1.3** | 1.1 | **4.5** | 3.4 |

| | Fee income and rent income/(expense) | | Net amounts receivable from | |
|---|---|---|---|---|
| | **Year to 30 December 2011 £m** | Year to 30 December 2010 £m | **As at 30 December 2011 £m** | As at 30 December 2010 £m |
| **Associates** | | | | |
| The Mall Limited Partnership | **7.1** | 8.9 | **0.7** | 0.7 |
| The Junction Limited Partnership | **1.1** | 1.3 | **0.1** | – |
| X-Leisure Limited Partnership | **(1.6)** | (1.3) | **–** | – |
| The FIX UK Limited Partnership | **0.1** | 0.1 | **–** | – |
| | **6.7** | 9.0 | **0.8** | 0.7 |
| **Joint ventures** | | | | |
| Xscape Braehead Partnership | **0.1** | (0.1) | **10.7** | 10.2 |
| X-Leisure Limited | **0.1** | (0.2) | **0.1** | 0.1 |
| German joint venture companies | **–** | 0.2 | **15.0** | 14.6 |
| Waterside Lincoln Limited Partnership | **0.1** | – | **6.4** | – |
| | **0.3** | (0.1) | **32.2** | 24.9 |

Amounts receivable from associates are unsecured and do not incur interest and they are payable on demand and settled in cash.

Amounts receivable from the Xscape Braehead Partnership and the German joint venture incur interest at commercial rates which is payable on demand. Principal amounts owed by the Xscape Braehead Partnership are repayable in 2012 and 2013, and principal amounts owed by the German joint venture companies are repayable in 2013. The balances are unsecured and settled in cash. Amounts receivable from the Waterside Lincoln Limited Partnership are interest free and repayable on demand.

Management fees are received by Capital & Regional Property Management Limited and are payable on demand, unsecured, do not incur interest and are settled in cash.

# Notes to the financial statements continued

For the year to 30 December 2011

## 37 Related party transactions continued

All rents payable by SNO!zone companies are due to the relevant Xscape Partnerships. SNO!zone Limited (operator of the ski slopes at Milton Keynes and Castleford) paid rent of £1.6 million (2010: £1.4 million) to the X-Leisure Limited Partnership. SNO!zone (Braehead) Limited was sold on 16 December 2011 but paid rent of £0.1 million (2010: £0.3 million) to the Xscape Braehead Partnership.

**Waterside Lincoln Limited Partnership**

During the year the Group formed a joint venture with Karoo Investment Fund II S.C.A SICAV-SIF ("Karoo") by selling 50% of the Group's interest in The Waterside Shopping Centre in Lincoln. As the Group and Karoo have common significant shareholders the formation of the joint venture was conditional upon shareholder approval which was granted on 1 April 2011. Included within loans to joint ventures is an amount of £6.4 million related to the Waterside Lincoln Limited Partnership. The details of this transaction are disclosed in note 18c.

**Performance fees**

Certain entities in the Group may receive performance fees when investors realise their interests in the underlying funds or joint ventures, either at the end of the life of the fund, on the sale of some or all of the underlying properties, or through another realisation mechanism such as a listing. No performance fees were received from or paid to related parties in either the current year or the preceding year.

The Mall Fund

CRPM will earn a performance fee if the property level return is positive and is more than 50 basis points above the index when measured from July 2010 to the realisation of the fund, which is due to expire in April 2017. Part of any performance fee earned may be payable to certain key CRPM management and staff as part of their incentive plans. The Mall performance fees were effective from 21 July 2010 but are subject to final confirmation by the Mall Bond Security Trustee which is expected shortly as disclosed in note 3. The Group will also bear 20.15% of the cost of this performance fee as an investor in The Mall fund following the purchase of additional Mall units on 8 February 2012.

The Junction Fund

CRPM will earn a performance fee if the internal rate of return is over 15% when measured from May 2009 to the realisation of the fund, which is due to expire in July 2013. Part of any performance fee earned may be payable to certain key CRPM management and staff as part of their incentive plans. The Group will also bear 13.29% of the cost of this performance fee as an investor in The Junction fund.

X-Leisure Fund

X-Leisure Limited will earn a performance fee if the internal rate of return is over 15% when measured from August 2009 to the realisation of the fund, which is due to expire in December 2014. Up to 50% of any performance fee earned may be payable to certain key X-Leisure Limited management and staff as part of their incentive plans. The Group will also bear 11.93% of the cost of this performance fee as an investor in the X-Leisure fund.

German joint venture

Garigal will earn a performance fee if the internal rate of return is over 12% when measured from August 2010 to the realisation of the joint venture, whose current business plan runs to June 2013. Up to 80% of any performance fee earned may be payable to certain key Garigal management and staff as part of their incentive plans. The Group will also bear 49.60% of the cost of this performance fee as an investor in the German joint venture.

## 37 Related party transactions continued

**Transactions with key personnel**

In accordance with IAS 24, key personnel are considered to be the executive and non-executive directors 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 2011 £m** | Year to 30 December 2010 £m |
|---|---|---|
| Short term employment benefits | **2.0** | 1.3 |
| Post employment benefits | **0.1** | 0.1 |
| Share-based payments* | **0.6** | 0.5 |
| | **2.7** | 1.9 |

* share-based payments relate to amounts awarded under the 2008 LTIP, the COIP and the Matching Share Agreement.

# Independent auditor's report

to the members of Capital & Regional plc

We have audited the financial statements of Capital & Regional plc for the year ended 30 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement, the related notes 1 to 37, the Parent Company Balance Sheet and the related notes A to G. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (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 (United Kingdom Generally Accepted Accounting Practice).

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.

### Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

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 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

### Opinion 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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the directors' statement, contained within the Corporate Governance Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

**Andrew Clark, FCA (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
6 March 2012

# Company balance sheet

At 30 December 2011

Registered number: 1399411
Prepared in accordance with UK GAAP

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | C | **145.1** | 178.0 |
| **Current assets** | | | |
| Debtors — amounts falling due within one year | D | **142.4** | 143.3 |
| Debtors — amounts falling due after more than one year | D | **18.5** | 14.0 |
| Cash and deposits | | **1.4** | 5.2 |
| | | **162.3** | 162.5 |
| **Creditors — amounts falling due within one year** | | | |
| Trade and other creditors | E | **(97.5)** | (160.4) |
| | | **(97.5)** | (160.4) |
| **Net current assets** | | **64.8** | 2.1 |
| **Creditors — amounts falling due after more than one year** | | | |
| Loan guarantees | | **(0.3)** | (0.4) |
| Corporation tax payable | E | **(5.0)** | (10.0) |
| | | **(5.3)** | (10.4) |
| **Net assets** | | **204.6** | 169.7 |
| **Capital and reserves** | | | |
| Called-up share capital | F | **9.9** | 9.9 |
| Merger reserve | F | **60.3** | 60.3 |
| Special reserve | F | **–** | 79.5 |
| Capital redemption reserve | F | **4.4** | 4.4 |
| Retained earnings | F | **130.0** | 15.6 |
| **Shareholders' funds** | | **204.6** | 169.7 |

These financial statements were approved by the Board of directors, authorised for issue and signed on their behalf on 6 March 2012 by:

Charles Staveley
Group Finance Director

# Notes to the Company financial statements

For the year to 30 December 2011

## A Accounting policies

Although the Group consolidated financial statements are prepared under IFRS, the Company financial statements for Capital & Regional plc presented in this section are prepared under UK GAAP. The main accounting policies have been applied consistently in the current year and the preceding year.

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 37 to the Group financial statements. The Company had no direct employees during the year (2010: none). Information on the directors' emoluments, share options, long-term incentive schemes and pension contributions is shown in the directors' remuneration report.

## B Profit / (loss) 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 profit for the year attributable to equity shareholders was £34.9 million (2010: loss of £23.4 million).

## C Fixed asset investments

| | Subsidiaries £m | Joint ventures £m | Other investments £m | **Total £m** |
|---|---|---|---|---|
| At the start of the year | 164.3 | 13.4 | 0.3 | **178.0** |
| Investment | 4.2 | 0.5 | – | **4.7** |
| Impairment of investments | (37.6) | – | – | **(37.6)** |
| At the end of the year | 130.9 | 13.9 | 0.3 | **145.1** |

The Company invested €0.6 million (£0.5 million) into the German joint venture during the year to fund the purchase of Schwäbisch Hall on 30 December 2011 and various debt refinancing costs.

During the year several of the Company's subsidiaries converted intercompany balances payable to the Company to equity resulting in a £4.2m increase in the Company's investment in subsidiaries balance.

Note G shows the principal subsidiaries, associates and joint ventures held by the Group and the Company. Other investments are described in note 15 to the Group financial statements.

# Notes to the Company financial statements continued

For the year to 30 December 2011

## D Debtors

| Amounts falling due within one year | 2011 £m | 2010 £m |
|---|---|---|
| Amounts owed by subsidiaries | **142.3** | 141.8 |
| Amounts owed by joint ventures | **–** | – |
| Corporation tax recoverable | **–** | 1.5 |
| Other receivables | **0.1** | – |
| | **142.4** | 143.3 |

| Amounts falling due after more than one year | 2011 £m | 2010 £m |
|---|---|---|
| Amounts owed by joint ventures | **18.5** | 14.0 |
| | **18.5** | 14.0 |

## E Creditors

| Amounts falling due within one year | 2011 £m | 2010 £m |
|---|---|---|
| Amounts owed to subsidiaries | **95.6** | 154.4 |
| Trade payables | **–** | 0.1 |
| Current tax payable | **0.7** | 5.0 |
| Other creditors | **–** | 0.1 |
| Accruals and deferred income | **1.2** | 0.8 |
| | **97.5** | 160.4 |

| Amounts falling due after more than one year | 2011 £m | 2010 £m |
|---|---|---|
| **Corporation tax payable** | | |
| From one to two years | **5.0** | 5.0 |
| From two to five years | **–** | 5.0 |
| | **5.0** | 10.0 |

## F Share capital and reserves

| | Non-distributable | | | | Distributable | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Special reserve* £m | Capital redemption reserve £m | Retained earnings £m | Retained earnings £m | Merger reserve £m | Total £m |
| At the start of the year | 9.9 | 79.5 | 4.4 | 15.6 | – | 60.3 | 169.7 |
| Retained profit for the year | – | – | – | 1.0 | 33.9 | – | 34.9 |
| Transfer between reserves | – | (79.5) | – | (13.1) | 92.6 | – | – |
| At the end of the year | 9.9 | – | 4.4 | 3.5 | 126.5 | 60.3 | 204.6 |

* The special reserve arose on the cancellation of the Company's share premium account in 2009. During the year the special reserve of £79.5 million was transferred to distributable retained earnings following the resolution of the outstanding required consent from the Company's creditors.

The Company's authorised, issued and fully paid-up share capital is described in note 25 to the Group financial statements. The other reserves are described in note 28 to the Group financial statements.

## G Principal subsidiaries, associates and joint ventures

| | Nature of business | Share of voting rights |
|---|---|---|
| **Incorporated/registered and operating in Great Britain** | | |
| Capital & Regional Earnings Limited | Property management | 100% |
| Capital & Regional Income Limited | Property investment | 100% |
| Capital & Regional Holdings Limited | Property investment and management | 100%* |
| Capital & Regional Property Management Limited | Property management | 100% |
| Capital & Regional Units LLP | Property investment | 100% |
| Morrison Merlin Limited | Property trading | 100%* |
| Snozone Limited | Operator of indoor ski slopes | 100% |
| The Auchinlea Partnership | Property investment | 50% |
| X-Leisure Limited | Property management | 50% |
| Xscape Braehead Partnership | Property investment | 50% |
| The FIX UK Limited Partnership | Property investment | 20% |
| Waterside Lincoln Limited Partnership | Property investment | 50% |
| **Incorporated/registered and operating in Germany** | | |
| Garigal Asset Management GmbH | Property management | 30.06% |
| **Incorporated/registered and operating in Jersey** | | |
| Capital & Regional Capital Partner Limited | Property investment | 100% |
| Capital & Regional Hemel Hempstead (Jersey) Limited | Property investment | 100%* |
| Capital & Regional (Europe Holding 5) Limited | Property investment | 100% |
| Capital & Regional (Europe LP) Limited | Property investment | 50%* |
| Capital & Regional (Europe LP 2) Limited | Property investment | 50%* |
| Capital & Regional (Europe LP 3) Limited | Property investment | 50%* |
| Capital & Regional (Europe LP 4) Limited | Property investment | 50%* |
| Capital & Regional (Europe LP 5) Limited | Property investment | 50%* |
| Capital & Regional (Europe LP 6) Limited | Property investment | 50%* |
| Euro B-Note Holding Limited | Finance | 49.90%* |
| The Mall Unit Trust | Property investment | 18.16% |
| The Junction Unit Trust | Property investment | 13.29% |
| The X-Leisure Unit Trust | Property investment | 11.93% |
| **Incorporated/registered in Jersey and operating in Great Britain** | | |
| Capital & Regional (Jersey) Limited | Property investment | 100% |
| Capital & Regional Overseas Holdings Limited | Property investment | 100% |

* Held directly by the Company or, in the case of the Europe LPs, part-held directly by the Company and part-held through a subsidiary and in the case of Euro B-Note Holding Limited, part held through a subsidiary and part held through the ESOT.

The shares of voting rights are equivalent to the percentages of ordinary shares or units held by the Group. The Mall Unit Trust, The Junction Unit Trust and X-Leisure Unit Trust each invest in Limited Partnerships and the Group is regarded as having significant influence on those partnerships through its membership of the relevant General Partner boards.

To avoid a statement of excessive length, details of investments which are not significant have been omitted. All of the above principal subsidiaries, associates and joint ventures have been consolidated in the Group financial statements. Investments in associates and joint ventures are analysed in notes 18d and 18e to the Group financial statements.

# Glossary of terms

**CRPM** is Capital & Regional Property Management Limited, a subsidiary of Capital & Regional plc, which earns management and performance fees from The Mall, The Junction and certain other associates and joint ventures of the Group. It also owns the Group's 50% share in X-Leisure Limited, which earns management and performance fees from the X-Leisure fund.

**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 value during the period for properties held at the balance sheet date, after taking account of capital expenditure and exchange translation movements, 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.

**Garigal** is Garigal Asset Management GmbH, an associate of the Group, which earns management and performance fees from the German joint venture.

**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 rate cover (ICR)** is the ratio of either (i) recurring profit (before interest, tax, depreciation and amortisation); or (ii) net rental income to the interest charge.

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

**Like for like** figures 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 fair value of properties.(excluding adjustments for tenant incentives and head leases).

**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 period end, excluding own shares held.

**Net initial yield (NIY)** is the annualised net rent generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development properties, which is in line with EPRA's best practice recommendations.

**Net debt to property value** is debt less cash and cash equivalents divided by the property value (including adjustments for tenant incentives and head leases).

**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.

**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.

**Property under management (PUM)** is the valuation of properties for which CRPM, X-Leisure Limited or Garigal is the asset manager.

**Recurring pre-tax profit** is the total of Contribution, the Group's share of management fees less fixed management expenses earned by CRPM, X-Leisure Limited and Garigal, the profit from SNO!zone and any central costs and interest.

**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.

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

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

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

**Topped-up net initial yield** is the net initial yield adjusted for the expiration of rent-free periods or other unexpired lease incentives.

**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 period to the end of the period plus dividends paid, divided by share price at the beginning of the period.

**Vacancy rate** is the ERV of vacant properties expressed as a percentage of the total ERV of the portfolio, excluding development properties, in line with EPRA's best practice recommendations.

**Variable overhead** includes discretionary bonuses and the costs of awards to directors and employees made under the 2008 LTIP, Matching Share Agreement, COIP and SAYE Scheme, which are spread over the performance period.

# Five year review

for the period 31 December 2006 to 30 December 2011

| | **2011 £m** | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Property assets | **80.0** | 80.8 | 94.4 | 98.9 | 790.0 |
| Other non-current assets | **34.3** | 27.1 | 26.3 | 31.7 | 9.0 |
| Intangible assets | **1.8** | 1.9 | 2.6 | 4.2 | 12.2 |
| Investment in joint ventures | **27.2** | 25.7 | 30.3 | 34.4 | 12.0 |
| Investment in associates | **120.2** | 110.8 | 76.4 | 182.3 | 599.4 |
| Cash at bank | **20.0** | 25.7 | 17.5 | 4.1 | 37.1 |
| Other net current liabilities | **(13.0)** | (10.2) | (25.7) | (72.9) | (99.3) |
| Bank loans greater than one year | **(61.6)** | (68.8) | (78.6) | (93.8) | (622.4) |
| Other non-current liabilities | **(12.9)** | (18.5) | (13.4) | (2.8) | (35.0) |
| **Net assets** | **196.0** | 174.5 | 129.8 | 186.1 | 703.0 |
| **Financed by** | | | | | |
| Called up share capital | **9.9** | 9.9 | 9.9 | 7.1 | 7.1 |
| Share premium account | **–** | – | – | 220.5 | 219.7 |
| Revaluation reserve | **–** | – | – | – | 2.4 |
| Other reserves | **70.4** | 147.9 | 148.3 | 8.5 | 6.6 |
| Retained earnings/(loss) | **115.7** | 16.7 | (28.4) | (50.0) | 467.2 |
| **Capital employed** | **196.0** | 174.5 | 129.8 | 186.1 | 703.0 |
| **Return on equity** | | | | | |
| Return on equity (%) | **11.9%** | 33.9% | (64.3)% | (71.5)% | (18.1)% |
| Increase/(decrease) in net assets per share + dividend (%) | **11.8%** | 35.1% | (72.3)% | (62.2)% | (14.2)% |
| Total shareholder return | **(3.8)%** | (2.2)% | (24.7)% | (77.4)% | (73.0)% |
| Period end share price (pence) | **32p** | 33p | 34p | 45p | 392p |
| **Total return** | | | | | |
| Total comprehensive income/(expense) | **20.7** | 44.0 | (119.7) | (502.7) | (165.1) |
| **Net assets per share (pence)** | | | | | |
| – Basic net assets per share | **56p** | 50p | 37p | 130p | 491p |
| – EPRA triple net assets per share | **56p** | 50p | 37p | 133p | 499p |
| – EPRA net assets per share | **63p** | 57p | 47p | 174p | 501p |
| EPRA triple net assets per share growth (%) | **11.9%** | 35.1% | (72.3)% | (73.4)% | (21.1)% |
| Gearing (%) | **34.3%** | 40.4% | 61.9% | 60.5% | 88.0% |
| Gearing (%) on a see through basis | **253.6%** | 305.0% | 508.7% | 449.2% | 190.0% |
| **Income statement** | | | | | |
| Group revenue | **28.9** | 30.7 | 37.8 | 65.4 | 34.0 |
| Gross profit | **17.2** | 20.3 | 21.8 | 23.7 | 14.9 |
| Profit/(loss) on ordinary activities before financing | **26.8** | 52.6 | (105.1) | (478.5) | (131.0) |
| Net interest payable | **(3.4)** | (6.2) | (8.3) | (37.8) | (36.0) |
| Profit/(loss) on ordinary activities before tax | **23.4** | 46.4 | (113.4) | (516.3) | (167.0) |
| Tax (charge)/credit | **(2.3)** | (2.0) | (6.3) | 14.1 | 0.2 |
| Profit/(loss) after tax | **21.1** | 44.4 | (119.7) | (502.2) | (166.8) |
| Recurring pre-tax profit | **16.4** | 14.9 | 17.5 | 27.6 | 32.7 |
| Fully taxed recurring dividend cover (x) | **–** | – | – | 5.6 | 1.2 |
| Interest cover (x) | **5.5** | 4.1 | 2.8 | 1.2 | 1.2 |
| **Earnings per share (pence)** | | | | | |
| – Basic | **6p** | 13p | (59)p | (355)p | (117)p |
| – Diluted | **6p** | 13p | (59)p | (355)p | (117)p |
| – EPRA | **5p** | 4p | 1p | (39)p | 19p |
| Dividends per share | **–** | – | – | 5p | 27p |

# Property under management information

At 30 December 2011

| Property under management | 30 December 2011 £m | 30 December 2010 £m | 30 December 2009 £m | 30 December 2008 £m | 30 December 2007 £m |
|---|---|---|---|---|---|
| Wholly owned | **81** | 82 | 84 | 88 | 775 |
| Associates | **1,824** | 2,132 | 2,408 | 3,147 | 5,186 |
| Joint ventures | **576** | 547 | 648 | 750 | 174 |
| Other property | **–** | 71 | – | – | – |
| Total | **2,481** | 2,832 | 3,140 | 3,985 | 6,135 |

Figures exclude adjustments to property valuations for tenant incentives and head leases treated as finance leases. Trading properties are included at the lower of cost and net realisable value.

Other property represents the Ilford shopping centre, which was sold by The Mall in June 2010 but which was still managed by CRPM on a short-term contract with the new owners through to 31 January 2011. The property was not valued at 30 December 2010 so is shown at its sale price.

# EPRA performance measures

At 30 December 2011

| | 2011 | 2010 |
|---|---|---|
| EPRA earnings (£m) | **18.0** | 12.4 |
| EPRA earnings per share | **5p** | 4p |
| EPRA net assets (£m) | **218.3** | 199.4 |
| EPRA net assets per share | **63p** | 57p |
| EPRA triple net assets (£m) | **195.2** | 173.6 |
| EPRA triple net assets per share | **56p** | 50p |
| EPRA net initial yield | **6.7%** | 6.9% |
| EPRA topped-up net initial yield | **6.9%** | 7.0% |
| EPRA vacancy rate (UK portfolio only) | **4.3%** | 4.6% |

**Reconciliation of EPRA net initial yield and EPRA topped-up net initial yield**

| | 2011 £m | 2010 £m |
|---|---|---|
| Investment property – wholly owned | **8.3** | 9.8 |
| Investment property – share of joint ventures and associates | **596.4** | 614.6 |
| Trading property | **72.0** | 72.0 |
| Less developments | **(14.8)** | (6.7) |
| Completed property portfolio | **661.9** | 689.7 |
| Allowance for capital costs | **6.2** | 11.8 |
| Allowance for estimated purchasers' costs | **40.0** | 39.1 |
| Grossed up completed property portfolio valuation | **708.1** | 740.6 |
| Annualised cash passing rental income | **51.4** | 55.0 |
| Property outgoings | **(4.0)** | (4.2) |
| Annualised net rents | **47.4** | 50.8 |
| Add: notional rent expiration of rent free periods or other lease incentives | **1.5** | 1.2 |
| Topped up annualised rent | **48.9** | 52.0 |
| EPRA net initial yield | **6.7%** | 6.9% |
| EPRA topped-up net initial yield | **6.9%** | 7.0% |

# Covenant information

At 30 December 2011

| | See through borrowings £m | Covenant | 30 December 2011 | Future changes |
|---|---|---|---|---|
| **Core revolving credit facility** | | | | |
| Asset cover | – | Greater than 200% | **n/a** | |
| Gearing | – | Less than 200% | **3%** | |
| ICR | – | Greater than 150% | **1,349%** | |
| **The Great Northern facility** | | | | |
| LTV | 61.9 | 100% | **86%** | From 31 December 2012 reducing in stages to 80% by 30 June 2013 |
| ICR | – | Greater than 135% | **161%** | |
| **The Hemel Hempstead facility** | | | | |
| LTV | 5.3 | 75% | **64%** | Waiver until 29 April 2012 |
| ICR | – | Greater than 150% | **n/a** | Waiver until 29 April 2012 |
| **The Mall** | | | | |
| LTV | 120.3 | 83% | **69%** | Reducing in stages to 65% by December 2014 |
| ICR | – | Greater than 130% | **158%** | |
| **The Junction** | | | | |
| LTV | 21.8 | 70% | **60%** | Reducing in stages to 65% by 1 October 2012 |
| ICR | – | Greater than 130% | **158%** | Until 1 July 2012 and then 135% |
| **Germany** | | | | |
| ***LTV*** | | | | |
| Portfolio 1 | 16.5 | 75% | **72%** | |
| Portfolio 2 | 28.5 | 87% | **74%** | |
| Portfolio 3 | 43.6 | n/a | **n/a** | |
| Portfolio 4* | 66.2 | 93% | **n/a** | LTV holiday until 15 July 2012 |
| Portfolio 5 | 19.8 | 81% | **80%** | |
| Portfolio 6 | 22.9 | n/a | **n/a** | |
| ***ICR*** | | | | |
| Portfolio 1 | – | Greater than 150% | **256%** | |
| Portfolio 2 | – | Greater than 150% | **173%** | |
| Portfolio 3 | – | Greater than 160% | **226%** | |
| Portfolio 4* | – | Greater than 160% | **n/a** | ICR holiday until 15 July 2012 |
| Portfolio 5 | – | Greater than 120% | **170%** | |
| Portfolio 6 | – | Greater than 140% | **172%** | |
| **X-Leisure** | | | | |
| LTV (central facility) | 35.4 | 60% | **53%** | |
| ICR | _ | Greater than 130% | **193%** | Until March 2012 and then tiered increases to 150% at 1 April 2013 |
| **FIX UK** | | | | |
| No covenant | 2.4 | | | |
| ***LTV*** | | | | |
| Senior A | – | 80% | **73%** | Reducing to 75% from July 2012 |
| Senior A and B | 22.8 | 90% | **86%** | Reducing to 85% from July 2012 |
| ***ICR*** | | | | |
| Senior A | – | Greater than 120% | **167%** | Until 22 January 2012 and then 130% |
| Senior A and B | – | Greater than 100% | **141%** | Until 22 January 2012 and then 110% |
| **Xscape Braehead** | | | | |
| LTV | 22.8 | 90% | **85%** | LTV holiday until 1 April 2012 then 90% and reducing to 80% from 1 April 2013 |
| ICR | – | Greater than 120% | **140%** | |
| **Waterside Lincoln** | | | | |
| LTV | 6.8 | 60% | **52%** | |
| ICR | – | Greater than 175% | **218%** | |
| | **497.0** | | | |

* Portfolio 4 includes debt of £7.5 million, representing the Group's share of the €18.0 million German junior debt acquired during 2010.

# Fund portfolio information (100% figures)

At 30 December 2011

| | The Mall | The Junction | X-Leisure | German Portfolio |
|---|---|---|---|---|
| **Physical data** | | | | |
| Number of properties | 9 | 6 | 16 | 48 |
| Number of lettable units | 1,083 | 79 | 313 | 268 |
| Lettable space (sq feet – '000s) | 4,663 | 1,391 | 3,070 | 5,202 |
| **Valuation data** | | | | |
| Properties at independent valuation (£m) | 971 | 288 | 565 | 496 |
| Adjustments for head leases and tenant incentives (£m) | 47 | (12) | (7) | (1) |
| **Properties as shown in the financial statements (£m)** | 1,018 | 276 | 558 | 495 |
| Revaluation in the year (£m) | (6) | 8 | 36 | (5) |
| Initial yield | 7.02% | 5.68% | 6.59% | 6.61% |
| Equivalent yield | 7.65% | 6.92% | 7.44% | n/a |
| Property level return | 6.2% | 10.7% | 14.1% | 6.6% |
| IPD benchmark return | 6.3% | 10.0% | 14.2% | n/a |
| Reversionary | 18.1% | 12.6% | 7.4% | n/a |
| Loan to value ratio | 69% | 60% | 53% | 80% |
| Net debt to value ratio | 56% | 50% | 49% | 77% |
| **Lease length (years)** | | | | |
| Weighted average lease length to break | 8.4 | 11.2 | 13.6 | 7.0 |
| Weighted average lease length to expiry | 9.0 | 11.9 | 14.9 | 7.0 |
| **Passing rent (£m) of leases expiring in:** | | | | |
| 2012 | 5.2 | 0.2 | 0.7 | 1.5 |
| 2013 | 7.1 | 0.3 | 0.4 | 7.0 |
| 2014-2016 | 19.8 | 0.6 | 1.1 | 13.1 |
| **ERV (£m) of leases expiring in:** | | | | |
| 2012 | 6.8 | 0.4 | 0.7 | n/a |
| 2013 | 7.0 | 0.3 | 0.5 | n/a |
| 2014-2016 | 20.4 | 0.6 | 1.5 | n/a |
| **Passing rent (£m) subject to review in:** | | | | |
| 2012 | 7.6 | 2.1 | 6.3 | n/a |
| 2013 | 5.9 | 3.7 | 3.6 | n/a |
| 2014-2016 | 18.7 | 11.7 | 10.7 | n/a |
| **ERV (£m) of passing rent subject to review in:** | | | | |
| 2012 | 7.5 | 2.1 | 6.1 | n/a |
| 2013 | 5.8 | 3.8 | 3.6 | n/a |
| 2014-2016 | 22.7 | 11.4 | 11.1 | n/a |
| **Rental Data** | | | | |
| Contracted rent at year end (£m) | 81.9 | 18.6 | 41.7 | n/a |
| Passing rent at year end (£m) | 78.0 | 17.4 | 40.8 | 38.6 |
| ERV at year end (£m per annum) | 92.1 | 19.6 | 43.8 | n/a |
| ERV movement (%) | (0.1) | (2.5) | 0.8 | n/a |
| Vacancy rate (%) | 2.8% | 3.6% | 3.9% | 4.9% |
| **Like for like net rental income under UK GAAP (100%)** | | | | |
| **Current year net rental income (£m)** | | | | |
| Properties owned throughout 2010/2011 | 60.7 | 14.9 | 36.6 | 33.3 |
| Disposals | 7.1 | 5.8 | 0.1 | – |
| **Net rental income** | 67.8 | 20.7 | 36.7 | 33.3 |
| **Prior year net rental income (£m)** | | | | |
| Properties owned throughout 2010/2011 | 60.9 | 15.9 | 35.4 | 31.1 |
| Disposals | 22.7 | 15.1 | 2.5 | 0.2 |
| **Net rental income** | 83.6 | 31.0 | 37.9 | 31.3 |
| **Other Data** | | | | |
| Unit Price (£1.00 at inception) | £0.42 | £0.20 | £0.35 | n/a |
| Group share | 18.16% | 13.29% | 11.93% | 49.60% |

# Property information

At 30 December 2011

**The Mall properties**

| Property | Description | Lettable space (sq feet) | Car park spaces | Principal occupiers | Number of lettable units |
|---|---|---|---|---|---|
| **Valued at £125m plus** | | | | | |
| The Mall, Luton | Leasehold covered shopping centre on two floors, offices extending to over 65,000 sq ft | 994,000 | 2,300 | Debenhams, Boots, Primark, Next, Top Shop and Top Man, Marks & Spencer, Wilkinsons, River Island, Argos, TK Maxx | 170 |
| The Mall, Wood Green | Freehold, partially open shopping centre, on two floors with nearly 40,000 sq ft of offices | 558,000 | 1,500 | Primark, Cineworld, TK Maxx, Wilkinson, H&M, HMV, Boots, Argos, WH Smith, New Look | 104 |
| **Valued at £75m to £125m** | | | | | |
| The Mall, Blackburn | Leasehold partially covered shopping centre on three floors | 575,000 | 1,304 | Primark, Debenhams, BHS, Next, H&M, New Look, JD Sports, Tesco, Boots, Argos | 129 |
| The Mall, Sutton Coldfield | Freehold partially open shopping centre on a single level with offices extending to approximately 30,000 sq ft | 559,000 | 960 | House of Fraser, BHS, Marks & Spencer, H&M, Boots, Argos, WH Smith | 112 |
| The Mall, Norwich | Freehold covered shopping centre on six floors | 360,000 | 800 | Argos, Boots, TK Maxx, Mothercare, New Look, Vue Cinemas | 110 |
| The Mall, Maidstone | Freehold covered shopping centre on three floors with offices extending to 40,000 sq ft | 538,000 | 1,050 | Boots, BHS, Wilkinson, New Look, Sportsworld | 103 |
| The Mall, Uxbridge | Leasehold single level covered shopping centre with 40,000 sq ft of offices | 428,000 | 1,150 | Marks & Spencer, Tesco, TK Maxx, Wilkinsons, Argos, Iceland | 121 |
| The Mall, Camberley | Part leasehold covered shopping centre on one floor | 401,000 | 1,040 | Argos, Boots, Sainsbury's, River Island, House of Fraser, Primark | 173 |
| The Mall, Walthamstow | Freehold covered shopping centre on two floors | 250,000 | 870 | Asda, BHS, Boots, Dixons, HMV, Top Shop, Top Man, River Island | 61 |

# Property information continued

At 30 December 2011

### The Junction properties

| Property | Description | Lettable space (sq feet) | Car park spaces | Principal occupiers | Number of lettable units |
|---|---|---|---|---|---|
| **Valued at £50m to £100m** | | | | | |
| The Junction Telford Forge Shopping Park, Telford | Open A1 non-food retail warehouse park | 313,000 | 1,343 | Next, Tesco Home Plus, Arcadia, TK Maxx, Boots | 19 |
| The Junction Thurrock Shopping Park, Essex | Open A1 non-food & leisure retail park | 554,000 | 2,398 | Decathlon, M&S Outlet, Asda Living, TK Maxx, Furniture Village | 33 |
| The Junction Imperial Park, Bristol | Mixed bulky and open A1 non-food retail warehouse park | 339,000 | 1,200 | B&Q, Tesco Home Plus, Next, DW Sports, Argos | 21 |
| **Valued at below £50m** | | | | | |
| The Junction Abbotsinch Retail Park, Paisley | Bulky retail warehouse park | 185,000 | 694 | B&Q, DFS, Comet | 6 |
| Broadwell Industrial Estate, Oldbury | Mixed use development site with consent for bulky and open A1 non-food retail and leisure | – | – | – | – |
| Renfrew Retail Park, Renfrewshire | Development site | – | – | – | – |

### German properties

| Property | Description | Lettable space (sq feet) | Principal occupiers | JV share |
|---|---|---|---|---|
| **Valued at €50 million to €100 million** | | | | |
| Dortmund | Retail park | 33,800 | Real | 100% |
| Lübeck | Retail park | 29,100 | Coop/Plaza | 100% |
| **Valued at €20 million to €50 million** | | | | |
| Cottbus | Retail park | 29,900 | Praktiker & Roller | 100% |
| Tönisvorst | Retail park | 20,600 | Real | 100% |
| Hameln | Retail park | 16,800 | Kaufland | 95% |
| Moerfelden | Retail park | 12,200 | Rewe | 100% |
| Schwäbisch Hall | Retail park | 19,845 | Hela | 95% |
| Trier – Kenn | Hypermarket | 11,600 | Real | 100% |
| Ingelheim | Hypermarket | 10,200 | Real | 100% |
| Bremen Haferwende | Logistics | 54,400 | Metro | 100% |
| **Valued at €10 million to €20 million** | | | | |
| Lauchhammer | Retail park | 17,700 | Marktkauf | 95% |
| Oschersleben | Retail park | 10,500 | Marktkauf & Toom | 95% |
| Marl | Retail park | 8,800 | Kaufland | 100% |
| Brühl | Hypermarket | 17,500 | Real | 100% |
| Sinzheim | Hypermarket | 16,500 | Real | 100% |
| Koln Gremberg | Hypermarket | 8,300 | Real | 100% |
| Herne | Hypermarket | 7,400 | Rewe & Toom | 100% |
| Bochum Langendreer | Hypermarket | 6,400 | Kaufland | 89% |
| Rangsdorf | Furniture store | 18,500 | Roller | 100% |
| Krefeld | DIY | 11,700 | Praktiker | 100% |
| Stadthagen | DIY | 10,900 | Hagebau | 100% |
| Balingen | DIY | 7,500 | Toom | 100% |

**German properties**

| Property | Description | Lettable space (sq feet) | Principal occupiers | JV share |
|---|---|---|---|---|
| **Valued at less than €10 million** | | | | |
| Wesel | Retail | 3,100 | Massa | 100% |
| Hamburg-Wandesbek | Retail | 3,000 | Massa | 100% |
| Jessen | Retail | 1,500 | TIP Discount Verwaltungs | 100% |
| Senftenberg | Retail | 1,100 | TIP Discount Verwaltungs | 100% |
| Bochum - Wattenscheid | Retail | 10,000 | Gota Tapeten | 100% |
| Kirchweyhe | Retail | 1,900 | Torsten Leschke - Fitnessanlage | 100% |
| Philippsthal | Retail | 900 | BF Tec | 100% |
| Duisburg | Retail & residential units | 2,600 | Schlecker | 100% |
| Hochdahl | Retail & residential units | 800 | – | 100% |
| Koln Berliner | Retail & residential units | 500 | Schlecker | 100% |
| Elchingen | Hypermarket | 7,400 | Real | 100% |
| Sobernheim | Supermarket | 7,400 | Real | 95% |
| Leverkusen | Supermarket | 6,600 | Edeka & Total | 100% |
| Kreuztal | Supermarket | 6,400 | – | 94% |
| Heide | Supermarket | 4,600 | Aldi | 100% |
| Magdeburg | Supermarket | 3,000 | Edeka | 100% |
| Kirchheimbolanden | Supermarket | 2,500 | HIT Handelsgruppe | 100% |
| Bremen - Buntentorsteinweg | Supermarket | 2,400 | Rewe | 100% |
| Bremen - Mahndorfer | Supermarket | 1,200 | Metro | 100% |
| Taufkirchen | Supermarket & Retail | 5,000 | Rewe & AWG | 95% |
| Velten | Supermarket & Leisure | 3,100 | Rewe & Karin Raschke | 100% |
| Herford | Supermarket & Leisure | 2,400 | Senyurt & Drei Groschen Spiel | 100% |
| Bonn | Logistics | 5,800 | – | 100% |
| Hosbach | DIY | 14,700 | Globus Fachmarkte | 100% |
| Aachen | DIY | 2,800 | Praktiker | 100% |
| Kirchheim | Petrol station | 2,400 | Real | 100% |

**X-Leisure properties**

| Property | Description | Lettable space (sq feet) | Principal occupiers | Number of lettable units |
|---|---|---|---|---|
| **Valued at above £50m** | | | | |
| Xscape Milton Keynes | Leisure and retail property anchored by one of the UK's largest indoor real snow slopes | 424,000 | SNO!zone, Cineworld, Virgin Active, Spirit Group, Ellis Brigham | 39 |
| Brighton Marina, Brighton | Retail, leisure and residential property, with a working harbour and yacht moorings | 335,000 | Cine UK, Bowlplex, David Lloyd | 75 |
| **Valued at £25m to £50m** | | | | |
| Riverside, Norwich | Leisure property with bars, restaurants, nightclubs, multiplex cinema and bowling | 210,000 | Odeon Cinema, Hollywood Bowl | 15 |
| Xscape Castleford | Leisure and retail property anchored by one of the UK's largest indoor real snow slopes | 363,000 | SNO!zone, Cine UK, Bowlplex, Ellis Brigham | 43 |
| Parrs Wood, Manchester | Leisure property with restaurants, health and fitness, bowling, multiplex cinema, bingo, children's entertainment and a hotel | 232,000 | Cine UK, Virgin Active, Ten Pin | 11 |

# Property information continued

At 30 December 2011

**X-Leisure properties**

| Property | Description | Lettable space (sq feet) | Principal occupiers | Number of lettable units |
|---|---|---|---|---|
| **Valued at £25m to £50m (continued)** | | | | |
| Fountain Park, Edinburgh | Leisure property with a multiplex cinema, bowling, health and fitness, and bars and restaurants | 238,000 | Cine UK, Ten Pin, Virgin Active, Mecca Bingo, Genting Casinos | 12 |
| Cambridge Leisure Park, Cambridge | Leisure property with a multiplex cinema, health club, bowling, hotel, bars and restaurants | 149,000 | Cine UK, LA Fitness, Ten Pin | 18 |
| Cardigan Fields, Leeds | Leisure property with a cinema, bowling, health club and restaurants plus two industrial units | 216,000 | Vue, Hollywood Bowl, Virgin Active, Spirit Group | 15 |
| Tower Park, Poole | Leisure property with a multiplex cinema, bowling, bingo, health club, water park and family restaurants | 199,000 | Empire, Bowlplex, LA Fitness | 18 |
| West India Quay, Docklands London (50%) | Leisure property with bars, restaurants, multiplex cinema, health and fitness centres and the Museum of Docklands | 72,000 | Cine UK, LA Fitness, Tattersall Castle Group | 17 |
| **Valued at below £25m** | | | | |
| Eureka Park, Ashford | Leisure property with a multiplex cinema, family restaurants, health & fitness, nightclub and hotel | 120,000 | Cine UK, Travelodge, Bannatyne Fitness | 10 |
| Great North Leisure Park, North Finchley, London | Leisure property with a multiplex cinema, bowling, restaurants and a local authority swimming pool | 88,000 | Vue Cinema, Hollywood Bowl | 7 |
| Bentley Bridge, Wolverhampton | Leisure property with a multiplex cinema, restaurants and canal-side pub | 99,000 | Cine UK, AMF Bowling | 10 |
| Lockmeadow, Maidstone | Leisure property with a multiplex cinema, health and fitness, family restaurants, nightclubs and bars, as well as the 700 year old Maidstone market | 139,000 | Odeon Cinema, David Lloyd | 9 |
| Queens Links, Aberdeen | Leisure property with a cinema and restaurants | 129,000 | Cine UK, Gala | 10 |
| Boldon Leisure Park, Tyneside | Leisure property with a cinema and restaurants | 57,000 | Cine UK | 4 |

**Other properties**

| Property | Description | Lettable space (sq feet) | Principal occupiers | Number of lettable units |
|---|---|---|---|---|
| **Valued at above £50m** | | | | |
| Great Northern Warehouse, Manchester | Freehold leisure property with multiplex cinema, casion and bars, health and fitness, restaurants and shops | 399,000 | AMC Cinema, Virgin Active, London Clubs International | 46 |
| Xscape Braehead (50%) | Freehold covered leisure and retail property anchored by one of the UK's largest indoor real snow slopes | 374,000 | Sno Factor, Odeon Cinema, Bowlplex, Ellis Brigham | 37 |
| **Valued at below £50m** | | | | |
| Waterside Shopping Centre, Lincoln (50%) | Freehold covered shopping centre on three floors | 118,000 | Primark, New Look, Top Shop, Superdrug, Clinton Cards | 46 |
| Leisure World, Hemel Hempstead | Redevelopment site | 160,000 | – | – |

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### 2012 financial calendar

| | |
|---|---|
| Annual General Meeting | June 2012 |
| 2012 interim results | August 2012 |
| 2012 annual results | March 2013 |

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