Capital & Regional plc

Interim Report 2006

Contents

Capital & Regional… what we do

- C&R is a co-investing property asset manager. This means that we manage property assets for funds in which we hold a significant stake.
- This enables our equity and management to be leveraged over a large portfolio and enhances returns to shareholders.
- We aim to build best-of-class specialist management teams for the retail and leisure sectors in which we operate.

Highlights[1]

- Adjusted fully-diluted Net Asset Value (NAV) per share increased by 19% to £11.84.
- Recurring pre-tax profit[2] up 26% to £15.0m.
- Interim dividend increased by 29% to 9p (June 2005: 7p).
- Profit after tax of £135.9m (June 2005: £60.8m).
- Property under management approaching £6 billion.
- Sale of Morfa Retail Park, Swansea to the Junction Fund for £105.0m.

1 For definition of terms, refer to "Glossary of terms" on page 31.
2 See note 2.

Track record

	NAV per share		Dividend per share	
Dec 1996	220p	+19%	3.0p	+20%
Dec 1997	272p	+24%	3.5p	+17%
Dec 1998	317p	+16%	4.25p	+21%
Dec 1999	370p	+17%	5.0p	+18%
Dec 2000	350p	−5%	5.5p	+10%
Dec 2001	336p	−4%	6.0p	+11%
Dec 2002	392p	+17%	7.0p	+17%
Dec 2003	521p	+33%	9.0p	+29%
Dec 2004	710p	+36%	14.0p	+56%
Dec 2005	975p	+37%	18.0p	+40%
June 2006*	1184p	+19%*	9.0p	+29%*

* Six months only, switch to IFRS.

WOW!

Chief Executive's statement

I am pleased to report that the outstanding performance we saw in 2004 and 2005 is continuing into 2006.

Results

I am pleased to report that the outstanding performance we saw in 2004 and 2005 is continuing into 2006. Our profit of £135m has led to a total return of 19.4% made up as follows:

Income statement

	Six months to 30 June 2006 £m	Six months to 30 June 2005 £m
Net rents	**38.2**	26.6
Interest	**(28.2)**	(19.7)
Contribution	**10.0**	6.9
Management fees	**13.5**	11.0
Snozone operating profit	**1.2**	1.0
Management expenses	**(9.7)**	(7.0)
Recurring pre tax profit	**15.0**	11.9
Performance fees	**24.4**	17.4
Cost of performance fees	**(8.1)**	(6.1)
Variable overhead	**(5.1)**	(6.5)
Revaluation gains	**98.0**	42.8
Gain on interest rate swaps	**18.7**	(10.2)
Other non-recurring items	**(0.4)**	(4.1)
Profit on disposal	**4.7**	5.3
Pre-tax profits	**147.2**	50.5
Tax	**(11.3)**	10.3
Profit after tax	**135.9**	60.8
Return on equity	**19.4%**	12.5%

Martin Barber
Chief Executive

Our **recurring pre-tax profits** have risen by 26% during the first half to £15m. This income is mostly long term in nature – rent under long leases and asset management fees under long term management contracts. All one off profits, revaluation surpluses and performance fees are excluded along with associated costs. This gives us confidence to increase the interim dividend by 29% to 9p per share.

Our **NAV per share** has risen by 19% to £11.84 on a fully diluted basis. This reflects the strong investment market for retail property as well as our active management of the portfolio.

Positioning for future growth

Over recent years the Group has built up three specialised and largely independent management teams, focused on managing funds with outside investors. These teams have significant opportunities for generating rental growth from developments, reconfigurations and refurbishments as well as from reversions.

The Group is now building up two further specialised teams focused around portfolios where active management can add value – the Fix trade centre portfolio and the German big box retail portfolio. These could become funds if and when the equity requirement exceeds C&R's own appetite.

Snozone is now a well established and highly profitable business with good growth prospects and very little need for equity. It is of particular value to the Group when seeking locations for new Xscape developments.

Over the years we have developed a corporate culture which allows these businesses to adapt and grow. We have used some of the performance fees earned to incentivise the management teams and promote continuity. We believe that these factors position our business well for sustained above average future growth.

Changing capital markets

We recognise the importance of finding the right capital to finance our property activities, and we monitor developments in the capital markets closely. At present the major issue is the UK REIT structure which will be available to UK property investment companies from January 2007. The REIT legislation as currently drafted does not suit C&R, and we have no plans to convert in the first wave.

We are watching developments closely and expect that there will be discussions with the Government to improve the flexibility of the regime. This may open up further possibilities in the future. We support attempts to build up new sources of equity for property, and to deliver strong returns to investors.

We are planning to remain as a co-investing asset manager, and believe that there are signs that the benefits of this business model are being better understood in the investment community.

Property portfolio

We monitor our exposure to different property sectors on a "see-through" basis, taking our share of the various portfolios, including committed sales and purchases since the valuation date. On this basis we have a portfolio of £1,916m split as follows:

Property exposure, including commitments

		£m
Shopping centres	39%	747
Retail parks	22%	422
Leisure	17%	331
Trade centres	5%	87
German big box retail	17%	329
	100%	1,916

66% of the portfolio is held through our three specialist funds – Mall, Junction and X-Leisure. The remainder comes from joint ventures or properties wholly owned by the Group.

Fund performance

Both the Mall and X-Leisure Funds outperformed their benchmarks during the first half. In the period, the Junction concentrated on repositioning its portfolio towards open A1 and on generating future rental income and capital growth through development activity.

Fund performance[1]

	Full year 2003	Full year 2004	Full year 2005	**Six months to 30 June 2006**
The Mall				
Property level returns	21.7%	19.6%	16.5%	**12.2%**
Geared returns	33.5%	26.0%	22.8%	**18.7%**
IPD benchmark	15.2%	17.1%	16.3%	**8.9%**
The Junction				
Property level returns	17.7%	24.0%	23.3%	**5.4%**
Geared returns	28.2%	35.6%	34.1%	**6.0%**
IPD benchmark	16.6%	23.5%	22.1%	**8.7%**
X-Leisure				
Property level returns	–	11.4%*	15.3%	**10.6%**
Geared returns	–	18.0%*	28.3%	**17.1%**
Fund hurdle return rate	–	9.4%*	12.0%	**6.0%**

* Nine months only
1 UK GAAP based results.

Chief Executive's statement continued

Shopping centres – the Mall Fund

Our biggest single capital investment is our share of the Mall Fund. Since June 2006 our share has decreased from 26.1% to 24.2% following the sale of £30m of units at a 2.5% premium. The Mall has an actively managed portfolio of 23 shopping centres spread throughout England and Scotland. It is the largest indirect investment vehicle for shopping centres in the UK.

The Mall outperformed in the half year, as it has done in every accounting period since its formation in 2002. Its total property level return was 12.2% against the IPD shopping centre index of 8.9%. At fund level, taking into account gearing and performance fees, the return was 18.7%.

The high returns were driven both by strong investor demand for income producing assets and through the benefits of active shopping centre management. The portfolio has a net initial yield of 4.49% rising to 5.37% as rent reviews fall due over the next five years. The equivalent yield is now 5.29%.

This time last year we heard some gloomy forecasts about tenant demand for retail space and we were anticipating some problems. However UK retail sales during the first half were 2.6% higher, on a like-for-like basis, than the same period last year and the market has generally held up well. We recognise that retail margins are under pressure from increasing costs, but good retailers continue to prosper and demand new space.

Our focus is to operate shopping centres in a cost efficient manner, with a relatively high spend on marketing to help boost retailer profitability. Our internally commissioned research on our portfolio suggests the number of shopping visits is marginally down, but that dwell time is up by 4% and spend per visit is up by 11% on 2005.

The Mall has significant opportunities for generating further rental growth through asset management initiatives. The Fund's detailed property by property business plan identifies opportunities for significant refurbishments, reconfigurations or substantial extensions at almost every centre. These would require capital expenditure of some £240m over the next four years – low risk but profitable investment based upon pre-lets and strictly controlled through procedures agreed with Morley, the fund manager. The initiatives should drive rental growth in excess of levels which would be expected from macro-economic analysis. The plan shows that after this capital expenditure the value of the portfolio, without further yield shift may rise some £900m.

Retail parks

Our exposure to retail parks comes through our 27.3% share of the Junction Fund, and through our interests in Swansea, Glasgow and Cardiff.

The Junction Fund repositioned itself during the first half, securing the disposal of four bulky goods parks for £160m at 5.9% equivalent yield. 43% of the Junction portfolio now has open A1 planning permission, which allows access to a wider range of tenants. The remaining bulky goods space is well located with little vacancy – 3.7%.

The portfolio is now highly reversionary, with market rents some 17.25% over the current passing rents. ERV growth on our bulky goods parks was 1.2% during the first half, and we consider this level of underlying rental growth will be maintained.

The team is working on significant development and reconfiguration opportunities with major initiatives at Thurrock and Oldbury. A number of smaller opportunities at Hull, Bristol, Maidstone, Oxford and Portsmouth are likely to add value.

The first half of 2006 saw completion of a further 85,000 sq ft of reconfiguration at our retail park in Wembley and continued refurbishment work at Portsmouth, Oxford and Maidstone.

Morfa Retail Park in Swansea On 19 September 2006 the Group exchanged conditional contracts for the sale of Morfa Retail Park to the Junction Fund for £105m.

This price, which is receivable in cash after the transfer of bank debt, represents an initial yield of 3.57% and an equivalent yield of 4.65%, and crystallises a gain on the total project development costs of £42m. The property was included in the December 2005 balance sheet at £99m and the June 2006 balance sheet at £105m.

As a result of the disposal, the Group's gearing as at 30 June 2006 will fall by 13%. The net proceeds will be used, for the time being, to pay down debt.

In **Cardiff** we are making good progress on a 375,000 sq ft development adjoining the proposed new football stadium, with pre-lets in place to Costco and a conditional land sale exchanged with Asda. Our development partner is PMG Leckwith Limited, an established Welsh developer.

Leisure

Our leisure portfolio includes our investments in (i) the X-Leisure fund, (ii) the Xscape joint ventures, (iii) two wholly-owned properties at Hemel Hempstead and Great Northern and (iv) our newly committed interest in Manchester Arena. We also own Snozone Holdings, now a separately managed earnings business generating substantial profits but not valued in our balance sheet.

The **X-Leisure Fund** delivered an excellent six-month return of 17.1% and was the third strongest performer in the second quarter out of 55 funds in the HSBC Specialist Fund Index. This was achieved through a positive yield shift validating leisure as an attractive but undervalued asset class, management initiatives throughout the portfolio and rental growth, particularly across the A3 sector. Vacancies remain very low at 2.9%

Despite the positive yield shift seen in the first six months of the year, leisure yields still appear to offer good value when compared to the other property sectors. This relatively high yield, coupled with increased investor awareness of the attractive key fundamentals that the leisure sector offers, long leases and fixed or minimum rental uplifts, has led to increased competition for leisure assets. This demand is driving leisure yields down reducing the yield gap with other property sectors.

The **Xscape Partnerships** have also seen positive capital performance, particularly Xscape Milton Keynes where the first round of rent reviews has resulted in an increase in passing rent of 25.8%. Footfall continues to grow year on year at both Milton Keynes and Castleford and underlying trade particularly in the bars and restaurants is good. The new Xscape at Braehead near Glasgow was opened in April this year 85% prelet. There has been a delay in opening the Odeon cinema, but we expect business to build fast this autumn as seasonal interest in the snow offer takes off.

London Clubs International took possession of its 45,000 sq ft casino in the **Great Northern Warehouse** in Manchester, and commenced its £1.5m fit out. The casino, to be called Manchester 235, is due to open at the end of October 2006.

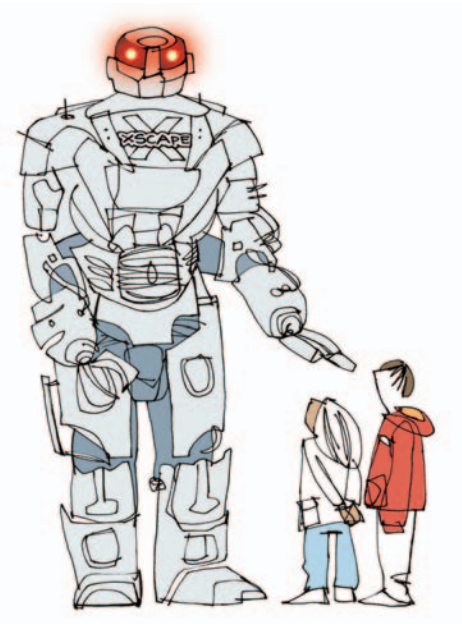
Since the half year, C&R has agreed to acquire a 30% stake in the **Manchester Arena** alongside GE Real Estate. This highly successful venue for music, sporting and comedy events offers a number of asset management opportunities which the two parties, C&R and GE Real Estate, are well placed to manage. For C&R it is a new opportunity to use its leisure and joint venturing expertise alongside a major player.

Trade centres – Fix UK

Our trade centres business has developed substantially during the first half. Trade centres are geared to the needs of plumbers, electricians, builders and other tradesmen. They normally have an industrial planning consent, with scope for limited sales to retail customers.

We are now building up a separate management team, which is developing its own approach to branding and tenant relationships. The team has encountered strong demand from operators: several core occupiers have store requirements of in excess of 20 units. Historically landlord/tenant relationships have been poor and there is tremendous scope for co-operation and improvement.

The portfolio has grown from £68m at the beginning of the year to £87m in June and £102m in August 2006. The lot sizes are small, and although we have identified a large number of suitable properties, the acquisition process requires care and is time consuming. We have already seen the market develop, with rental values rising and yields falling reflecting the potential for the sector. As a result our portfolio has shown a total return of 23.5% over the six months.



German big box retail portfolio

Including committed purchases our German portfolio has now reached €479m, 17% of our total portfolio.

We are building up a specialist German retail management team based in London responsible for all aspects of the portfolio other than day to day management. We greatly value the input from the Hahn team, and Hahn is continuing to take a 10% stake in the properties we are planning to hold long term.

Since we made our first German acquisitions in mid 2005, the German retail warehouse market has been attracting increasing attention from other overseas investors. The market has become more liquid and yields have tightened. There is increasing recognition of the attractions of this type of investment and these trends may continue with development of a German REIT.

During the half year the portfolio produced a net income return of 7%. In addition we benefited from a revaluation surplus giving us a return on equity for the six-month period of 18%. We are not anticipating significant rental growth in Germany in the short term, but the existing profits are attractive and stable.

The earnings businesses

Property management: we have further built the infrastructure of CRPM, our property management business, with specialist teams being started for Fix UK and our German portfolio, and the existing shopping centre team being further strengthened. The market for specialist skills is becoming more competitive, and we have reacted and used our long-term incentive schemes to promote continuity.

Profit from property management business

	Six months to June 2006 £m	Six months to June 2005 £m
Regular fee income	13.5	10.9
Fixed management expense*	(7.7)	(5.5)
	5.8	5.4
Performance fees	24.4	17.4
Variable management expense	(5.1)	(6.5)
Profit before tax	25.1	16.3

* 21% of management expense relates to property investment business, 79% to property management.

Snozone has had an excellent half year, and the trading results from Castleford in particular have exceeded all expectations. Demand for the ski experience appears to be diverse and not price sensitive. Snozone Braehead opened in April. It had a slow summer but we are confident that it will prove a popular venue as the ski season approaches.

International Financial Reporting Standards

Our new accounting policies make little difference to our balance sheet, but have a major impact on our profits, mainly because profit now includes revaluation gains or losses – see note 17. Other significant changes implemented for the first time are:

- Tenants' incentives and rent-free periods are now amortised over the length of the lease, rather than the shorter period to the first rent review. This increases our recurring profits by £2.4m in the half year.
- Our interest rate swaps are valued or "marked to market" and the movement is shown in the segmental analysis note 2a, below the recurring line.
- Tax on unrealised capital gains is now provided in the balance sheet but added back in the calculation of NAV per share. This is a smaller figure for us than for most other property companies as most of our assets are owned by Jersey resident companies.

Outlook

The Company, with its five areas of operation, now enjoys a good balance of management focus, scale and diversification. The active management and development programmes applied to our activities have enabled us to outperform through a period of pronounced yield compression.

Comparison of property values and yields with other financial instruments and asset classes does not suggest any fundamental overvaluation; there may indeed be scope for further improvement. The retail and leisure markets in which our tenants operate remain competitive, with winners and losers both between and within specific sectors. We believe that this environment provides us with continuing opportunities to provide better locations and higher levels of sales for our tenants; hence the prospect of increasing rental income.

This combination of robust financial fundamentals, our value adding management skills and the benefits of the property asset management business model should enable us to deliver further superior returns to our shareholders.

Martin Barber
Chief Executive

Independent review report to Capital & Regional plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the reconciliation of movements in equity shareholders' funds, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 19. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Adoption of International Financial Reporting Standards

As disclosed in note 17, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
19 September 2006

Consolidated income statement

	Notes	(Unaudited) Six months to 30 June 2006 £m	(Unaudited)* Six months to 30 June 2005 £m	(Unaudited)* Year to 30 December 2005 £m
Revenue	2c	**57.4**	35.1	94.2
Cost of sales		**(7.3)**	(3.8)	(10.7)
Gross profit		**50.1**	31.3	83.5
Profit on sale of trading and development properties		**0.4**	3.1	2.4
Administrative costs		**(14.8)**	(13.4)	(34.5)
Share of profit in joint ventures and associates	9a	**105.4**	31.1	129.3
Gain on revaluation of investment properties	8a	**15.4**	7.5	21.3
Elimination of negative goodwill		**–**	–	10.6
Profit on sale of investment properties and investments		**0.4**	0.2	4.3
Profit on ordinary activities before financing		**156.9**	59.8	216.9
Finance income	3	**1.0**	0.4	0.8
Finance costs	4	**(10.7)**	(9.7)	(17.7)
Profit before taxation		**147.2**	50.5	200.0
Current tax	5	**(4.6)**	(1.0)	(1.4)
Deferred tax	5	**(6.7)**	11.3	6.5
Tax (charge)/credit		**(11.3)**	10.3	5.1
Profit for the period		**135.9**	60.8	205.1
Attributable to:				
Equity shareholders		**135.0**	60.8	203.8
Minority interests		**0.9**	–	1.3
		135.9	60.8	205.1
Basic earnings per share	7	**190p**	90p	295p
Diluted earnings per share	7	**183p**	87p	285p

* Unaudited and restated under IFRS (see note 17).

Consolidated statement of recognised income and expense

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited)* Six months to 30 June 2005 £m	(Unaudited)* Year to 30 December 2005 £m
Foreign exchange translation differences	**0.2**	–	–
LTIP credit in respect of LTIP charge	**1.0**	1.0	1.9
Revaluation gains on owner occupied property	**0.8**	–	0.4
Net gain recognised directly in equity	**2.0**	1.0	2.3
Profit for the period	**135.9**	60.8	205.1
Total recognised income and expenses	**137.9**	61.8	207.4
Attributable to:			
Equity shareholders	**137.0**	61.8	206.1
Minority shareholders	**0.9**	–	1.3

Reconciliation of movements in equity shareholders' funds

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited)* Six months to 30 June 2005 £m	(Unaudited)* Year to 30 December 2005 £m
Opening equity shareholders' funds as restated including CULS equity reserve	**707.7**	501.2	501.2
Issue of shares	**–**	49.6	50.3
Arising on repurchase on CULS	**–**	(47.4)	(48.7)
Acquisition of own shares	**(3.4)**	–	–
Other	**1.5**	–	–
Reserve arising on acquisition	**–**	–	9.5
	705.8	503.4	512.3
Total recognised income and expense	**137.0**	61.8	206.1
	842.8	565.2	718.4
Dividends paid	**(7.6)**	(5.9)	(10.7)
Closing equity shareholders' funds including CULS equity reserve	**835.2**	559.3	707.7

* Unaudited and restated under IFRS (see note 17).

Consolidated balance sheet

	Notes	**(Unaudited) Six months to 30 June 2006 £m**	(Unaudited)* Six months to 30 June 2005 £m	(Unaudited)* Year to 30 December 2005 £m
Non-current assets				
Investment property	8a	**371.2**	114.3	318.3
Interest in long leasehold property	8a	**14.5**	12.4	13.8
Goodwill		**12.2**	12.2	12.2
Fixtures, fittings, motor vehicles and investments		**1.2**	0.6	0.7
Receivables – amounts falling due after more than one year		**28.4**	21.2	3.8
Investment in joint ventures	9c	**59.0**	48.5	49.8
Investment in associates	9b	**669.6**	498.4	583.7
Total non-current assets		**1,156.1**	707.6	982.3
Current assets				
Property assets	8a	**94.3**	–	93.7
Receivables – amounts falling due within one year		**72.4**	57.6	74.5
Cash		**38.3**	5.5	40.1
Total current assets		**205.0**	63.1	208.3
Total assets		**1,361.1**	770.7	1,190.6
Current liabilities				
Trade and other payables		**(41.8)**	(27.2)	(42.7)
Tax liabilities		**(17.4)**	(12.3)	(13.7)
Short-term bank loans		**(0.2)**	(0.2)	(0.2)
		(59.4)	(39.7)	(56.6)
Non-current liabilities				
Bank loans		**(432.4)**	(147.9)	(395.7)
Convertible subordinated unsecured loan stock	10	**(2.9)**	(3.3)	(3.0)
Other non-current liabilities		**(17.4)**	(13.9)	(21.7)
Deferred tax		**(8.5)**	(5.6)	(1.8)
Total non-current liabilities		**(461.2)**	(170.7)	(422.2)
Total liabilities		**(520.6)**	(210.4)	(478.8)
Net assets		**840.5**	560.3	711.8
Equity				
Called-up share capital		**7.1**	7.1	7.1
Share premium account	13	**216.9**	216.2	216.9
Revaluation reserve	13	**1.2**	–	0.4
Other reserves	13	**10.8**	2.2	12.7
Retained earnings	13	**597.8**	332.2	469.2
Equity shareholders' funds		**833.8**	557.7	706.3
CULS equity reserve	10	**1.4**	1.6	1.4
Equity minority interests		**5.3**	1.0	4.1
Total equity		**840.5**	560.3	711.8
Diluted net assets per share	11	**£11.63**	£7.76	£9.80
EPRA diluted net assets per share	11	**£11.84**	£7.70	£9.96

* Unaudited and restated under IFRS (see note 17).

Consolidated summary cash flow statement

	Notes	(Unaudited) Six months to 30 June 2006 £m	(Unaudited)* Six months to 30 June 2005 £m	(Unaudited)* Year to 30 December 2005 £m
Operating activities				
Cash generated from operations	15	**6.1**	5.8	46.7
Distributions received from joint ventures and associates		**12.7**	5.9	6.7
Interest paid		**(10.0)**	(4.5)	(16.6)
Interest received		**1.0**	–	0.7
Tax paid		**(0.2)**	–	(0.4)
Cash flows from operating activities		**3.5**	1.4	(9.6)
Investing activities				
Purchase of property		**(37.2)**	(13.4)	(141.9)
Sale of property		**1.1**	–	58.8
Loans to joint ventures		**(0.7)**	–	(0.2)
Acquisitions and disposals		**(0.2)**	(3.5)	(18.0)
Cash flows from investing activities		**(37.0)**	(16.9)	(101.3)
Financing activities				
Issue of ordinary share capital		**0.1**	49.5	49.6
Purchase of own shares		**(3.4)**	–	–
Repurchase of CULS		**–**	(62.8)	(62.8)
Increase in medium and long-term borrowings		**36.8**	30.0	123.9
Dividends paid to minority interests		**(0.3)**	–	–
Equity dividends paid		**(7.6)**	(5.9)	(10.8)
Cash flows from financing activities		**25.6**	10.8	99.9
Net (decrease)/increase in cash and deposits		**(1.8)**	1.1	35.7
Opening cash		**40.1**	4.4	4.4
Closing cash		**38.3**	5.5	40.1

* Unaudited and restated under IFRS (see note 17).

Notes to the interim results

1 Accounting policies

The interim financial information has been prepared using the accounting policies set out in note 19 to this report.

The comparative figures represent the Group's results and cash flows for the period from 31 December 2004 to 30 June 2005 and for the period from 31 December 2004 to 30 December 2005, as restated under the recognition and measurement principles of IFRS.

The Group's financial performance does not suffer materially from seasonal fluctuations. It should be noted that performance fees are based on an estimate for the half year. There have been no changes in amounts reported in the prior periods which have a material impact on the current interim period. There have been no material changes in reportable contingent liabilities since 30 December 2005.

The comparative figures for the year ended 30 December 2005 do not constitute the Company's statutory accounts for that period as defined in section 240 of the Companies Act 1985. The IFRS financial information for the year ended 30 December 2005 was derived by the restatement of information extracted from the annual report and accounts for that period, which was prepared under UK GAAP and which has been filed with the UK Registrar of Companies. The auditors have reported on those UK GAAP accounts, their report was unqualified and did not contain statements under sections 237(2) or (3) of the Companies Act 1985. The financial information prepared in accordance with IFRS for the year ended 30 December 2005 is unaudited.

2 Segmental analysis

2a Business segments

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

	Note	Property Investment £m	Property management £m	Snozone £m	**Six months to 30 June 2006 Total £m**	Six months to 30 June 2005 Total £m
Net rents	2b	38.2			**38.2**	26.6
Net interest	2b	(28.2)			**(28.2)**	(19.7)
Contribution	2b	10.0			**10.0**	6.9
Management fees			13.5		**13.5**	11.0
Snozone income				6.1	**6.1**	4.7
Snozone expenses				(4.9)	**(4.9)**	(3.7)
Management expenses		(2.0)	(7.7)		**(9.7)**	(7.0)
Recurring pre-tax profit		8.0	5.8	1.2	**15.0**	11.9
Performance fees	9d		24.4		**24.4**	17.4
Cost of performance fees	9b	(8.1)			**(8.1)**	(6.1)
Variable overhead			(5.1)		**(5.1)**	(6.5)
Gain on investment properties		98.0			**98.0**	42.8
Profit on disposals		4.7			**4.7**	5.3
Gain/(loss) on interest rate swaps		18.7			**18.7**	(10.2)
Other non-recurring items				(0.4)	**(0.4)**	(4.1)
Profit before tax		121.3	25.1	0.8	**147.2**	50.5
Tax					**(11.3)**	10.3
Profit after tax					**135.9**	60.8
Assets		1,252.1	100.1	2.2	**1,354.4**	770.3
Liabilities		(476.8)	(40.3)	(3.5)	**(520.6)**	(212.6)
Net assets at 30 June 2006		775.3	59.8	(1.3)	**833.8**	557.7

2b Contribution

	Note	Net rent £m	Net interest £m	**Contribution six months to 30 June 2006 Total £m**	Contribution six months to 30 June 2005 Total £m
Mall (C&R share)	9b	16.6	(9.1)	**7.5**	7.1
Junction (C&R share)	9b	5.8	(4.7)	**1.1**	1.3
X-Leisure (C&R share)	9b	1.8	(1.2)	**0.6**	0.4
Xscapes (C&R share)	9c	2.2	(2.1)	**0.1**	(0.5)
Great Northern[1]		1.9	(1.8)	**0.1**	0.1
Other UK[2]		5.1	(5.9)	**(0.8)**	(1.6)
Germany		4.8	(3.4)	**1.4**	0.1
Total		38.2	(28.2)	**10.0**	6.9

1 At 30 June 2005 Great Northern was a 50% joint venture. In the period to 30 June 2006 Great Northern is fully consolidated as a 100% subsidiary. The £0.1m contribution for the six months to June 2005 reflects the Group's 50% share.

2 Net assets includes the Group's share of the joint venture at Glasgow Fort of £6.2m.

2c Revenue

Turnover (statutory definition)	**(Unaudited) Six months to 30 June 2006 £m**	(Unaudited) Six months to 30 June 2005 £m	(Unaudited) Year to 30 December 2005 £m
Property investment	**13.4**	2.1	11.1
Property management	**37.9**	28.3	73.8
Snozone	**6.1**	4.7	9.3
Total	**57.4**	35.1	94.2

CRPM earns performance fees on the outperformance of the Funds. The performance fees accrued in the period to 30 June 2006, are £24.4m (30 June 2005: £17.4m).

2d Geographic segment

Included within property investment is £25.4m of net assets (30 June 2005: £6.8m) net rents of £4.8m (30 June 2005: £nil) and £1.4m of profit before tax (30 June 2005: £0.1m) arising from operations in Germany. The remainder of the Group's operations are in the UK.

Notes to the interim results continued

3 Finance income

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited) Six months to 30 June 2005 £m	(Unaudited) Year to 30 December 2005 £m
Interest receivable	**0.9**	0.4	0.7
Other income	**0.1**	–	0.1
	1.0	0.4	0.8

4 Finance costs

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited) Six months to 30 June 2005 £m	(Unaudited) Year to 30 December 2005 £m
Interest on bank loans and overdrafts	**11.4**	4.0	11.6
Interest receivable on swaps	**(0.4)**	(0.3)	(0.4)
Interest on other loans	**0.1**	0.6	1.0
Interest payable	**11.1**	4.3	12.2
Amortisation of loan issue costs	**0.4**	0.2	0.7
Unwinding of discounting	**0.7**	–	–
Exceptional charge on buy back of CULS	**–**	4.2	4.2
Change in fair value of interest rate swaps	**(1.5)**	1.0	0.6
Finance costs	**10.7**	9.7	17.7

5 Taxation

The taxation charge for the period is based on an estimate of the likely effective tax rate for the current year.

5a Tax charge/(credit)

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited) Six months to 30 June 2005 £m	(Unaudited) Year to 30 December 2005 £m
Current tax charge/(credit)			
UK corporation tax	**4.6**	0.6	0.9
Adjustments in respect of prior years	**–**	0.4	0.5
Total current tax	**4.6**	1.0	1.4
Deferred tax			
On net income before revaluations and disposals	**5.1**	(14.6)	(6.1)
On revaluations and disposals	**1.6**	3.3	(0.4)
Total deferred tax	**6.7**	(11.3)	(6.5)
Total taxation	**11.3**	(10.3)	(5.1)

5b Deferred tax movements

	Capital gains net of capital losses £m	Capital allowances £m	Other timing differences £m	Total £m
As at 30 December 2005	3.8	6.8	(8.8)	1.8
Recognised in income	–	0.9	5.8	6.7
As at 30 June 2006	**3.8**	**7.7**	**(3.0)**	**8.5**

In prior periods a significant part of the Group's property interests was transferred offshore; the Auchinlea Partnership sold its interest in Glasgow Fort and the Swansea Retail Park investment was restructured. The Group has been advised that no capital gains tax liability arises on these transactions, although the relevant computations have yet to be agreed.

6 Interim dividend

The proposed interim dividend of 9p per share (30 June 2005: 7p per share) was approved by the Board on 18 September 2006 and is payable on 13 October 2006 to shareholders on the register at close of business on 29 September 2006.

As required by IFRS, the dividend has not been included as a liability as at 30 June 2006, as it had not been approved at 30 June 2006.

7 Earnings/(loss) per share

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

	(Unaudited) Six months to 30 June 2006		
	Earnings £m	**Number of shares**	**Pence per share**
Basic	**135.0**	**71.0**	**190**
Dilutive share options	**–**	**0.6**	
Conversion of Convertible Unsecured Loan Stock	**0.1**	**2.1**	
Diluted	**135.1**	**73.7**	**183**
Revaluation movements on investment properties	**(98.0)**		**(133)**
Profit on disposal of investment properties	**(4.4)**		**(6)**
Movement in fair value of interest rate swaps	**(18.8)**		**(25)**
Deferred tax charge	**6.8**		**9**
EPRA diluted	**20.7**		**28**

Notes to the interim results continued

7 Earnings/(loss) per share continued

	Earnings £m	Number of shares	Pence per share
	(Unaudited) Six months to 30 June 2005		
Basic	60.8	67.2	90
Dilutive share options	–	0.7	
Conversion of Convertible Unsecured Loan Stock	0.4	2.4	
Diluted	61.2	70.3	87
Revaluation movements on investment properties	(42.8)		(60)
Profit on disposal of investment properties	(2.2)		(3)
Movement in fair value of interest rate swaps	(10.1)		(14)
Deferred tax charge	(11.3)		(16)
EPRA diluted	(5.2)		(6)

	Earnings £m	Number of shares	Pence per share
	(Unaudited) Year to 30 December 2005		
Basic	203.8	69.0	295
Dilutive share options	–	0.7	
Conversion of Convertible Unsecured Loan Stock	1.1	2.1	
Diluted	204.9	71.8	285
Revaluation movements on investment properties	(153.9)		(214)
Profit on disposal of investment properties	(6.9)		(10)
Movement in fair value of interest rate swaps	(7.2)		(10)
Deferred tax charge	(6.5)		(9)
EPRA diluted	30.4		42

The calculation includes the full conversion of the Convertible Unsecured Loan Stock where the effect on earnings per share is dilutive. Own shares held are excluded from the weighted average number of shares.

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

8 Property assets

8a Wholly-owned property assets

	Investment property assets £m	Long leasehold property £m	Trading property assets £m	Total property assets £m
Cost or valuation				
As at 31 December 2005	318.3	13.8	93.7	425.8
Additions	1.4	–	0.6	2.0
Exchange adjustment	(0.2)	–	–	(0.2)
Depreciation	–	(0.1)	–	(0.1)
Acquisitions	37.4	–	–	37.4
Disposals	(1.1)	–	–	(1.1)
Revaluation	15.4	0.8	–	16.2
As at 30 June 2006	**371.2**	**14.5**	**94.3**	**480.0**

8b Investment property assets

	Valuer	Basis of valuation	Note	£m
Group properties	DTZ Debenham Tie Leung	Market value		164.1
	CB Richard Ellis Limited	Market value		87.2
	Directors' valuations	Market value		0.2
	King Sturge	Market value		122.7
				374.2
Less: unamortised tenant incentives				(3.0)
Total fixed property assets (as per balance sheet)			8a	371.2
Other fixed assets	DTZ Debenham Tie Leung	Existing use	8a	14.5
Total property assets				385.7
Properties held by joint ventures				
Xscape Milton Keynes Partnership	DTZ Debenham Tie Leung	Market value		105.4
Xscape Castleford Partnership	DTZ Debenham Tie Leung	Market value		73.5
Xscape Braehead Partnership	DTZ Debenham Tie Leung	Market value		76.5
				255.4
Less: unamortised tenant incentives				(11.1)
Total investment properties			9c	244.3
Properties held by associates				
The Mall Limited Partnership	DTZ Debenham Tie Leung	Market value		2,987.8
The Junction Limited Partnership	King Sturge	Market value		1,439.5
X-Leisure Limited Partnership	Jones Lang LaSalle	Market value		761.1
				5,188.4
Plus: Head leases treated as finance leases				83.8
Less: unamortised tenant incentives				(25.4)
Total investment properties			9b	5,246.8

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

The properties were valued on the basis of market value, with the exception of 10 Lower Grosvenor Place, London SW1, which was appraised on the basis of existing use value. All valuations were carried out in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation standards.

9 Associates and joint ventures

9a Share of profit

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited) Six months to 30 June 2005 £m
Associates	**96.3**	25.9
Joint ventures	**9.1**	5.2
	105.4	31.1

Notes to the interim results continued

9 Associates and joint ventures continued

9b Associates

	Notes	The Mall LP £m	The Junction LP £m	X-Leisure* LP £m	**(Unaudited) Total to 30 June 2006 £m**	(Unaudited) Total to 30 June 2005 £m
Income statement (100%)						
Revenue		89.7	27.6	22.8	**140.1**	112.5
Property expenses		(14.5)	(1.4)	(3.0)	**(18.9)**	(15.8)
Management expense		(11.6)	(5.0)	(2.4)	**(19.0)**	(7.6)
Net rents		63.6	21.2	17.4	**102.2**	89.1
Net interest payable		(34.8)	(17.3)	(11.6)	**(63.7)**	(53.9)
Contribution		28.8	3.9	5.8	**38.5**	35.2
Performance fees	9d	(21.1)	(8.0)	(4.0)	**(33.1)**	(23.1)
Gain on investment properties		230.5	44.3	49.4	**324.2**	129.3
Profit on sale of investment properties		7.6	(2.8)	1.0	**5.8**	0.5
Fair value of interest rate swaps		41.1	16.2	9.8	**67.1**	(36.9)
Profit before and after tax (100%)		286.9	53.6	62.0	**402.5**	105.0
Balance sheet (100%)						
Investment property	8b	3,057.8	1,420.6	768.4	**5,246.8**	4,290.5
Current assets		122.2	77.5	30.3	**230.0**	184.0
Current liabilities		(206.8)	(64.1)	(50.6)	**(321.5)**	(311.4)
Non-current liabilities		(1,405.2)	(619.5)	(395.3)	**(2,420.0)**	(2,145.0)
Net assets (100%)		1,568.0	814.5	352.8	**2,735.3**	2,018.1
C&R interest at period end		26.12%	27.32%	10.59%		
Group share of						
Net rents	2b	16.6	5.8	1.8	**24.2**	32.8
Net interest payable	2b	(9.1)	(4.7)	(1.2)	**(15.0)**	(24.0)
Contribution	2b	7.5	1.1	0.6	**9.2**	8.8
Performance fees	2a	(5.5)	(2.2)	(0.4)	**(8.1)**	(6.1)
Gain on investment properties		60.3	12.1	5.2	**77.6**	31.6
Profit/(loss) on disposal of investment properties		2.1	(0.8)	0.1	**1.4**	0.2
Fair value of interest rate swaps		10.7	4.4	1.1	**16.2**	(8.6)
Profit for the period		75.1	14.6	6.6	**96.3**	25.9
Investment property		798.7	388.1	81.4	**1,268.2**	1,042.1
Current assets		32.0	21.3	3.2	**56.5**	41.8
Current liabilities		(53.8)	(17.6)	(5.4)	**(76.8)**	(74.2)
Non-current liabilities		(367.0)	(169.2)	(41.8)	**(578.0)**	(511.0)
Associate net assets		409.9	222.6	37.4	**669.9**	498.7
Unrealised profit on sale of property to associate		(0.3)			**(0.3)**	(0.3)
Group share of associate net assets		409.6	222.6	37.4	**669.6**	498.4

* X-Leisure LP is accounted for as an associate as Capital & Regional has significant influence arising from its membership of the General Partner Board.

9c Joint ventures

	Notes	Xscape Milton Keynes Partnership £m	Xscape[1] Castleford Partnership £m	Xscape Braehead Partnership £m	Others[2] £m	**(Unaudited) 30 June 2006 Total £m**	(Unaudited) 30 June 2005 Total £m
Income statement (100%)							
Revenue		2.8	1.6	0.9	–	**5.3**	8.1
Property expenses		(0.3)	(0.6)	(0.1)	–	**(1.0)**	(2.0)
Management expenses		(0.1)	(0.1)	–	–	**(0.2)**	(0.3)
Net rent		2.4	0.9	0.8	–	**4.1**	5.8
Net interest payable		(1.4)	(1.5)	(0.8)	–	**(3.7)**	(6.3)
Contribution		1.0	(0.6)	–	–	**0.4**	(0.5)
Gain on investment properties		7.7	0.5	2.2	–	**10.4**	8.5
Profit on sale of investment properties		–	–	–	5.5	**5.5**	3.7
Fair value of interest rate swaps		0.2	0.4	1.3	–	**1.9**	(1.2)
Profit before and after tax (100%)		8.9	0.3	3.5	5.5	**18.2**	10.5
Balance sheet (100%)							
Investment properties	8b	101.8	70.7	71.8	–	**244.3**	181.3
Current property assets		–	–	–	–	**–**	73.2
Current assets		6.9	5.4	8.8	18.4	**39.5**	32.8
Current liabilities		(3.3)	(3.1)	(9.4)	(4.9)	**(20.7)**	(52.1)
Non-current liabilities		(46.8)	(50.7)	(54.8)	–	**(152.3)**	(145.7)
Net assets (100%)		58.6	22.3	16.4	13.5	**110.8**	89.5
C&R interest at period end		50%	66.67%	50%	50%		
Group share of							
Revenue		1.4	1.1	0.4	–	**2.9**	4.4
Net rents	2b	1.2	0.6	0.4	–	**2.2**	2.7
Net interest payable	2b	(0.7)	(1.0)	(0.4)	–	**(2.1)**	(3.1)
Contribution	2b	0.5	(0.4)	–	–	**0.1**	(0.4)
Gain on investment properties		3.8	0.3	1.1	–	**5.2**	4.6
Profit on sale of investment properties		–	–	–	2.8	**2.8**	1.7
Fair value of interest rate swaps		0.1	0.3	0.6	–	**1.0**	(0.7)
Profit before and after tax		4.4	0.2	1.7	2.8	**9.1**	5.2
Investment properties		50.9	47.1	35.9	–	**133.9**	101.7
Current property assets						**–**	36.6
Current assets		3.5	3.6	4.4	9.2	**20.7**	17.7
Current liabilities		(1.7)	(2.0)	(4.7)	(2.6)	**(11.0)**	(20.3)
Non-current liabilities		(23.4)	(33.8)	(27.4)	–	**(84.6)**	(87.2)
Group share of joint venture net assets		29.3	14.9	8.2	6.6	**59.0**	48.5

1 Capital & Regional plc has a 66.67% share in the Xscape Castleford Partnership. The investment is accounted for as a joint venture, rather than a subsidiary, as a result of joint control and deadlock agreements that are in place.
2 Principally the joint venture at Glasgow Fort with British Land plc (formerly Pillar Properties plc).

9 Associates and joint ventures continued

9d Performance fees

	Notes	The Mall LP £m	The Junction LP £m	The X-Leisure LP £m	**30 June 2006 £m**	30 June 2005 £m
Property manager – payable to C&R	2a	15.2	6.0	3.2	**24.4**	17.4
Fund manager – payable to others		5.9	2.0	0.8	**8.7**	5.7
Total performance fees	9b	21.1	8.0	4.0	**33.1**	23.1

10 Convertible Subordinated Unsecured Loan Stock

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

Since 1996 the majority of the CULS have either been converted or bought back in the market by the Group. At 30 June 2006 CULS with a nominal value of £4.1m remained. A further £2.4m were converted into shares in July 2006 and at the date of this report there are CULS with a nominal value of £1.7m remaining.

The balance sheet contains the following balances relating to CULS:

	(Unaudited) 30 June 2006 £m	(Unaudited) 30 June 2005 £m	(Unaudited) 30 December 2005 £m
Nominal value of CULS	**4.1**	4.6	4.1
Equity component (net of deferred tax)	**(1.0)**	(1.2)	(1.0)
Deferred tax liability	**(0.4)**	(0.4)	(0.4)
	2.7	3.0	2.7
Net interest	**0.2**	0.3	0.3
Liability component at balance sheet date	**2.9**	3.3	3.0

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

11 Net assets per share

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

	30 June 2006 Net assets £m	**30 June 2006 Number of shares**	**30 June 2006 Net assets per share**	30 June 2005 Net assets per share	30 December 2005 Net assets per share
Basic	**833.8**	**71.0**	**£11.74**	£7.89	£9.95
Own shares held	**–**	**(1.6)**			
Conversion of CULS	**3.0**	**2.1**			
Dilutive share options	**1.4**	**0.6**			
Diluted net assets per share	**838.2**	**72.1**	**£11.63**	£7.76	£9.80
Fair value of borrowings (net of tax)	**2.2**	**–**			
Deferred tax	**13.0**	**–**			
EPRA diluted	**853.4**	**72.1**	**£11.84**	£7.70	£9.96

12 Return on equity

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited) Six months to 30 June 2005 £m	(Unaudited) Year to 30 December 2005 £m
Total recognised income and expense attributable to equity shareholders	**137.0**	61.8	206.1
Opening equity shareholders' funds excluding CULS equity reserve	**706.3**	494.0	494.0
Return on equity	**19.4%**	12.5%	41.7%

13 Reserves

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve[1] £m	Own Shares[1] £m	Other reserves[1,2] £m	Retained earnings £m	Total £m
As at 31 December 2005	216.9	0.4	4.3	(1.4)	9.8	469.2	699.2
Exchange differences	–	–	–	–	0.2	–	0.2
Revaluation of owner-occupied property	–	0.8	–	–	–	–	0.8
Purchase of own shares	–	–	–	(3.4)	–	–	(3.4)
Credit in respect of LTIP charge	–	–	–	–	–	1.0	1.0
Amortisation of cost of own shares	–	–	–	1.3	–	(1.3)	–
Other adjustments	–	–	–	–	–	1.5	1.5
Dividend paid	–	–	–	–	–	(7.6)	(7.6)
Profit for the period attributable to equity shareholders	–	–	–	–	–	135.0	135.0
As at 30 June 2006	**216.9**	**1.2**	**4.3**	**(3.5)**	**10.0**	**597.8**	**826.7**

1 Shown as other reserves on the face of the balance sheet.
2 Other reserves include those arising on acquisition, the adoption of IFRS 1 in respect of the market value of swaps and the translation of foreign currency.

Notes to the interim results continued

14 Minority Interest

The minority interest arises from the German portfolio, where the original investors retain minority holdings, and the Hahn Group has invested approximately 10%.

15 Reconciliation of net cash generated from operations

	(Unaudited) Six months to 30 June 2006 £m	(Unaudited) Six months to 30 June 2005 £m	(Unaudited) Year to 30 December 2005 £m
Profit on ordinary activities before financing	**156.9**	59.8	216.9
Less:			
Share of profit in joint ventures and associates	**(105.4)**	(31.1)	(129.3)
Gain on revaluation of investment properties	**(15.4)**	(7.5)	(21.3)
Negative goodwill released to income	**–**	–	(10.6)
Profit on sale of trading and development properties	**(0.4)**	(3.1)	(2.4)
Depreciation of other fixed assets	**0.2**	0.2	0.3
Amortisation of short leasehold properties	**–**	–	0.1
Amortisation of tenant incentives	**0.1**	0.4	–
Profit on sale of investment properties	**(0.4)**	(0.2)	(4.3)
Profit on disposal of fixed assets	**–**	–	1.2
(Increase) in trade debtors, other debtors and prepayments	**(24.1)**	(16.0)	(23.8)
(Decrease)/increase in trade creditors, other creditors, taxation and social security and accruals	**(6.7)**	2.2	17.7
Non-cash movement relating to the LTIP	**1.3**	1.1	2.2
Cash generated from operations	**6.1**	5.8	46.7

16 Debt valuation

The table below reflects the adjustment to the interim and full year results, required to adjust the carrying value of fixed-rate debt to market value, after the impact of corporation tax.

	(Unaudited) As at 30 June 2006 £m	(Unaudited) As at 30 June 2005 £m	(Unaudited) As at 30 December 2005 £m
Fixed rate loans – fair value adjustment	**3.1**	–	0.5
Increase in net assets net of tax at 30% (2005: 30%)	**2.2**	–	0.4

17 Transition to International Financial Reporting Standards ("IFRS")

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

17.1 Reconciliation of equity under UK GAAP to equity under IFRS

The reconciliation of equity shareholders' funds and profit is based on UK GAAP applying at the balance sheet dates, with the exception of the 30 June 2006 which is based on UK GAAP as at 30 December 2005.

	Note	**(Unaudited) 30 June 2006 £m**	(Unaudited) 30 June 2005 £m	(Unaudited) 30 December 2005 £m	(Unaudited) 30 December 2004 £m
Equity shareholders' funds under UK GAAP		**818.5**	566.6	694.5	494.5
IFRS adjustments:					
Goodwill amortisation	a	**1.7**	0.6	1.1	–
Exclusion of negative goodwill	b	**10.6**	–	10.6	–
Exclusion of dividend	c	**–**	4.9	7.7	5.9
Deferred tax	d	**(12.3)**	(7.8)	(3.5)	(6.4)
Convertible unsecured loan stock ("CULS")	e	**1.2**	1.3	1.1	6.0
CULS equity reserve	e	**(1.4)**	(1.6)	(1.4)	(7.3)
Fair value of interest rate swaps	f	**13.7**	(7.6)	(5.1)	0.3
Amortisation of lease incentives and letting costs	g	**1.5**	1.2	1.1	1.0
Share-based payment	k	**0.3**	0.1	0.2	–
Finance lease asset	l	**2.2**	2.3	2.3	2.4
Finance lease liability	l	**(2.2)**	(2.3)	(2.3)	(2.4)
Net IFRS adjustments		**15.3**	(8.9)	11.8	(0.5)
Equity shareholders' funds under IFRS		**833.8**	557.7	706.3	494.0

17 Transition to International Financial Reporting Standards ("IFRS") continued

17.2 Reconciliation of profit reported under UK GAAP to profit under IFRS

	Note	**(Unaudited) 30 June 2006 £m**	(Unaudited) 30 June 2005 £m	(Unaudited) 30 December 2005 £m
Profit/(loss) for the period under UK GAAP		**24.6**	(17.7)	(3.0)
IFRS adjustments:				
Goodwill amortisation	a	**0.6**	0.6	1.2
Exclusion of negative goodwill	b	**–**	–	10.6
Deferred tax	d	**(8.6)**	(1.3)	2.9
Convertible Unsecured Loan Stock ("CULS")	e	**–**	(4.2)	(4.2)
Premium on repurchase of CULS		**–**	46.9	46.9
Fair value of interest rate swaps	f	**18.7**	(7.9)	(5.4)
Amortisation of rent free periods, lease incentives and letting costs	g,h,i	**2.4**	1.5	2.0
Revaluation gains on investment properties	j	**98.0**	42.8	153.9
Share-based payment	k	**0.2**	0.1	0.2
Net IFRS adjustments		**111.3**	78.5	208.1
Profit for the period under IFRS		**135.9**	60.8	205.1

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

Notes

UK GAAP referred to in the table in notes 17.1 and 17.2 is that existing at 30 December 2005.

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

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

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

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

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

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

f) The fair value of interest rate swaps is included in the balance sheet with effect from 30 December 2004.

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

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

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

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

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

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

18 Copies of the Interim Report

Copies of the interim report will be available from the Company's registered office at 10 Lower Grosvenor Place, London, SW1W 0EN when they have been printed.

This interim report was approved by the Board of Directors on 18 September 2006.

19 Accounting policies

These are the significant accounting policies expected to be adopted by the Group at 30 December 2006.

Statement of Compliance

The interim report has been prepared using accounting policies consistent with IFRS and interpretations adopted for use in the European Union and issued by the International Accounting Standards Board (IASB).

Basis of Preparation

The interim report is prepared on the historical-cost basis except that investment and development properties, owner-occupied properties and derivative financial instruments are stated at fair value. The accounting policies have been applied consistently, to the results, other gains and losses, assets, liabilities and cash flows of entities included in interim report.

The preparation of the interim report requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Management believes that the estimates and associated assumptions used in the preparation of the interim report are reasonable. However, actual outcomes may differ from those anticipated.

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

Basis of Consolidation

The interim report incorporates the financial statements of Capital & Regional plc and its consolidated entities, associated companies and joint ventures for the period ended 30 June 2006. Where necessary, the financial statements of associated companies and joint ventures are adjusted to conform with the Group's accounting policies. Subsidiaries have been consolidated under the acquisition method of accounting and the results of companies acquired during the year are included from the date of acquisition.

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquired entity over the group's interest in the fair value of the assets, liabilities and contingent liabilities acquired. Where the fair value of the assets, liabilities and contingent liabilities acquired is greater than the cost, the excess, known as negative goodwill, is recognised immediately in the income statement.

Joint ventures and associates

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

19 Accounting policies continued

Tangible fixed assets

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

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

- Long leasehold land and buildings – over fifty years, on a straight-line basis.
- Fixtures and fittings – over three to five years, on a straight-line basis.
- Motor vehicles – over four years, on a straight-line basis.

Investment properties

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

Leasehold properties

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

Owner-occupied long leasehold properties

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

Properties under development

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

Refurbishment expenditure

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

Property transactions

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

Current property assets
Properties held with the intention of disposal and properties held for development are valued at the lower of cost and net realisable value.

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.

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

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 = €1.447 (2005: £1 = €1.457). The principal exchange rate used for the income statement is the average rate, £1 = €1.455 (2005: £1 = €1.457).

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

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

Derivative financial instruments
As defined by IAS 39 derivatives are carried at fair value in the balance sheet. The Group does not apply hedge accounting therefore the changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Loan arrangement costs
Costs relating to the raising of general corporate loan facilities and loan stock are amortised over the estimated life of the loan and charged to the profit and loss account as part of the interest expense. The bank loans and loan stock are disclosed net of unamortised loan issue costs.

19 Accounting policies continued

Tax

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 the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date, together with any adjustment in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: 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 recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Operating leases

Annual rentals under operating leases are charged to the profit and loss account as incurred.

Tenant leases and incentives

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

Lease incentives which enhance the property are added to the cost of properties. Where a lease incentive does not enhance the property, it is amortised over the period to the end of the lease term. On new leases with rent free periods, rental income is allocated evenly over the period from the date of the lease commencement to the end of the lease term.

Pension costs

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

Long-term incentive plan (LTIP)

The Group has applied the requirements of IFRS 2 "Share-based Payments". Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Own shares

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

Performance fees

Performance fees are recognised in line with the property management contracts.

IFRS 1 "Transitional Arrangements"

When preparing the Group's IFRS balance sheet at 30 December 2004, the date of transition, the following material optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

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

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

Directors, advisers and corporate information

Directors

Martin Barber Chief Executive
William Sunnucks Finance Director
Xavier Pullen Deputy Chief Executive
Kenneth Ford Managing Director of Shopping Centres
Andrew Lewis-Pratt Managing Director of Retail Parks and Trade Centres
PY Gerbeau Managing Director of Leisure
Tom Chandos Chairman
Hans Mautner Non-executive
Paul Stobart Non-executive
Alan Coppin Non-executive
Philip Newton Non-executive (appointed 28 July 2006)
Manjit Wolstenholme Non-executive (appointed 17 August 2006)
David Cherry Non-executive (retired 5 June 2006)

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Registered number

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Glossary of terms

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

CRPM Capital & Regional Property Management Limited is a subsidiary company of Capital & Regional plc and earns the management and performance fees arising from Capital & Regional's interests in the Funds.

CULS is the Convertible Subordinated Unsecured Loan Stock.

Earnings per share (EPS) is the profit or loss attributable to equity holders of the parent entity after taxation divided by the weighted average number of shares in issue during the period excluding own shares held.

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

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

EPRA is the European Public Real Estate Association

Gearing is the Group's net debt as a percentage of net assets, adjusted for the conversion of the CULS into equity. See through gearing includes our share of non-recourse net debt in the associates and joint ventures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional information (neither audited nor reviewed)

Property under management at valuation*†

	30 June 2006 £m	30 June 2005 £m
Investment properties	**372**	117
Trading properties	**94**	–
Mall Fund	**2,988**	2,316
Junction Fund	**1,439**	1,264
Leisure Funds	**761**	634
Other joint ventures	**255**	262
Total	**5,909**	4,593

Properties under management above are shown at valuation and do not include the adjustments in respect of:

* Accounting for head leases that are deemed to be finance leases.
† The treatment required by IFRS of rent free periods, capital contributions and leasing costs.

Fund portfolio information*

at 30 June 2006

	Mall Fund	Junction Fund	X-Leisure Fund
Number of core properties	23	17	18
Number of lettable units	2,375	236	284
Square feet (000)	8,135	3,523	3,042
Properties at market value	£2,988m	£1,439m	£761m
Initial yield	4.49%	3.71%†	5.31%
Equivalent yield	5.29%	4.66%†	5.97%
Vacancy rate	4.96%	5.06%	2.9%
Net rental income (per annum)	£143.0m	£54.7m	£42.7m
Estimated rental income (per annum)	£183.5m	£70.5m	£48.4m
Rental increase (ERV)	3.05%	1.39%†	1.67%
Reversionary percentage	16.08%	17.25%	8.23%
Loan to value ratio	47.3%	43.3%	52.4%
Underlying valuation change since 30 December 2005	8.46%	3.50%	6.90%
Property level return	12.22%	5.40%	10.60%
Geared return	18.72%	5.96%	17.10%
Unit price (£1.00 at inception)	£2.3772	£2.5784	£1.62592
C&R share	26.12%	27.32%	10.59%

* Properties under management include tenant incentives which are transferred to current assets for accounting purposes.
† Excluding development properties.

Shareholder information

Financial calendar

Interim record date	29 September 2006
Last day to receive mandates	29 September 2006
Dividend warrant/tax vouchers posted	12 October 2006
Dividend payment date/shares purchased	13 October 2006
Certificates/purchase statement despatched	26 October 2006
2006 preliminary results announcement	March 2007

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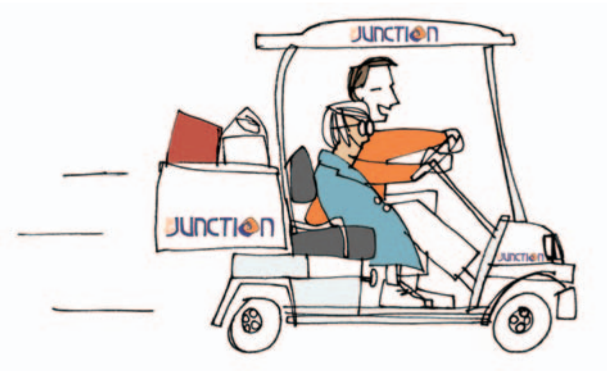

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