

# Liberty International PLC

Annual report 2007

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## Front cover

The redeveloped Lakeside, Thurrock  
Boardwalk which opened in June 2007

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\* These sections of the report include items required  
to be stated in accordance with Section 234 ZZB of  
the Companies Act 1985 – Business Review

This report includes statements that are forward-looking  
in nature. Forward-looking statements involve known and  
unknown risks, uncertainties and other factors which may  
cause the actual results, performance or achievements of  
Liberty International PLC to be materially different from any  
future results, performance or achievements expressed  
or implied by such forward-looking statements.

## Dividend

The Directors of Liberty International PLC have proposed a final dividend per  
ordinary share (ISIN GB0006834344) of 17.6p (2006 – 17.25p) to bring the total  
dividend per ordinary share for the year to 34.1p (2006 – 31.0p)

As a Real Estate Investment Trust ("REIT"), Liberty International is required to  
distribute part of its income as a Property Income Distribution ("PID"). The tax  
treatment of a PID is different to that of a non-PID, PIDs are required to be paid  
after deduction of withholding tax unless specific exemptions apply

The 2007 interim dividend paid on 4 September 2007 was paid wholly as a PID

**The proposed final dividend will be paid wholly as a non-PID, and therefore  
will not be subject to deduction of withholding tax.**

The following are the salient dates for the payment of the final dividend

<b>Tuesday 22 April 2008</b>	Sterling/Rand exchange rate struck
<b>Monday 5 May 2008</b>	Ordinary shares listed ex-dividend on the JSE, Johannesburg
<b>Wednesday 7 May 2008</b>	Ordinary shares listed ex-dividend on the London Stock Exchange
<b>Friday 9 May 2008</b>	Record date for 2007 final dividend in London and Johannesburg
<b>Wednesday 28 May 2008</b>	Dividend payment day for shareholders (Note: Payment to ADR holders will be made on 11 June 2008)

South African shareholders should note that, in accordance with the  
requirements of Strate, the last day to trade cum-dividend will be Friday 2 May  
2008 and that no dematerialisation or rematerialisation of shares will be possible  
from Monday 5 May to Friday 9 May 2008 inclusive

No transfers between the UK and South African registers may take place from Wednesday  
23 April to Sunday 11 May 2008 inclusive

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# Liberty International

## Introduction

**Liberty International PLC** is the UK's third largest listed property company and a constituent of the FTSE 100 Index of the UK's leading listed companies. Liberty International converted into a UK Real Estate Investment Trust ("REIT") on 1 January 2007.

Liberty International owns 100 per cent of Capital Shopping Centres ("CSC"), the premier UK regional shopping centre business, and of Capital & Counties, a retail and commercial property investment and development company.

At 31 December 2007, Liberty International owned £8.6 billion of properties of which UK regional shopping centres comprised 75 per cent and retail property in aggregate 88 per cent. Shareholders' funds and minority interests amounted to £4.7 billion. Assets of the group under control or joint control amounted to £11.0 billion at that date.

**Capital Shopping Centres** has interests in 14 UK regional shopping centres amounting to 12.6 million sq. ft. in aggregate including eight of the UK's top 21 regional shopping centres with a market value of £6.5 billion at 31 December 2007. CSC's largest centres are MetroCentre, Gateshead, Lakeside, Thurrock, Manchester Arndale, Braehead, Renfrew, Glasgow, and The Mall at Cribbs Causeway, Bristol. In addition, CSC has three major development projects in progress or with planning permission in Cardiff, Newcastle and Oxford.

**Capital & Counties** owned assets of £2.2 billion at 31 December 2007 amounting to 7.2 million sq. ft. in aggregate. Capital & Counties had £664 million invested in the Covent Garden area including the historic Covent Garden Market, and £353 million in Central London, primarily through the Great Capital Partnership, a joint venture with Great Portland Estates plc. Capital & Counties acquired 50 per cent of EC&O Venues (Earls Court and Olympia Group) in 2007 for a sum that valued the assets at approximately £375 million. In addition, Capital & Counties has interests in the USA amounting to £381 million (2.7 million sq. ft.), predominantly comprising retail assets in California, including the 856,000 sq. ft. Serramonte Shopping Centre, Daly City, San Francisco.

Please note that additional information for shareholders relating to the Liberty International Group is available on the company's website, [www.liberty-international.co.uk](http://www.liberty-international.co.uk).

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## Highlights

"Notwithstanding the challenging conditions which emerged in the UK property market in the second half of 2007, Liberty International has fared extremely well with record occupancy levels at our UK regional shopping centres and a tremendous contribution from our non-shopping centre business which has been completely transformed over the last 18 months and now includes such prime assets as the Covent Garden Estate in London's West End.

We have a business of exceptional quality; a high degree of specialisation on prime retail which constitutes nearly 90 per cent of our assets; the benefits of scale; and financial strength, with a 42 per cent debt to assets ratio and long-term fixed rate debt.

The results for the year, including a 6 per cent increase in underlying profit before tax to £129 million, confirm the defensive merits of our UK regional shopping centres with resilient income streams and relatively undemanding valuation yields

We are well placed to continue the measured growth of this high quality company."

**Sir Robert Finch**  
Chairman

		Year ended 31 December 2007	Year ended 31 December 2006
Net rental income	+10%	<b>£374m</b>	£341m
Profit before tax (underlying)*	+6%	<b>£129m</b>	£122m
(Deficit)/gain on revaluation and sale of investment properties		<b>£(279)m</b>	£587m
(Loss)/profit before tax		<b>£(125)m</b>	£903m
Total properties		<b>£8,666m</b>	£8,232m
Net debt		<b>£3,668m</b>	£3,063m
Net assets (diluted, adjusted)		<b>£4,757m</b>	£5,002m
Adjusted earnings per share	+6%	<b>36.0p</b>	33 9p
Dividend per share	+10%	<b>34.1p</b>	31 0p
Net assets per share (diluted, adjusted)**	-5%	<b>1264p</b>	1327p

\* Before property trading, valuation and exceptional items

\*\* Net assets per share (diluted, adjusted) would increase by 104p per share to 1368p at 31 December 2007 (31 December 2006 – by 98p to 1425p) if adjusted for notional acquisition costs amounting to £390 million (31 December 2006 – £370 million)

## Highlights (continued)

- ➔ Stability and resilience of CSC's £6.5 billion prime UK regional shopping centres
  - like-for-like net rental income growth of 3.5 per cent
  - high occupancy level of 98.7 per cent
  - 138 tenancy changes in year increasing rent roll by £7 million per annum

- ➔ Dynamic realignment of non-shopping centres and international business with £2.2 billion investment properties, including Central London ownership increased to £1.4 billion
  - consolidation of Covent Garden ownership to £664 million
  - formation of Great Capital Partnership, now with £654 million of assets (50 per cent owned)
  - £375 million Earls Court and Olympia acquisition (50 per cent owned)

- ➔ Strong relative valuation performance of Liberty International on a like-for-like basis as set out below

	Year ended 31 December 2007	Nine months ended 30 September 2007	Six months ended 31 December 2007
– UK regional shopping centres	<b>-3.9%</b>	+1.7%	+2.6%
– UK non-shopping centre properties	<b>-0.2%</b>	+3.1%	+3.2%
– USA	<b>+6.5%</b>	+6.5%	+3.7%

By comparison, IPD monthly index capital returns for 2007 were minus 10.0 per cent All Property and minus 11.8 per cent Retail

- ➔ Approximately 25 basis points upward shift in valuation yields (like-for-like assets) in final quarter of 2007

	As at 31 December 2007	As at 30 September 2007	As at 30 June 2007	As at 31 December 2006
– UK regional shopping centres	<b>5.07%</b>	4.82%	4.77%	4.84%
– UK non-shopping centre properties	<b>5.18%</b>	4.94%	4.95%	4.89%

- ➔ Net asset value per share (diluted, adjusted) reduced by 5 per cent from 1327p to 1264p, equivalent to 1368p (2006 – 1425p) adjusted for notional acquisition costs

- ➔ Total return for the year including dividends of minus 2.2 per cent

- ➔ Ten year total return (NAV increase plus dividends) of 12.4 per cent per annum compound (2006 – 15.1 per cent)

- ➔ Committed expenditure to complete current development programme around £300 million, including
  - St David's 2, Cardiff, opening Autumn 2009
  - Eldon Square South, Newcastle, opening Spring 2010

- ➔ Disposals of £340 million at £37 million surplus over 31 December 2006 book values, also, CSC's interest in MetroCentre, Gateshead reduced by 40 per cent for £426 million consideration, a £16 million surplus

- ➔ Robust financial position
  - 42 per cent debt to assets ratio
  - over £725 million cash and undrawn committed facilities
  - no significant debt maturities before 2011
  - debt mostly fixed rate and asset specific

## Summary of investment and development properties

	Market value		Revaluation surplus		Net rental income		
	31 December 2006 £m	31 December 2007 £m	£m	Increase/ (Decrease)	2006 £m	2007 £m	Increase
<b>UK regional shopping centres</b>							
Lakeside, Thurrock	1,298.6	<b>1,247.9</b>	(56.5)	(4.4)%			
MetroCentre, Gateshead	1,025.0	<b>1,010.0</b>	(43.7)	(4.2)%			
Braehead, Glasgow	746.1	<b>730.3</b>	(15.9)	(2.1)%			
The Harlequin, Watford	523.6	<b>506.2</b>	(17.0)	(3.3)%			
Victoria Centre, Nottingham	441.1	<b>444.8</b>	3.5	0.8%			
Chapelfield, Norwich	354.0	<b>324.5</b>	(15.1)	(4.5)%			
Cribbs Causeway, Bristol	311.6	<b>296.3</b>	(15.0)	(4.8)%			
The Potteries, Stoke-on-Trent	307.5	<b>278.3</b>	(32.0)	(10.4)%			
The Chimes, Uxbridge	275.0	<b>261.8</b>	(13.3)	(4.9)%			
The Glades, Bromley	269.5	<b>257.2</b>	(16.1)	(5.6)%			
<b>Like-for-like capital and income</b>	5,552.0	<b>5,357.3</b>	(221.1)	(4.0)%	239.2	<b>247.5</b>	3.5%
Arndale, Manchester	428.3	<b>418.5</b>	(12.6)	(2.9)%			
Eldon Square, Newcastle upon Tyne	240.1	<b>258.0</b>	(11.5)	(4.2)%			
St David's, Cardiff	104.3	<b>101.2</b>	(4.3)	(4.1)%			
Xscape, Braehead	39.4	<b>39.8</b>	(2.4)	(6.2)%			
<b>Like-for-like capital</b>	6,364.1	<b>6,174.8</b>	(251.9)	<b>(3.9)%</b>	267.0	<b>283.2</b>	6.1%
Acquisitions	–	<b>77.0</b>	(9.4)	(10.9)%	–	<b>1.9</b>	
Redevelopments and developments	193.2	<b>229.3</b>	(28.2)	(11.0)%	5.0	<b>3.7</b>	
<b>Total UK regional shopping centres</b>	6,557.3	<b>6,481.1</b>	(289.5)	<b>(4.3)%</b>	272.0	<b>288.8</b>	6.2%
<b>UK non-shopping centre properties</b>							
<b>Like-for-like capital and income</b>	380.0	<b>383.3</b>	1.5	0.4%	18.2	<b>18.5</b>	1.6%
<b>Like-for-like other</b>	470.8	<b>472.4</b>	(2.7)	(0.6)%	8.5	<b>18.0</b>	
<b>Like-for-like capital</b>	850.8	<b>855.7</b>	(1.2)	<b>(0.2)%</b>	26.7	<b>36.5</b>	
Acquisitions	–	<b>729.8</b>	(26.5)	(3.5)%	–	<b>18.9</b>	
Redevelopments and developments	155.8	<b>187.5</b>	(22.2)	(10.7)%	6.2	<b>3.7</b>	
Disposals	282.9	–	–	–	15.1	<b>7.0</b>	
<b>Total UK non-shopping centre properties</b>	1,289.5	<b>1,773.0</b>	(49.9)	<b>(2.7)%</b>	48.0	<b>66.1</b>	37.7%
<b>US properties*</b>							
<b>Like-for-like capital and income</b>	308.8	<b>327.7</b>	21.5	7.1%	19.3	<b>17.7</b>	<b>(2.6)%</b>
<b>Like-for-like other</b>	44.7	<b>46.2</b>	1.4	3.1%	0.9	<b>1.7</b>	
<b>Like-for-like capital</b>	353.5	<b>373.9</b>	22.9	<b>6.5%</b>	20.2	<b>19.4</b>	
Acquisitions	–	<b>6.9</b>	–	–	–	–	
Disposals	5.7	–	–	–	0.4	–	
<b>Total US properties</b>	359.2	<b>380.8</b>	22.9	<b>6.5%</b>	20.6	<b>19.4</b>	(5.8)%
<b>Total investment properties</b>	8,206.0	<b>8,634.9</b>	<b>(316.5)</b>	<b>(3.5)%</b>	340.6	<b>374.3</b>	9.9%

\* Like-for-like percentage increases are in local currency

## Summary of investment and development properties (continued)

### Property analysis by use and type

	Market value		% of total properties	Revaluation surplus
	31 December 2006 £m	31 December 2007 £m		Increase/ (Decrease)
<b>Regional shopping centres and other retail</b>				
UK regional shopping centres	6,557.3	6,481.1	75.1%	(4.3)%
UK other retail	780.8	807.7	9.4%	(5.4)%
US regional shopping centres	123.1	138.6	1.6%	11.8%
US other retail	134.2	130.0	1.5%	2.7%
<b>Total regional shopping centres and other retail</b>	<b>7,595.4</b>	<b>7,557.4</b>	<b>87.5%</b>	<b>(4.0)%</b>
<b>Office</b>				
UK business space	508.7	583.8	6.8%	(1.5)%
US business space	67.9	78.6	0.9%	6.2%
<b>Total office</b>	<b>576.6</b>	<b>662.4</b>	<b>7.7%</b>	<b>(0.7)%</b>
<b>Exhibition</b>				
UK exhibition	–	381.4	4.4%	1.3%
<b>Residential</b>				
US residential	34.0	33.7	0.4%	0.7%
<b>Total investment properties</b>	<b>8,206.0</b>	<b>8,634.9</b>	<b>100.0%</b>	<b>(3.5)%</b>

### Analysis of UK non-shopping centres and US properties by location and type

	Market value		Revaluation surplus		Net rental income	
	31 December 2006 £m	31 December 2007 £m	31 December 2007 £m	Increase / (Decrease)	31 December 2006 £m	31 December 2007 £m
<b>UK non-shopping centre properties</b>						
Capco Covent Garden	491.5	663.6	(19.4)	(2.8)%	9.7	23.2
Capco Earls Court	–	381.4	4.8	1.3%	–	10.1
Capco London (inc. Great Capital Partnership)	323.2	353.2	(6.0)	(1.6)%	16.5	14.2
Capco Opportunities	276.1	220.5	(12.2)	(5.3)%	14.1	12.2
Capco Urban	198.7	154.3	(17.1)	(10.1)%	7.7	6.4
<b>Total UK non-shopping centre properties</b>	<b>1,289.5</b>	<b>1,773.0</b>	<b>(49.9)</b>	<b>(2.7)%</b>	<b>48.0</b>	<b>66.1</b>
<b>US properties</b>						
US retail	257.3	268.6	17.9	7.2%	15.9	14.1
US business space	67.9	78.6	4.8	6.6%	4.2	4.0
US residential	34.0	33.6	0.2	0.7%	0.5	1.3
<b>Total US properties</b>	<b>359.2</b>	<b>380.8</b>	<b>22.9</b>	<b>6.5%</b>	<b>20.6</b>	<b>19.4</b>
	<b>1,648.7</b>	<b>2,153.8</b>	<b>(27.0)</b>	<b>(1.2)%</b>	<b>68.6</b>	<b>85.5</b>

## Summary of investment and development properties (continued)

### UK investment property valuation data

	Market value 31 December 2007 £m	Nominal equivalent yield		Passing rent 31 December 2007 £m	Net rental income 31 December 2007 £m	ERV 31 December 2007 £m
		31 December 2006	31 December 2007			
<b>UK regional shopping centres</b>						
Lakeside, Thurrock	1,247.9	4.65%	4.90%			
MetroCentre, Gateshead	1,010.0	4.75%	4.99%			
Braehead, Glasgow	730.3	4.81%	5.02%			
The Harlequin, Watford	506.2	4.75%	4.95%			
Victoria Centre, Nottingham	444.8	4.95%	5.00%			
Arndale, Manchester	418.5	4.96%	5.13%			
Chapelfield, Norwich	324.5	5.00%	5.20%			
Cribbs Causeway, Bristol	296.3	4.74%	5.06%			
The Potteries, Stoke-on-Trent	278.3	5.00%	5.50%			
The Chimes, Uxbridge	261.8	5.00%	5.35%			
Eldon Square, Newcastle upon Tyne	258.0	5.20%	5.25%			
The Glades, Bromley	257.2	4.95%	5.40%			
St David's, Cardiff	101.2	5.00%	5.26%			
Xscape, Braehead	39.8	6.04%	6.21%			
<b>Like-for-like capital</b>	<b>6,174.8</b>	<b>4.84%</b>	<b>5.07%</b>	<b>267.2</b>	<b>283.2</b>	<b>328.7</b>
<b>Other</b>	<b>306.3</b>			<b>7.1</b>	<b>5.6</b>	<b>7.9</b>
<b>Total UK regional shopping centres</b>	<b>6,481.1</b>			<b>274.3</b>	<b>288.8</b>	<b>336.6</b>
<b>UK non-shopping centre properties</b>						
Capco Covent Garden	494.2	4.47%	4.72%			
Capco London (inc. Great Capital Partnership)	149.2	4.93%	5.49%			
Capco Opportunities	160.3	5.53%	6.20%			
Capco Urban	52.1	5.03%	5.64%			
<b>Like-for-like capital</b>	<b>855.8</b>	<b>4.79%</b>	<b>5.18%</b>	<b>38.5</b>	<b>36.5</b>	<b>50.2</b>
<b>Exhibition</b>	<b>381.4</b>				<b>10.1</b>	
<b>Other</b>	<b>535.8</b>			<b>18.1</b>	<b>19.5</b>	<b>36.6</b>
<b>Total UK non-shopping centre properties</b>	<b>1,773.0</b>			<b>56.6</b>	<b>66.1</b>	<b>86.8</b>

### CSC locations:



- 01 Braehead,  
Renfrew (98,470 sq. m./1.06 million sq. ft.)  
Xscape,  
Braehead (42,730 sq. m./460,000 sq. ft.)
- 02 Chapelfield,  
Norwich (49,240 sq. m./530,000 sq. ft.)
- 03 The Chimes,  
Uxbridge (40,880 sq. m./440,000 sq. ft.)
- 04 Eldon Square,  
Newcastle (90,670 sq. m./976,000 sq. ft.)  
Eldon Square South,  
Newcastle estimated opening 2010 (42,550 sq. m./488,000 sq. ft.)
- 05 The Glades,  
Bromley (43,020 sq. m./463,000 sq. ft.)
- 06 The Harlequin,  
Watford (67,450 sq. m./726,000 sq. ft.)
- 07 Lakeside,  
Thurrock (133,180 sq. m./1.43 million sq. ft.)

\*including retail park

- 08 The Mall at Cribbs Causeway,  
Bristol (92,440 sq. m./996,000 sq. ft.)
- 09 Manchester Arndale,  
(130,060 sq. m./1.4 million sq. ft.)  
New Cathedral Street,  
Manchester (18,580 sq. m./200,000 sq. ft.)
- 10 MetroCentre,  
Gateshead (189,390 sq. m./2.04 million sq. ft.)
- 11 The Potteries,  
Stoke-on-Trent (52,600 sq. m./566,000 sq. ft.)
- 12 St David's,  
Cardiff (39,670 sq. m./427,000 sq. ft.)  
St David's 2,  
Cardiff estimated opening 2009 (89,880 sq. m./967,500 sq. ft.)
- 13 Victoria Centre,  
Nottingham (91,140 sq. m./981,000 sq. ft.)
- 14 Westgate,  
Oxford estimated opening 2011 (69,680 sq. m./750,000 sq. ft. on opening)



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# Chairman's statement

## Introduction

I am pleased to report that, notwithstanding the challenging conditions which emerged in the UK property market in the second half of 2007, Liberty International has fared extremely well with record occupancy levels at our UK regional shopping centres and a tremendous contribution from our non-shopping centre business which has been completely transformed over the last 18 months and now includes such prime assets as the Covent Garden Estate in London's West End

Four key attributes of Liberty International came very much into evidence in 2007 – a business of exceptional quality, a high degree of specialisation on prime retail which constitutes nearly 90 per cent of our assets, the benefits of scale and our financial strength. Looking forward, our experienced property management teams and our low debt to assets ratio position the group well to identify and crystallise investment opportunities emanating from the current market correction

February 2008 is too early to form a view on the length and the breadth of the turbulence now evident in the property market as a whole. 2007 was certainly a transitional year when, particularly in the second half, investor enthusiasm for UK property diminished rapidly with negative sentiment abounding as the US sub-prime mortgage market contagion spread across the Atlantic and credit market conditions deteriorated rapidly

Under International Financial Reporting Standards ("IFRS"), we include revaluation movements in our Income Statement which introduces a considerable degree of volatility into our reported profits. After several years of buoyant market conditions, the second half of 2007 saw a more cautious view of UK property being reflected in valuations. While our Income Statement for 2007, after a revaluation deficit of £316 million reduced by £37 million of gains on disposals, shows a loss before tax of £125 million, the underlying profit before tax excluding valuation movements and one-off trading profits increased from £122 million to £129 million and adjusted earnings per share increased by 6 per cent from 33.9p to 36.0p

Adjusted net assets per share reduced by 5 per cent from 1327p to 1264p, giving a total return for the year including dividends of minus 2.2 per cent. By way of comparison, the IPD monthly index for the year, an ungeared measure, showed a 10 per cent fall in capital values and a negative total return of 5.5 per cent. The successful relative outcome delivered by Liberty International in 2007 vindicates our focus over a long period on the highest quality real estate, in particular on super-prime and prime regional shopping centres, which has generated a compound per annum total return of 12.4 per cent for the last 10 years

In order to address the requirements of investors for up-to-date information on a more frequent basis, we moved to quarterly reporting with effect from the first quarter of 2007, including external independent property valuations. This has given shareholders an excellent insight into the unfolding changes in property market conditions in 2007

We moved rapidly in 2007 to take advantage of conversion at the end of 2006 to a tax transparent status as a UK Real Estate Investment Trust ("REIT"). We recorded £340 million of disposals in 2007 at an aggregate surplus over book values at 31 December 2006 of £37 million as well as £426 million from the 40 per cent reduction in our interest in MetroCentre, Gateshead at £16 million above book value. These were matched by additions of £1,062 million in the year, comprising development expenditure and strategic acquisitions at our UK regional shopping centres and in Central London including materially increasing our ownership in Covent Garden, purchases by the Great Capital Partnership and the £375 million Earls Court and Olympia transaction

## Property valuations

Evidence remained strong in 2007 that super-prime and prime regional shopping centres, which are well managed and properly marketed, attract considerable investor interest, such centres are noticeably outperforming secondary centres with the gap in valuation yields widening as investors factor in the much greater risks of lower quality assets. Furthermore, the yields applied by valuers to prime regional shopping centres have proved far less volatile than other prime UK property asset classes

## Chairman's statement (continued)

As an illustration of this point, indicative UK property market valuation yields, as provided by one of our valuers, CB Richard Ellis, are set out below, together with the notional impact of these changes on property values over the year

	31 December 2006	31 December 2007	Notional impact on valuations of yield shift in the year
<b>Retail</b>			
Prime shops	4.00	<b>4.75</b>	(16)%
Prime shopping centres	4.75	<b>5.00</b>	(5)%
Secondary shopping centres	5.50	<b>6.25</b>	(12)%
Prime retail parks	3.85	<b>4.75</b>	(19)%
<b>Offices</b>			
Prime West End of London	3.75	<b>4.75</b>	(21)%
Prime City of London	4.25	<b>5.25</b>	(19)%

Valuation yields for CSC's UK regional shopping centres increased overall from 4.84 per cent at 31 December 2006 to 5.07 per cent at 31 December 2007 and were the main contributory factor to an overall like-for-like valuation deficit of 3.9 per cent. This benign outcome in the circumstances confirms the defensive merits of our UK regional shopping centres, with resilient income streams and relatively undemanding valuation yields.

Capital & Counties also performed particularly well in valuation terms in 2007 in this environment, with an overall decrease in like-for-like valuations of just 0.2 per cent in our UK non-shopping centre properties and an increase of 6.5 per cent in the USA.

Successful property investment requires a long-term perspective. While the indications are that upward pressure on valuation yields in the UK has continued into 2008, we believe that many positive factors for real estate as an asset class are still relevant, first, consistent economic growth, secondly, investor demand for long-term, stable, income producing and inflation-proofing assets to meet retirement needs, thirdly, relatively benign long-term interest rates, and finally, limited over-supply issues in the real estate industry.

While credit market conditions have put upward pressure on lending margins and unsettled UK property investors, one favourable consequence has been a lowering of interest rate expectations. The 10 year UK interest rate swap fell substantially in the second half of the year from 5.92 per cent at 30 June 2007 to 5.02 per cent at 31 December 2007, below its starting position for the year of 5.11 per cent. Liberty International is relatively insensitive to interest rate movements in the short term as our borrowings are mostly long-term fixed-rate. However, the impact of lower interest rates on the wider UK economy and property market should be beneficial over time.

We are confident that Liberty International's concentration on super-prime and prime large-scale and predominantly retail real estate will be advantageous in any overall flight to quality by UK property investors. Additionally, the valuation process values each asset individually and takes no account of the extra portfolio value of our assets which could not now be assembled individually on any sensible timescale.

Furthermore, although shareholders buying our shares only pay stamp duty at 0.5 per cent on share transactions, the assumption contained within the valuations is that our assets would be sold individually to purchasers who would pay the full 4 per cent stamp duty and tax applicable to large property transactions and other notional acquisition costs. Adjusting for this factor would increase our net asset value by £390 million, representing 104p per share over and above our published net asset value per share figure of 1264p producing a more realistic number for shareholders of 1368p.

### Capital Shopping Centres

CSC's business has continued to perform robustly. Like-for-like growth in net rental income amounted to 3.5 per cent for the year and the occupancy rate continued at the high level of 98.7 per cent (31 December 2006 – 97.7 per cent). In the year to date, we have recorded 138 tenancy changes, 7 per cent of 2,021 total retail units, increasing the annual rents from these tenancies by £7 million (2006 – 124 tenancy changes increasing rents by £1.5 million).

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## Chairman's statement (continued)

Asset management initiatives are a constant feature of the business. In particular, the Boardwalk development at Lakeside, Thurrock, of 11 restaurants overlooking the lake and a refurbished cinema, has traded strongly since opening in June 2007, enhancing activity throughout the centre. At MetroCentre, Gateshead, we have, with our partners, GIC, acquired the adjoining 220,000 sq ft Metro Retail Park for £82.5 million, increasing our overall ownership to over 2 million sq ft. We have obtained planning permission for the intended upgrade of the leisure and dining facilities in the Yellow and Blue Quadrants, with a view to continuing our improvement programme, most notably delivered by the successful 370,000 sq ft Red Mall extension which opened in Autumn 2004.

CSC's development activities are progressing according to programme with two major projects under way, the 967,500 sq ft extension of St David's, Cardiff, opening in Autumn 2009, and the 480,000 sq ft extension of Eldon Square, Newcastle, where the largest phase opens in Spring 2010. In both cases, we have entered into fixed price construction contracts to ensure control of costs, we have secured anchor tenants and lettings are in line with expectations. We anticipate ample retailer requirements for the attractive and well-configured retail space.

The compulsory purchase order inquiry for the 750,000 sq ft Westgate, Oxford, refurbishment and extension took place in December 2007 and, subject to a satisfactory outcome, we will be in a position to commit to the project in 2008 for an opening in 2011. We are pleased to have satisfied the principal stakeholders that our proposals fit well in this unique and architecturally-sensitive city-centre location. In 2007, we restructured the arrangements with our investment partner, moving our potential ownership from 50 per cent to an interest of not less than 75 per cent, the final percentage dependent on the amount our partner elects to contribute.

CSC is a retail property business, not a retailer. Our net rental income growth is more correlated to rent reviews, typically on a five year cycle in the UK, and active asset management initiatives, than short-term fluctuations in retail sales. In terms of rent reviews, 2007 was relatively quiet with 11 per cent of CSC's net rental income coming up for review. These reviews are progressing in line with expectations.

In terms of the overall retail environment, UK non-food retail sales, as measured by ONS, continued to grow steadily with year-on-year growth of 3.4 per cent for the year ended 31 December 2007. The last quarter of 2007 saw some signs of weakening in this measure but successful retailers are continuing to look to expand and trade from high quality space such as CSC offers.

### Capital & Counties

We have continued the dynamic realignment of the business of Capital & Counties, with gross assets now increased to £2.2 billion compared with £1.1 billion as recently as 30 June 2006, the last quarter date before the major acquisition of the Covent Garden Estate.

Capital & Counties' activities are strongly focused on Central London with over £1.4 billion invested at 31 December 2007. We continue to regard Central London as a long-term beneficiary of globalisation, with its world-class financial services industry and historical, cultural and residential attractions. Three important investments now form the core of our London holdings. First, the Covent Garden Estate, where we have substantially consolidated our ownership during the year. Covent Garden is now the group's fourth largest investment at £664 million and we are making good progress working closely with stakeholders on the strategic plan for the area. Second, our 50/50 partnership with Great Portland Estates plc, The Great Capital Partnership, which has grown to £654 million, of which some two-thirds is focused on the Regent Street, London W1, area. Third, Earls Court and Olympia where we moved decisively in 2007 to secure 50 per cent ownership and effective control. These globally recognised London landmark venues offer over 1 million sq ft of exhibition and conference space with considerable opportunities to intensify use. The £381 million assets of Earls Court and Olympia are fully consolidated at 31 December 2007 reflecting the nature of the ownership arrangements.

Through Capco Urban, our mixed-use development business, the group continues its activities in other important regional locations.

### International

Capco USA is an established value-add developer of mixed-use properties with an emphasis on retail investment with total assets now amounting to £381 million. Our activities are focused on California and the business has performed well in 2007 with a 6.5 per cent revaluation gain driven by our flagship shopping centre, Serramonte, in the San Francisco bay area. This asset continues to provide a number of active management and remodelling opportunities which we are pursuing. Capital & Counties USA has converted to a US REIT, as the company has reached the stage in its development where US REIT status is considered beneficial.

Capco International has been formed to support broader group initiatives in the international marketplace. In 2007, we subscribed for a 25 per cent interest in an Indian shopping centre development company, Prozone, a 75 per cent subsidiary of the fast-growing Indian retailer, Provogue. In aggregate, we invested £39 million in Capco International activities in 2007 on which we recorded a revaluation surplus of £8 million for the year.

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## Chairman's statement (continued)

### Corporate responsibility

I am pleased to record that for many years Liberty International has had a strong commitment to Corporate Responsibility (CR), producing our first full annual report on the subject in 2002. We have reviewed and developed our CR activities year-on-year and our community programmes have grown with ongoing partnerships with a number of charities including Crime Concern and the Conservation Foundation.

Our community programme working near our shopping centres focuses on youth, education and the prevention of crime and anti-social behaviour, with some excellent local projects in hand. A growing strand of environmental awareness initiatives located on our Covent Garden estate complements our vision to regenerate and restore that unique urban area. Once again, in 2007 we have devoted substantial time and financial support via our CR partnerships to the benefit of all involved.

Our development programme has always been focused on brownfield land and Braehead near Renfrew, Scotland, formerly derelict industrial land by the Clyde, is a wonderful example of mixed-use urban regeneration. Overall we estimate that our shopping centres have generated employment directly at the centres for some 50,000 people, in addition to the indirect employment opportunities created.

In our development activities, we continue to apply the highest construction standards, and operationally at the shopping centres we have made further major strides in energy efficiency and waste reduction, with 2007 seeing the realisation of our goal to measure the carbon footprint of all our directly managed UK shopping centres. Work is in hand to understand the factors influencing that footprint so that we can take practical steps to reduce it and save on costs as well.

As an example of the external recognition of our activities in the CR field, we are rated as a BITC top 100 company and sector leader in their Environmental Index.

### Dividends

The Directors propose a final dividend of 17.6p per share bringing the full year's dividend to 34.1p (2006 – 31.0p), an increase of 10 per cent. Liberty International has always pursued a progressive dividend policy distributing substantially all of the group's recurring income. We have shown consistent growth over a long period from 4.5p per share in 1985 to 34.1p in 2007. This progressive policy will continue under REIT status but additionally the 2007 dividend includes an extra increase out of the net tax savings from conversion to a REIT.

The group is an active developer and has a substantial pool of brought forward capital allowances. The required minimum Property Income Distribution ("PID") for the year is estimated at around 18p per share, substantially below the dividend proposed for the year. As the interim dividend of 16.5p was paid entirely as a PID, subject to withholding tax for certain shareholders, we have decided that for administrative simplicity the final dividend will be paid entirely as a non-PID dividend not subject to any withholding tax and the balance of the minimum PID requirement will, as permitted under REIT regulations, be met from the current year's dividends.

### Financial position

Liberty International's financial position is strong with gross property assets of £8.6 billion and net debt of £3.6 billion providing a debt to assets ratio of 42 per cent at 31 December 2007. Our debt structures are predominantly long-term in nature, asset specific and fixed-rate. The first material loan repayment is not until 2011.

### Board and management

Once again my thanks go to my Board colleagues for their active support during 2007. Along with the non-executive directors, I would like to thank the group's executive directors and staff both in the UK and the USA for their tremendous commitment and effort. We are pleased to have substantially strengthened the overall management team in 2007 with a number of senior level recruits to the group.

### Prospects

Through our exceptional assets, financial strength and quality management, we are well placed to continue on behalf of shareholders the measured growth of our high quality company.

We look forward to opportunities emerging from the unsettled financial and property markets of 2008.

**Sir Robert Finch**  
Chairman

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## Financial review

**Liberty International recorded the following significant transactions in 2007:**

### **First quarter**

- ➔ Formation of a strategic partnership with GIC Real Estate through the creation of The MetroCentre Partnership realising £426 million (accounted for as the disposal of a part interest in a subsidiary with the creation of a minority interest)
- ➔ Acquisition of the retail element of the Royal Opera House block in London's Covent Garden for £128 million

### **Second quarter**

- ➔ Formation of The Great Capital Partnership creating a £460 million joint venture with Great Portland Estates with Liberty International contributing £299 million of assets to the partnership and receiving a balancing payment of £68 million

### **Third quarter**

- ➔ Completion of the acquisition of a 50 per cent interest in the Earls Court and Olympia Group for a net consideration of £54 million (accounted for as a subsidiary)
- ➔ Acquisition of the Metro Retail Park through The MetroCentre Partnership for £82.5 million (group's share £49.5 million)
- ➔ Acquisition of further properties by The Great Capital Partnership for £140 million (group's share £70 million)
- ➔ Acquisition of further properties in Covent Garden for £32 million

### **Fourth quarter**

- ➔ Acquisition of further properties by The Great Capital Partnership for £20 million (group's share £10 million)
- ➔ Further investment in Covent Garden with the purchase of the Covent Garden Restaurants Group for £22 million and in Manchester with the purchase of properties for £25 million

### **And over the year as a whole:**

- ➔ Property disposals (excluding the MetroCentre transaction with GIC) realising £340 million at a surplus over 31 December 2006 values of £37 million

Further details of the major items are shown in the paragraph "Transactions during the year" at the end of the Financial review

## Financial review (continued)

### Results for the year ended 31 December 2007

The results for the year to 31 December 2007 include those of The MetroCentre Partnership from the date of its inception, 25 March 2007, and the Earls Court and Olympia Group from the date of completion of the acquisition, 24 July 2007, on the basis of full consolidation as subsidiaries. The share of profits and net assets attributable to the other 40 per cent and 50 per cent interests respectively are shown under minority interests. The results for the period have therefore been affected in several ways with the result that they are not directly comparable with 2006, both because of the inclusion of a new activity and because of the presentation of both transactions on a consolidated basis. Also there is a degree of seasonality in the Earls Court and Olympia business with a peak of activity towards the end of the first quarter, which is not reflected in the current year's results as it was pre-acquisition, and a relatively quiet period during the summer months, which is reflected in the group results.

The Income Statement for the year ended 31 December 2007 shows continuing underlying growth, with a 5.8 per cent increase in underlying profit before tax from £122.3 million to £129.4 million, and a 6.2 per cent increase in adjusted earnings per share.

		Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
<b>Profit before tax (underlying) attributable to ordinary shareholders</b>	+5.8%	<b>129.4</b>	122.3
Trading profits		<b>2.9</b>	32.8
Minority interests (before tax)		<b>(1.7)</b>	—
<b>Profit before tax, valuation and exceptional items</b>		<b>130.6</b>	155.1
(Deficit)/gains on revaluation and sale of investment property		<b>(279.1)</b>	586.5
Movement in the fair value of derivatives		<b>27.0</b>	163.5
Exceptional items		<b>(3.3)</b>	(2.0)
(Loss)/profit before tax		<b>(124.8)</b>	903.1

	2007 Quarterly				2007 December	2006 December
	March	June	September	December		
<b>Adjusted earnings per share</b>	<b>9.8p</b>	<b>9.0p</b>	<b>7.9p</b>	<b>9.3p</b>	<b>36.0p</b>	33.9p

Like-for-like net rental income in the group's UK regional shopping centres increased by 3.5 per cent.

Like-for-like non-shopping centre net rental income increased by 1.6 per cent in the UK, and fell by 2.6 per cent in the US. This reflects planned refurbishment activity, a lease expiry in the UK where the property has been subsequently re-let and a small number of tenant failures. Good progress has been made in securing new tenants or with sales where appropriate and consequently the full year shows an improvement over the position reported at the end of the third quarter.

Administration expenses increased from £34.2 million to £45.2 million, including £5.2 million from Earls Court and Olympia since acquisition and approximately £3 million from fees related to investment and financing transactions during the year.

## Financial review (continued)

### Valuations

The overall deficit on revaluation and sale of investment properties for the year ended 31 December 2007 amounted to £279.1 million, after a gain of £37.4 million from disposals.

Like-for-like percentage gains on revaluation of investment properties since the preceding year end are summarised as follows:

	Year ended 31 December 2007	Nine months ended 30 September 2007	Six months ended 30 June 2007
UK regional shopping centres	-3.9%	+1.7%	+2.6%
UK non-shopping centre properties	-0.2%	+3.1%	+3.2%
USA	+6.5%	+6.5%	+3.7%

The related weighted average nominal equivalent yields were as follows:

	As at 31 December 2007	As at 30 September 2007	As at 30 June 2007	As at 31 December 2006
UK regional shopping centres	5.07%	4.82%	4.77%	4.84%
UK non-shopping centre properties	5.18%	4.94%	4.95%	4.89%

For UK regional shopping centres, the small increase in the average equivalent yield between 30 June 2007 and 30 September 2007 was confined to a few centres with the majority of yields, principally the yields on the larger centres, unchanged from 30 June 2007. In the final quarter of the year these yields increased by a quarter of a per cent on average across all centres. The overall revaluation deficit on UK regional shopping centres over the whole year can be analysed between a 0.7 per cent increase from underlying rental growth and a 4.6 per cent deficit from yield shift.

The percentage valuation movements on UK non-shopping centre properties follow a similar pattern, with a similar movement in yields in the last quarter. However, growth in rental income, particularly in the West End of London and Covent Garden properties, compensated for the movement in yield such that the overall like-for-like valuation movement for the year was a small negative. The overall outcome for the year showed a fall of 2.7 per cent but this partly reflects the realisation of some substantial valuation gains recognised earlier in the year through sales in the third and fourth quarter and the absorption of costs related to purchases made during the period. Sales by this business during the year generated proceeds of £318.8 million and a surplus over December 2006 values of £32.4 million.

In the USA the revaluation surplus increased to 6.5 per cent at 30 September 2007 from 3.7 per cent at 30 June 2007 and was maintained at that level in the last quarter, still primarily driven by the retail properties and, in particular, the Serramonte shopping centre which showed an increase of 11.8 per cent for the year to 31 December 2007.

### Net assets per share

Adjusted net assets per share at 31 December 2007 of 126.4p declined by 10.5p from 136.9p at 30 September 2007 and by 6.3p from 132.7p at 31 December 2006. This represents a total return for the year of minus 2.2 per cent, from 132.7p at 31 December 2006 (after taking into account the 2006 final dividend of 17.25p and the interim dividend of 16.5p paid during 2007).

### Financial position

The group raised £340 million from disposals during the year (in addition to £426 million raised from the creation of The MetroCentre Partnership) and purchased £518 million of investment properties in addition to the £375 million of property acquired through the Earls Court transaction. Total additions for the year, including development expenditure of £169 million, amounted to £1,062 million and proceeds from sales, including the creation of The MetroCentre Partnership, amounted to £766 million. Net debt increased from £3,063 million at 31 December 2006 to £3,668 million at 31 December 2007 (£3,218 million if minority interests and other IFRS adjustments are excluded).

Liberty International's financial ratios, including a debt to assets ratio of 42 per cent at 31 December 2007 (31 December 2006 – 36 per cent), remain robust.

## Financial review (continued)

The group's debt is analysed below

	Consolidated Balance sheet £m	Minorities Share in JVs £m	Head leases £m	Underlying Balance sheet £m
Investment properties	8,623	(641)	(57)	<b>7,925</b>
Other fixed assets	162			<b>162</b>
	<b>8,785</b>	<b>(641)</b>	<b>(57)</b>	<b>8,087</b>
Net debt	3,668	(393)	(57)	<b>3,218</b>
Debt to Assets Ratio	42%			<b>40%</b>

The majority of the group's joint ventures are jointly controlled and the group's policy is to use proportional consolidation whereby only the group's share of assets and liabilities are consolidated in the group balance sheet. However, where the structure of the group's joint ventures is such that the group exercises effective control of the joint venture, as in the case of The MetroCentre Partnership and the Earls Court and Olympia Group, then all of the assets and liabilities of the joint venture are consolidated in the group's balance sheet with the joint venturer's share of the net assets shown as a minority interest. This, together with the presentation of fixed head lease payments under International Financial Reporting Standards, can have the effect of exaggerating the group's exposure to debt as measured by the Debt to Assets Ratio. The table above re-presents the consolidated balance sheet showing only the group's share of assets and net debt and removing the adjustment in respect of head leases. As these joint ventures are more highly geared than the group as a whole the revised presentation shows an underlying Debt to Assets Ratio of 40 per cent.

A further analysis shows the split of the underlying balance sheet between secured and unsecured finance

	Underlying Balance sheet £m	Secured £m	Unsecured £m
Investment properties	<b>7,925</b>	6,212	1,713
Other fixed assets	<b>162</b>	–	162
	<b>8,087</b>	6,212	1,875
Net debt	<b>3,218</b>	3,154	64
Debt to Assets Ratio	<b>40%</b>	51%	3%

The analysis above is very important when assessing the risks associated with the group's debt finance. The group has a relatively small amount of unsecured debt with the vast majority of the group's debt being in the form of secured and largely non-recourse debt. The Debt to Asset Ratio on the secured pool is around 51 per cent with the result that the asset cover for the unsecured debt is considerably higher. This means that the group still has considerable capacity to borrow on an unsecured basis and, based on typical initial loan to value and interest coverage ratios, there is also further capacity in the secured pool. The first maturity in the secured pool does not arise until 2011.

At 31 December 2007 the weighted average maturity of the group's debt was over 6.7 years and the weighted average cost of debt was 6.0 per cent (seven years and 5.9 per cent excluding Earls Court debt). The group had undrawn committed borrowing facilities of £540 million.



## Financial review (continued)

### Fair value of debt and financial instruments

Long-term interest rates declined in the second half of the year having risen strongly in the first half. The 10 year UK interest rate swap, a reasonable proxy for our fixed rate hedging strategy, rose from 5.11 per cent at 31 December 2006 to 5.92 per cent at 30 June 2007, falling back to 5.02 per cent at 31 December 2007. We recorded a surplus of £27 million in the year ended 31 December 2007 on revaluation of the derivative financial instruments used to fix our long-term debt. Compared to the surplus at 30 June 2007 of £25.1 million, this represents a reduction in the second half year of £22.4 million.

The potential adjustment to net assets per share (diluted, adjusted) arising from the fair value of the group's debt and financial instruments in recent years, and quarters in 2007, is shown below.

	10 year swap %	Fair value adjustment (before tax) £m	Fair value adjustment (before tax) pence per share
31 December 2005	4.51	(417.4)	(119)p
31 December 2006	5.11	(240.2)	(64)p
31 March 2007	5.35	(121.6)	(32)p
30 June 2007	5.92	47.1	13 p
30 September 2007	5.45	(41.0)	(11)p
31 December 2007	5.02	(187.7)	(50)p

The group's net borrowings at 31 December 2007 amounted to £3,668 million with £556 million of fixed rate debt and the remainder fixed by way of derivative financial instruments. The structure of the group's hedging instruments means that on the fixed element of our borrowings the group has a declining interest rate profile (see table below).

### Interest Rate Swap Summary

In effect after	Notional amount £m	Average rate %
1 Year	3,319	5.27
5 Years	3,220	5.16
10 Years	2,543	4.72
15 Years	2,100	4.58
20 Years	2,100	4.58
25 Years	1,625	4.40

### Share buy-backs

Liberty International has shareholder approval to buy-back on-market up to 10 per cent of its shares. Although the current share price is at a discount to published net asset value, we would expect only to use the buy-back power very selectively given the scale of our development programme and the long-term time horizon required to bring major shopping centre projects to fruition. During the third quarter of 2007, Liberty International bought 700,000 shares at an average price of 101.7p per share.

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## Financial review (continued)

### Transactions during the year ended 31 December 2007

- Strategic partnership with GIC Real Estate realising £426 million

Our wholly owned subsidiary, Capital Shopping Centres ("CSC"), entered into an agreement with GIC Real Estate ("GIC RE") for GIC RE to acquire a 40 per cent share in CSC's interest in the MetroCentre, Gateshead for a gross consideration of £426 million. GIC RE is the real estate investment arm of the Government of Singapore Investment Corporation and one of the world's leading global real estate investors. CSC continues to manage the MetroCentre. The transaction, which completed during the second quarter, released capital to enable Liberty International to continue to expand its overall business. The MetroCentre Partnership is accounted for as a subsidiary undertaking with the results, assets and liabilities fully consolidated in the year's results and GIC's participation shown as minority interests.

- Formation of a £460 million Central London joint venture with Great Portland Estates, increased to £654 million at 31 December 2007

Our wholly owned subsidiary, Capital and Counties, announced the formation of The Great Capital Partnership, a 50/50 joint venture with Great Portland Estates plc ("GPE"), to own, manage and develop a number of Central London properties and to broaden both parties' exposure in Central London. The Great Capital Partnership had a starting value of around £460 million, with Capital & Counties contributing £299 million of investment properties and GPE contributing £162 million and making a balancing payment of £68 million in cash to Capital & Counties. The transaction completed during the second quarter. GPE is responsible for day-to-day asset management of the partnership properties. Taking into account subsequent acquisitions and revaluations, the partnership had increased to £654 million with no borrowings at 31 December 2007.

- Acquisition of a 50 per cent interest in EC&O Venues (Earls Court & Olympia Group)

Capital & Counties acquired a 50 per cent interest in EC&O for a sum that valued the assets at approximately £375 million. The consideration for the 50 per cent interest was £54 million taking into account all assets, debt and other liabilities of the business. The group owns and manages the Earls Court and Olympia Exhibition Centres in West London and the Brewery, Chiswell Street, London EC2, with the aim of establishing the venues as landmark leisure destinations, centred around the core businesses of exhibitions, conferences and special events whilst exploring opportunities to intensify use. The interest in EC&O has been accounted for as a subsidiary with the results, assets and liabilities fully consolidated in the year's results.

- Acquisition of the Covent Garden Restaurants Group

Capital & Counties acquired the Covent Garden Restaurants Group, owners of the Rock Garden and Tuttons restaurants in Covent Garden, for a net consideration of £22 million. This, together with the EC&O transaction, gave rise to goodwill carried in the group balance sheet at £27 million.

## Financial review (continued)

### Development programme

Details of the committed development projects are set out in the table below

Development	Status	Cost to complete as at 31 December 2007 £m
<b>Eldon Square, Newcastle (60% interest)</b>		<b>57</b>
Eldon Square West – restaurants and 22,000 sq ft retail	Completed in October 2006	
Eldon Square North – bus station and 48,000 sq ft retail	Bus station completed February 2007 Retail on site, expected opening February 2008	
Eldon Square South – 410,000 sq ft retail extension including 175,000 sq ft Debenhams department store	On site July 2007 Expected opening Spring 2010	
<b>St David's, Cardiff (50% interest)</b>		<b>186</b>
967,500 sq ft extension Joint venture with Land Securities Group PLC	On site Expected opening Autumn 2009	
<b>Other developments – CSC</b>		<b>34</b>
<b>Other developments – Capital &amp; Counties</b>		<b>40</b>
<b>Total committed developments</b>		<b>317</b>

# Directors' report

The Directors have pleasure in presenting their Annual report and the audited financial statements for the year ended 31 December 2007

## Principal activities

During the period the principal activity of Liberty International PLC ("Liberty International") was that of an investment holding company incorporated in the United Kingdom whose business is the making of selected investments with long-term potential in the property sector predominantly, but not exclusively, in the United Kingdom. On 1 January 2007, Liberty International converted into a Real Estate Investment Trust ("REIT")

Liberty International's activities are focused on its two major operating businesses: Capital Shopping Centres ("CSC"), which specialises in the ownership, management and development of regional shopping centres and Capital & Counties, which engages in commercial and retail property investment, management and development primarily in the United Kingdom but also in the USA and other parts of the world

## Business review

The Chairman's statement on pages 7 to 10, and the Financial review on pages 11 to 17 provide detailed information relating to the group, the operation and development of the business and the results and financial position for the year ended 31 December 2007. The Financial review, accounting policies on page 27 and note 21 on pages 37 to 42 contain information on the use of financial instruments

## Future prospects

Future prospects are dealt with in the Chairman's statement and Financial review

## Dividends

The Directors declared an interim ordinary dividend of 16.5p (2006 – 13.75p) per share on 26 July 2007, which was paid on 4 September 2007, and have recommended a final ordinary dividend of 17.6p per share (2006 – 17.25p) which will be paid on 28 May 2008 to shareholders on the register on the Record Date, 9 May 2008. The sterling/rand conversion rate on which payment of the dividend in South Africa will be calculated will be fixed on 22 April 2008. The payment will not be paid as a Property Income Distribution, or "PID" and no withholding tax will be deducted. Further information is given on the contents page. The Directors will not be offering a share dividend alternative to the 2007 final cash dividend

## Share capital and control of the company

Details of the company's share capital including changes during the year in the issued share capital and details of the rights attaching to the company's ordinary shares are set out in note 24 on page 44. Details of shares repurchased by the company during the year are set out in note 24 on page 44

No shareholder holds securities carrying special rights with regards to control of the company. Shares held by the company's Employee Share Ownership Plan rank *pari passu* with the shares in issue and have no special rights, but voting rights and rights of acceptance of any offer relating to the shares rests with the Plan's Trustee and are not exercisable by the employees

There are no restrictions on voting rights or any arrangements by which, with the company's co-operation, financial rights are held by a person other than the shareholder, or any agreements between shareholders known to the company which may result in restrictions on the transfer of shares or on voting rights

The company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the company

The company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the company share schemes may cause options and awards outstanding under such schemes to vest on a takeover. The terms of appointment of the non-executive Directors provide for a payment equal to their basic annual fee in the event of change of control in recognition of the additional work involved in such an event

## Going concern

After making enquiries, the Directors have reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements

## Internal control

The statement on corporate governance on pages 55 to 59 includes the Board's assessment following a review of internal controls and consideration of the guidance issued by the Turnbull Committee of the Institute of Chartered Accountants of England and Wales

## Key Risks

The key risks of the group are as set out in the table below:

Risk	Description	Mitigation
Financial risks (further information is included in note 21 on pages 37-42)	<ul style="list-style-type: none"> <li>Interest rate risk</li> <li>Liquidity risk</li> <li>Market price risk</li> <li>Change in value of property portfolio</li> <li>General economic downturn</li> </ul>	<ul style="list-style-type: none"> <li>Group policy to eliminate substantially all exposure to establish certainty over long term cash flows. Hedging.</li> <li>Efficient treasury management and strict credit control</li> <li>Regular monitoring of fair value of debt and financial instruments.</li> <li>Regular market valuations, focus on quality assets, regular portfolio reviews including identifying properties for disposal</li> <li>Internal group limits on debt to assets and interest cover ratios.</li> </ul>
Asset management risks	<ul style="list-style-type: none"> <li>Increased voids</li> <li>Failure to meet rental targets</li> </ul>	<ul style="list-style-type: none"> <li>Policy of active tenant mix management. Development and remodeling projects to respond to changing requirements of retailer and shopper</li> <li>Regular reporting of performance against targets.</li> </ul>
Investment/Strategic risks	<ul style="list-style-type: none"> <li>Diversification into new areas of property use and geographical location</li> </ul>	<ul style="list-style-type: none"> <li>Retaining and appointing experienced management teams/overseas representatives. Securing local partners for overseas investment but retaining a measure of influence.</li> </ul>
Development risks	<ul style="list-style-type: none"> <li>Acquisition of sites for development</li> <li>Securing planning consent for developments</li> <li>Commitment to proceed</li> <li>Construction and letting risk</li> </ul>	<ul style="list-style-type: none"> <li>Internal authority limits for capital expenditure.</li> <li>Policy of sustainable development and regeneration of brownfield sites. Constructive dialogue with planning authorities.</li> <li>Approval process based on detailed project appraisals.</li> <li>Regular monitoring and forecasting of project costs and rental income</li> </ul>
People/HR risks	<ul style="list-style-type: none"> <li>Appointment and retention of key staff</li> </ul>	<ul style="list-style-type: none"> <li>Annual performance and remuneration reviews. Career development and succession planning.</li> </ul>
Disaster/Terrorism risk	<ul style="list-style-type: none"> <li>Effect of natural disaster/terrorist strike on business continuity</li> </ul>	<ul style="list-style-type: none"> <li>Disaster recovery plan in place. Security and Health &amp; Safety policies and procedures in shopping centres/offices. Terrorist insurance is in place</li> </ul>
Health & Safety	<ul style="list-style-type: none"> <li>Responsibility for the safety of visitors to shopping centres</li> <li>Impact on reputation of potential criminal/civil proceedings</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive Health &amp; Safety policies and security systems installed at shopping centres.</li> <li>Monitoring by Board of all litigation and legal risks.</li> </ul>

## Directors' report (continued)

### Directors

The Directors of Liberty International, all of whom held office throughout the year, are as follows

#### Chairman

Sir Robert Finch

#### Executive Directors

D. A. Fischel, Chief Executive

A. C. Smith, Finance Director

K. E. Chaldecott, Managing Director of Capital Shopping Centres

I. D. Hawksworth, Managing Director of Capital & Counties

R. M. Cable, Group Development Director

#### Non-Executive Directors

J. G. Abel

R. W. T. Buchanan

D. P. H. Burgess MBE

G. J. Gordon (alternate R. M. Gordon)

I. J. Henderson CBE

L. James CBE

M. Rapp

R. Rowley

N. Sachdev

Since the year end, Mr A. C. Smith has stepped down as Finance Director of Liberty International PLC with effect from the end of March 2008.

In his place Liberty International has appointed Mr I. C. Durant who will join the group on 17 March 2008.

Additional information relating to the Directors can be found in Note 36 on pages 48 to 50 on Directors' interests, in the report on Corporate Governance on pages 55 to 59, and in the Directors' remuneration report on pages 60 to 64.

The powers of the Directors are determined by UK legislation and the Memorandum and Articles of Association of the Company, together with any specific authorities that may be given to the Directors by shareholders from time to time, such as the power to allot shares and the power to make market purchases of the company's shares which are described in note 24 on page 44.

#### Articles of Association

The rules governing the appointment and replacement of Directors are contained in the Company's Articles of Association.

Changes to the Articles of Association must be approved by shareholders in accordance with the legislation in force from time to time.

#### Substantial shareholdings

As at 10 February 2008 Liberty International had been notified of the following substantial holdings of voting rights over ordinary shares of Liberty International:

The family interests of Sir Donald Gordon 77,310,445 shares (21.35 per cent), Old Mutual plc 18,473,080 shares (5.10 per cent), Government of Singapore Investment Corporation Pte Ltd 18,187,506 shares (5.02 per cent), Legal & General Investment Management Limited 15,812,694 shares (4.37 per cent), Liberty Group Limited 13,021,887 shares (3.60 per cent) and Stichting Pensioenfonds ABP 11,622,271 shares (3.21 per cent).

#### Employees

Employees are employed by Liberty International directly or by its subsidiaries, CSC and Capital & Counties. Liberty International actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of the company's activities and financial performance by such means as employee briefings and publication to all staff of relevant information and corporate announcements.

The annual bonus arrangements help develop employees' interest in the company's performance, full details of these arrangements are given in the Directors' remuneration report on pages 60 to 64. Note 37 on pages 50 and 52 contains details of conditional awards of shares under the annual bonus scheme and bonus shares currently outstanding, as well as outstanding options.

Liberty International operates a non-discriminatory employment policy and full and fair consideration is given to applications for employment from the disabled where they have the appropriate skills and abilities and to the continued employment of staff who become disabled.

Liberty International encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of disabled employees.

Information relating to employees is given in note 37 on pages 50 and 52.

The Liberty International group provides retirement benefits for the majority of its employees. Details of the group pension arrangements are set out in note 38 on pages 52 to 54.

#### The environment

The group has adopted a Corporate Responsibility ("CR") strategy and details of the policy and the group's aims and activities are given on the company's website. A summary booklet is also available for download from the website or on request from the company Secretary's office.

The company recognises the importance of minimising the adverse impact on the environment of its operations – particularly through its two operating businesses, CSC and Capital & Counties – and the management of energy consumption and waste recycling.

The company strives continuously to improve its environmental performance. The environmental management system is regularly reviewed to ensure that the company maintains its commitment to environmental matters.

During the year, the group made charitable donations amounting to £270,749 (2006 – £175,750). No political donations were made in the year.

In addition, the UK shopping centres provided the equivalent of £972,000 (2006 – £755,000) in community support, including sponsorship of local causes, support for Town Centre management and provision of free mall space and services.

#### Creditor payment policy

The group's policy and practice is to pay creditors promptly in accordance with agreed terms of business.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year ended 31 December 2007 and the amounts owed to its creditors as at 31 December 2007 was nil days (2006 – nil days), as calculated in accordance with the requirements of the Companies Act.

#### Directors' disclosure of information to the auditors

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

#### Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

#### Annual General Meeting

The notice convening the 2008 Annual General Meeting of the company is available on the company's website and is distributed separately to those shareholders who have elected to receive hard copies of the Annual report.

By order of the Board

S. Folger  
Secretary

7 March 2008



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# Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the Directors are required to

- (a) select suitable accounting policies and then apply them consistently,
- (b) make judgements and estimates that are reasonable and prudent,
- (c) state whether the financial statements comply with IFRS as adopted by the European Union,
- (d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and the group and to enable them to ensure that the financial statements and the Directors' remuneration

report comply with the Companies Act 1985, and, as regards group financial statements, Article 4 of the IAS Regulation. They are responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities


A copy of the financial statements of the company is placed on the Liberty International PLC website. The maintenance and integrity of the website is the responsibility of the Directors and the work carried out by the auditors does not involve consideration of these matters. Accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the Board

**S Folger**  
Secretary

7 March 2008



# Independent auditors' report to the members of Liberty International PLC

We have audited the group and parent company financial statements (the "financial statements") of Liberty International PLC for the year ended 31 December 2007 which comprise the group income statement, the group and parent company balance sheets, the group and parent company statements of cash flow, the group and parent company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Directors' remuneration report that is described as having been audited.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

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

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Operating and Financial Review, the Corporate governance statement and the other items included in the contents section.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited.

It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

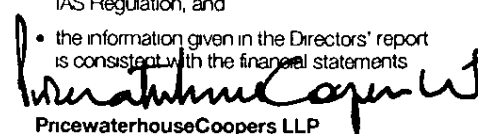
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from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

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007 and cash flows for the year then ended
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and

- the information given in the Directors' report is consistent with the financial statements



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London

7 March 2008

# Consolidated income statement for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
<b>Revenue</b>	1	<b>574.6</b>	562.8
Rental income		546.7	493.1
Rental expenses		(172.4)	(152.5)
<b>Net rental income</b>	1	<b>374.3</b>	340.6
Other income		2.0	34.8
(Deficit)/gain on revaluation and sale of investment and development property	3	(279.1)	586.5
		97.2	961.9
Administration expenses		(45.2)	(34.2)
<b>Operating profit</b>		<b>52.0</b>	927.7
Interest payable	4	(209.3)	(190.0)
Interest receivable		8.8	3.9
Exceptional finance costs	4	(3.3)	(2.0)
Change in fair value of derivative financial instruments		27.0	163.5
Net finance costs		(176.8)	(24.6)
<b>Profit/(loss) before tax</b>		<b>(124.8)</b>	903.1
Current tax		(2.7)	0.8
Deferred tax		(23.8)	814.5
REIT entry charge		(3.9)	(154.3)
Taxation	6	(30.4)	661.0
<b>Profit/(loss) for the period</b>		<b>(155.2)</b>	1,564.1
Loss/(profit) attributable to minority interests		50.2	–
<b>Profit/(loss) for the period attributable to equity shareholders</b>		<b>(105.0)</b>	1,564.1
<b>Basic earnings per share</b>	9	<b>(29.0)p</b>	462.1p
<b>Diluted earnings per share</b>	9	<b>(26.6)p</b>	444.0p
<b>Weighted average number of shares</b>	9	<b>361.7m</b>	338.5m

Adjusted earnings per share are shown in note 9

Notes on pages 28 to 54 form part of these consolidated financial statements



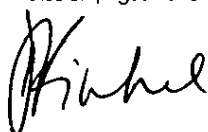
# Balance sheets as at 31 December 2007

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
<b>Non-current assets</b>					
Goodwill		26 6	–	–	–
Investment and development property	10	8,622 8	8,187 1	–	–
Plant and equipment	11	1 2	0 9	–	–
Investment in group companies	12	–	–	1,943 7	1,962 7
Trade and other receivables	14	83 5	81 4	1 8	2 3
Investments	15	51 0	–	–	–
		8,785 1	8,269 4	1,945 5	1,965 0
<b>Current assets</b>					
Trading property	13	43 7	45 2	–	–
Trade and other receivables	14	155 3	113 8	1,982 7	1,412 8
Cash and cash equivalents		188 4	321 8	0 4	–
		387 4	480 8	1,983 1	1,412 8
<b>Total assets</b>		<b>9,172 5</b>	<b>8,750 2</b>	<b>3,928 6</b>	<b>3,377 8</b>
<b>Current liabilities</b>					
Trade and other payables	17	(341 7)	(319 5)	(114 4)	(123 2)
Tax liabilities		(5 7)	(2 1)	–	–
Borrowings, including finance leases	18	(152 3)	(43 5)	–	–
Derivative financial instruments	21	(3 8)	(4 6)	–	–
		(503 5)	(369 7)	(114 4)	(123 2)
<b>Non-current liabilities</b>					
Borrowings, including finance leases	18	(3,704 0)	(3,341 3)	(111 3)	(108 7)
Derivative financial instruments	21	(94 0)	(128 9)	–	–
Deferred tax provision	22	(73 7)	(40 8)	–	–
Other provisions	23	(1 4)	(4 9)	(0 1)	(0 8)
Other payables		(87 0)	(132 2)	(1 8)	(1 7)
		(3,960 1)	(3,648 1)	(113 2)	(111 2)
<b>Total liabilities</b>		<b>(4,463 6)</b>	<b>(4,017 8)</b>	<b>(227 6)</b>	<b>(234 4)</b>
<b>Net assets</b>		<b>4,708 9</b>	<b>4,732 4</b>	<b>3,701 0</b>	<b>3,143 4</b>
<b>Equity</b>					
Called up ordinary share capital	24	181 4	181 4	181 4	181 4
Share premium account	24	975 6	975 6	975 6	975 6
Treasury shares	25	(9 6)	(6 4)	(9 6)	(6 4)
Convertible bond reserve	27	9 1	9 1	9 1	9 1
Other non-distributable reserves	28	275 4	265 1	60 9	61 9
Retained earnings	26	3,075 1	3,307 6	2,483 6	1,921 8
<b>Attributable to equity shareholders</b>		<b>4,507 0</b>	<b>4,732 4</b>	<b>3,701 0</b>	<b>3,143 4</b>
Minority interests		201 9	–	–	–
<b>Total equity</b>		<b>4,708 9</b>	<b>4,732 4</b>	<b>3,701 0</b>	<b>3,143 4</b>

These consolidated financial statements have been approved for issue by the Board of Directors on 7 March 2008

**D.A. Fischel**      **A.C. Smith**  
Chief Executive      Finance Director

Notes on pages 28 to 54 form part of these consolidated financial statements



## Statements of recognised income and expense

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Profit for the period	(155.2)	1,564.1	685.0	476.5
Actuarial (losses)/gains on defined benefit pension schemes	(2.0)	0.7	(1.5)	0.7
Tax on items taken directly to equity	0.5	(4.9)	0.4	(0.2)
Gains on revaluation of investments, net exchange translation differences and other movements	6.4	(4.6)	(1.0)	1.0
Net (losses) recognised in equity due to minority interests	(0.7)	-	-	-
Net gains/(losses) recognised in equity	4.2	(8.8)	(2.1)	1.5
Total recognised income and (expense) for the period	(151.0)	1,555.3	682.9	478.0
Total recognised (income) and expense attributable to minority interests	50.9	-	-	-
Total recognised income and (expense) for the period attributable to equity shareholders	(100.1)	1,555.3	682.9	478.0

A summary of changes in equity is shown in note 29

Notes on pages 28 to 54 form part of these consolidated financial statements

# Statements of cash flows

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
<b>Cash flows from operating activities</b>				
Operating profit	52 0	927 7	639 9	405 5
Adjustments for non-cash items				
Unrealised net revaluation gains on investment property	316 5	(558 5)	-	-
Unrealised gains on transfer of trading property	-	(33 1)	-	-
Profit on sale of investment property	(37 4)	(28 0)	-	-
Depreciation and amortisation	0 3	0 2	-	-
Amortisation of lease incentives and other direct costs	(1 6)	10 3	-	-
<b>Cash flows from operations before changes in working capital</b>	<b>329 8</b>	<b>318 6</b>	<b>639 9</b>	<b>405 5</b>
Change in trade and other receivables	(6 4)	(10 9)	(596 8)	(870 3)
Change in trading property	8 5	9 7	-	-
Change in current asset investments	(39 2)	3 0	-	-
Change in trade and other payables	(65 1)	(0 5)	13 7	(3 5)
<b>Cash generated from operations</b>	<b>227 6</b>	<b>319 9</b>	<b>56 8</b>	<b>(468 3)</b>
Interest paid	(222 0)	(198 6)	(5 7)	(11 0)
Interest received	9 8	2 9	66 3	34 0
Tax paid	(12 9)	(6 6)	-	-
<b>Cash flows from operating activities</b>	<b>2 5</b>	<b>117 6</b>	<b>117 4</b>	<b>(445 3)</b>
<b>Cash flows from investing activities</b>				
Purchase and development of property	(575 5)	(653 9)	-	-
Sale of property	459 2	127 3	-	-
Purchase of subsidiary companies	(80 0)	-	-	-
Sale of investments and other fixed assets	-	-	-	15 0
Sale of interests in joint ventures and subsidiary companies	-	-	8 2	186 3
<b>Cash flows from investing activities</b>	<b>(196 3)</b>	<b>(526 6)</b>	<b>8 2</b>	<b>201 3</b>
<b>Cash flows from financing activities</b>				
Issue and repurchase of shares	(3 1)	341 4	(3 1)	341 4
Borrowings drawn	382 6	902 0	-	-
Borrowings repaid	(197 0)	(486 0)	-	-
Equity dividends paid	(122 1)	(97 4)	(122 1)	(97 4)
<b>Cash flows from financing activities</b>	<b>60 4</b>	<b>660 0</b>	<b>(125 2)</b>	<b>244 0</b>
Net (decrease)/increase in cash and cash equivalents	(133 4)	251 0	0 4	-
Cash and cash equivalents at 1 January	321 8	70 8	-	-
<b>Cash and cash equivalents at 31 December</b>	<b>188 4</b>	<b>321 8</b>	<b>0 4</b>	<b>-</b>

Notes on pages 28 to 54 form part of these consolidated financial statements

# Principal accounting policies – group and company

## Accounting convention and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"), IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Directors have taken advantage of the exemption offered by Section 230 of the Companies Act not to present a separate income statement for the parent company.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties, available-for-sale investments, financial assets and liabilities held for trading. A summary of the more important group accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where such judgements are made they are included within the accounting policies below.

IFRS7, 'Financial instruments: Disclosures', and the complementary amendment to IAS1, 'Presentation of financial instruments – Capital disclosures' were adopted during 2007. This introduces new disclosures relating to financial instruments. These do not have any impact on the classification and valuation of the group or company's financial instruments, or the disclosures relating to taxation and trade and other payables. At the date of approval of these financial statements, it is not anticipated that any standards or interpretations in issue but not yet effective will have a material impact on the financial statements.

## Basis of consolidation

The consolidated financial information includes financial information in respect of the company and its subsidiary undertakings. Subsidiary undertakings are those entities in which the group has the ability to govern the financial and operating policies, whether through a majority of the voting rights or otherwise.

The group's interest in jointly controlled entities are accounted for using proportional consolidation. The group's share of the assets, liabilities, income and expenses are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

The separable assets and liabilities acquired in a business combination are measured at their estimated fair value at the date of acquisition. Any excess of the fair value consideration, including any costs directly attributable to the acquisition, over the fair value of the assets and liabilities acquired is recognised as goodwill.

## Goodwill

Goodwill arising on acquisition of group undertakings is carried as an intangible asset at cost less accumulated impairment losses.

## Investment properties

Investment properties are properties owned or leased by the group which are held for long-term rental income and for capital appreciation. The group has elected to use the fair value model. Investment property is initially recognised at cost including transaction costs and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value. Market value is arrived at after deducting notional acquisition costs. In accordance with IAS 40 – "Investment Property", property held under leases is stated gross of the recognised finance lease liability.

Gains or losses arising from changes in the fair value of investment property are recognised in the income statement of the period in which they arise. Depreciation is not provided in respect of investment properties including integral plant.

When the group redevelops an existing investment property for continued future use as an investment property, the property remains an investment property measured at fair value and is not reclassified. Interest is capitalised (before tax relief), on the basis of the average rate of interest paid on the relevant debt outstanding, until the date of practical completion.

When the use of a property changes from that of trading to investment, that property is transferred at fair value, with any resulting gain being recognised as property trading profit.

## Development property

The group has elected to use the fair value model as reliable estimates are available. Property under development and land are initially recognised at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers. Cost includes interest and other directly attributable outgoings, except in the case of properties and land where no development is imminent, in which case no interest is included. In accordance with IAS 16 – "Property, Plant and Equipment", gains and losses arising from changes in the fair value of development property are dealt with in reserves to the extent that fair value exceeds cost and are otherwise recognised in the income statement. Upon completion, development property to be held for long-term rental income and capital appreciation are transferred to investment property.

## Leases

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are normally classified as operating leases.

## – group as lessee

In accordance with IAS 40, finance and operating leases of investment property are accounted for as finance leases and recognised as an asset and an obligation to pay future minimum lease payments. The investment property asset is included in the balance sheet at fair value,

gross of the recognised finance lease liability. Lease payments are allocated between the liability and finance charges so as to achieve a constant financing rate.

Other finance leased assets are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments and depreciated over the shorter of the lease term and the useful life of the asset.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

## – group as lessor

Assets leased out under finance leases are recognised as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment.

Assets leased out under operating leases are included in investment property, with rental income recognised on a straight-line basis over the lease term.

## Depreciation

Plant and equipment is depreciated to its residual value on a straight-line basis over its expected useful life of up to five years.

## Trading property

Property and land held for sale are included in the balance sheet at the lower of cost and net realisable value. Cost consists of direct cost excluding interest.

## Investments

Investments are classified as available-for-sale investments or trading investments dependent on the purpose for which they were acquired. For listed investments, fair value is the bid market listed value ruling at the balance sheet date.

Available-for-sale investments, being investments intended to be held for an indefinite period, are revalued to fair value at the balance sheet date. Gains or losses arising from changes in fair value of available-for-sale investments are included in the revaluation reserve except to the extent that losses are attributable to impairment, in which case they are recognised in the income statement. Upon disposal, accumulated fair value adjustments are included in the income statement.

Trading investments, acquired principally for the purpose of generating a profit from short-term fluctuations in price, are included in current assets and revalued to fair value. Realised and unrealised gains or losses arising from changes in fair value are included in the income statement of the period in which they arise.

## Interests in subsidiary undertakings

Interests in subsidiary undertakings are carried in the company's balance sheet at cost.

## Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits with banks, other short-term, highly liquid investments with original maturities of three months or less.

# Principal accounting policies – group and company (continued)

## Revenue recognition

Property revenue consists of gross rental income calculated on an accruals basis, together with sales and services as principal in the ordinary course of business, excluding sales of investment properties. Rental income receivable in the period from lease commencement to the earlier of lease expiry and any tenant option to break is spread evenly over that period. Any incentive for lessees to enter into a lease agreement is spread over the same period.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews, are recorded as income in the periods in which they are earned. Rent reviews are recognised as income, based on estimates, when it is reasonable to assure they will be received.

Where revenue is obtained by the sale of properties, it is recognised when the significant risks and returns have been transferred to the buyer. This will normally take place on exchange of contracts unless there are conditions attached. For conditional exchanges sales are recognised when these conditions are satisfied.

Revenue in respect of investment and other income represents investment income, earned on an accruals basis and profits or losses recognised on investments held for the short term. Dividends are 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 the effective interest rate.

## Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance. Transactions which may give rise to exceptional items are principally gains or losses on disposal of investments, subsidiaries and early termination of debt instruments.

## Income taxes

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date. Tax payable upon realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of any associated deferred taxation.

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit, with the exception of deferred tax on revaluation surpluses where the tax basis used is the accounts' historic cost.

Deferred tax is provided on all temporary differences, except in respect of unremitted earnings from investments in subsidiaries and joint ventures where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation assets and liabilities are offset only when they relate to taxes levied by the same authority, with a legal right to set off and when the group intends to settle them on a net basis.

## Pensions

The retirement benefit liability recognised in the balance sheet is the present value of the defined benefit obligations, less the fair value of plan assets, adjusted for past service costs. The defined benefit obligation and current service cost are calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses are immediately recognised in the Statements of recognised income and expense.

The costs of defined contribution schemes and group personal plans are charged against profits in the year in which they are incurred.

## Share-based payments

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the income statement with reference to the fair value at the date of grant. In the case of options granted, fair value is measured using an option pricing model and charged over the vesting period of the options. Own shares held in connection with employee share plans and other share-based payment arrangements are treated as treasury shares and deducted from equity.

## Provisions

Provisions are recognised when the group has a current obligation arising from a past event and it is probable that the group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle that obligation at the balance sheet date.

## Foreign currencies

The assets and liabilities of foreign entities are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statement and cash flows are translated at the average rate for the period. Exchange differences arising from the retranslation of the net investment in foreign entities are dealt with in reserves.

Transactions in currencies other than the group's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when qualifying as hedges, in which case they are dealt with in reserves.

## Debt instruments

Debt instruments are recognised initially at their issue proceeds, net of transaction costs. Debt instruments are subsequently stated at amortised cost using the effective yield method, with the difference between net proceeds and redemption value recognised in the income statement over the period of the borrowings. On early termination of debt instruments, all unamortised transaction costs are recognised immediately in the income statement.

## Derivative financial instruments

The group enters into derivative transactions such as interest rate swaps and forward foreign exchange contracts in order to manage the risks arising from its activities. Derivatives are recorded at fair value based on market prices, estimated future cash flows and forward rates as appropriate.

The group applies hedge accounting to its forward foreign exchange contracts where they meet the relevant criteria for hedging a net investment in a foreign operation. Changes in the fair value of such derivatives that are designated and effective as hedges are recognised directly in reserves, to be transferred to the income statement in the period during which the exchange movement on the hedged item is recognised in the income statement. Any ineffective portion is recognised immediately in the income statement as a finance cost. When a hedging instrument expires, is sold or no longer qualifies as a hedge, the cumulative gain or loss remains in reserves until the hedged item is recognised in the income statement.

The group does not apply hedge accounting to its interest rate swaps. Any change in the fair value of such derivatives is recognised immediately in the income statement as a finance cost.

## Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs. When the group's own equity instruments are repurchased, consideration paid is deducted from equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

## Compound instruments

At the date of issue of compound instruments, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-compound debt. The difference between the proceeds of issue and the fair value of the liability, the embedded option to convert into equity, is included in equity. Issue costs are apportioned between the liability and equity components based on their relative initial carrying values. The liability element of compound instruments is subsequently measured using the expected interest rate method. The value of the equity component is not remeasured in subsequent periods.

# Notes to the accounts

## 1 Segmental reporting

### (a) Business segments

For management purposes the group is organised into operating divisions, of which the two largest are UK shopping centres and other commercial properties.

	2007				
	UK shopping centres £m	Other commercial properties £m	Exhibition £m	Other activities £m	Group Total £m
<b>Revenue</b>	<b>424.8</b>	<b>126.3</b>	<b>24.7</b>	<b>(1.2)</b>	<b>574.6</b>
Rent receivable	334.8	98.8	24.7	-	458.3
Service charge income	57.6	9.3	-	-	66.9
Other income	19.3	2.2	-	-	21.5
Rent payable	411.7	110.3	24.7	-	546.7
Service charge and other non-recoverable costs	(22.3)	(3.1)	-	-	(25.4)
	(100.6)	(31.8)	(14.6)	-	(147.0)
Net rental income	288.8	75.4	10.1	-	374.3
Property trading profits	1.5	1.4	-	-	2.9
Other income	-	0.3	-	(1.2)	(0.9)
(Deficit)/gain on revaluation and sale of investment and development property	(284.5)	0.6	4.8	-	(279.1)
<b>Segment result</b>	<b>5.8</b>	<b>77.7</b>	<b>14.9</b>	<b>(1.2)</b>	<b>97.2</b>
Unallocated administration costs					(45.2)
<b>Operating profit</b>					<b>52.0</b>
Total assets	6,692.0	1,905.5	417.9	157.1	9,172.5
Total liabilities	(3,108.6)	(1,106.5)	(282.5)	34.0	(4,463.6)
<b>Net assets</b>	<b>3,583.4</b>	<b>799.0</b>	<b>135.4</b>	<b>191.1</b>	<b>4,708.9</b>
<b>Other segment items</b>					
Capital expenditure	226.8	458.4	376.6	-	1,061.8
Depreciation/amortisation	-	0.3	-	-	0.3

	2006				
	UK shopping centres £m	Other commercial properties £m	Exhibition £m	Other activities £m	Group Total £m
<b>Revenue</b>	<b>421.1</b>	<b>139.2</b>	<b>-</b>	<b>2.5</b>	<b>562.8</b>
Rent receivable	320.4	79.8	-	-	400.2
Service charge income	51.6	15.6	-	-	67.2
Other income	15.9	9.8	-	-	25.7
Rent payable	387.9	105.2	-	-	493.1
Service charge and other non-recoverable costs	(23.2)	(3.8)	-	-	(27.0)
	(92.7)	(32.8)	-	-	(125.5)
Net rental income	272.0	68.6	-	-	340.6
Property trading profits/(losses)	(0.8)	32.6	-	1.0	32.8
Other income	-	0.5	-	1.5	2.0
Gain on revaluation and sale of investment and development property	470.7	115.8	-	-	586.5
<b>Segment result</b>	<b>741.9</b>	<b>217.5</b>	<b>-</b>	<b>2.5</b>	<b>961.9</b>
Unallocated administration costs					(34.2)
<b>Operating profit</b>					<b>927.7</b>
Total assets	6,782.3	1,736.0	-	231.9	8,750.2
Total liabilities	(3,179.4)	(930.1)	-	91.7	(4,017.8)
<b>Net assets</b>	<b>3,602.9</b>	<b>805.9</b>	<b>-</b>	<b>323.6</b>	<b>4,732.4</b>
<b>Other segment items</b>					
Capital expenditure	251.9	487.3	-	-	739.2
Depreciation/amortisation	-	0.2	-	-	0.2

# Notes to the accounts (continued)

## 1 Segmental reporting continued (b) Geographical segments

	Revenue		Total assets		Capital expenditure	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	534.0	510.9	8,756.4	8,360.4	1,049.5	735.1
United States	40.6	51.9	416.1	389.8	12.3	4.1
	574.6	562.8	9,172.5	8,750.2	1,061.8	739.2

## 2 Operating leases

The group earns rental income by leasing its investment properties to tenants under operating leases

In the United Kingdom the standard shopping centre lease is let for a term of 10 to 15 years, either at market rent or, for turnover based leases, at a minimum rent generally set at 80 per cent of market rent. Standard lease provisions include service charge payments, recovery of other direct costs and review every five years either to market rent or, for turnover leases, to 80 per cent of market rent. Standard turnover based leases have a turnover percentage agreed with each lessee which is applied to a retail unit's annual sales and any excess between the resulting turnover rent and the minimum rent is receivable by the group. In the United Kingdom standard commercial leases vary considerably between markets and locations but typically are let, for a term of five to 15 years, at market rent with provisions to review to market rent every five years. Typically, single let properties are leased on terms where the tenant is responsible for repairs and running costs, and multi-let properties are leased on terms including service charges. In the United States leases are typically of shorter duration, sometimes with renewal options.

The future minimum lease amounts receivable under non-cancellable operating leases are as follows

	2007 £m	2006 £m
Not later than one year	371.2	392.4
Later than one year and not later than five years	1,298.8	1,385.1
Later than five years	1,654.5	1,861.8
	3,324.4	3,639.3

The income statement includes £7.2 million (2006 – £8.5 million) recognised in respect of expected increased rent resulting from outstanding reviews where the actual rent will only be determined on settlement of the rent review.

## 3 (Deficit)/Gain on revaluation and sale of investment and development property

	2007 £m	2006 £m
(Deficit)/gain on revaluation of investment and development property	(316.5)	558.5
Gain on sale of investment property	37.4	28.0
(Deficit)/gain on revaluation and sale of investment and development property	(279.1)	586.5

## 4 Finance costs

	2007 £m	2006 £m
Interest payable		
On bank overdrafts and loans	211.8	185.4
On convertible debt	6.9	7.6
On obligations under finance leases	5.7	5.6
Gross interest payable – recurring	224.4	198.6
Interest capitalised on developments	(15.1)	(8.6)
<b>Interest payable</b>	<b>209.3</b>	<b>190.0</b>
Costs of termination of financial instruments	2.0	–
Issue costs written off on redemption of loans	1.3	2.0
<b>Exceptional finance costs</b>	<b>3.3</b>	<b>2.0</b>

Interest is capitalised, before tax relief, on the basis of the average rate of interest paid of 6.25 per cent (2006 – 6.25 per cent) on the relevant debt, applied to the cost of developments during the year.

## Notes to the accounts (continued)

<b>5 Profit/(Loss) before tax</b>	<b>2007 £m</b>	<b>2006 £m</b>
Profit/(Loss) before taxation is arrived at after charging		
Staff costs (see note 37)	31.8	29.6
Depreciation	0.3	0.2
Auditors' remuneration	0.8	0.7
Remuneration paid to the company's auditors for non-audit work	0.4	0.2

A more detailed analysis of auditors' remuneration is provided below	<b>2007 £000</b>	<b>2006 £000</b>
Remuneration to the principal auditor in respect of audit fees		
Statutory audit of the company and consolidated accounts	490	450
Remuneration to the principal auditor in respect of other services		
Statutory audit of subsidiary accounts	224	145
Statutory audit of the pension funds	8	8
Other services pursuant to legislation	70	70
Corporate finance advisory services	21	50
Taxation advisory services	84	51
Other services	248	10
	<b>1,145</b>	<b>784</b>
Remuneration to other auditors comprises		
Statutory audit of UK subsidiaries	92	–
Tax services to UK subsidiaries	20	–
Statutory audit of US subsidiary	111	109
Tax services to US subsidiary	78	81

<b>6 Taxation</b>	<b>Current £m</b>	<b>Deferred £m</b>	<b>REIT entry charge £m</b>	<b>2007 £m</b>	<b>2006 £m</b>
Tax on non-exceptional items	2.7	(0.5)	–	2.2	12.0
Tax on exceptional items and property disposals	–	–	–	–	1.8
Other exceptional tax	–	–	3.9	3.9	122.1
Valuation items					
Investment and development property	–	8.7	–	8.7	(848.1)
Derivative financial instruments	–	15.6	–	15.6	51.2
	<b>2.7</b>	<b>23.8</b>	<b>3.9</b>	<b>30.4</b>	<b>(661.0)</b>

<b>Taxation charge for the financial year</b>	<b>2007 £m</b>	<b>2006 £m</b>
Current UK corporation tax at 30% (2006 – 30%) on profits	6.0	27.6
Prior year items – UK corporation tax	(3.4)	0.2
	<b>2.6</b>	<b>27.8</b>
Overseas taxation (including £0.7m (2006 – £nil) of prior year items)	0.1	1.8
Current tax on profits excluding exceptional items and property disposals	2.7	29.6
Deferred tax		
On investment and development property	8.7	(848.1)
On derivative financial instruments	15.6	51.2
On other temporary differences	(0.5)	(17.6)
Deferred tax on profits excluding exceptional items and property disposals	23.8	(814.5)
Tax charge/(credit) on profits excluding exceptional items and property disposals	26.5	(784.9)
REIT entry charge	3.9	154.3
Exceptional current tax credit	–	(32.2)
Tax on exceptional items and property disposals		
– current tax	–	1.8
– deferred tax	–	–
Exceptional tax and tax credit on exceptional items and property disposals	–	(30.4)
<b>Total tax charge/(credit)</b>	<b>30.4</b>	<b>(661.0)</b>



## Notes to the accounts (continued)

### 6 Taxation continued

#### Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below

	2007 £m	2006 £m
Profit/(Loss) before tax	(124.8)	903.1
Profit/(Loss) on ordinary activities multiplied by the standard rate in the UK (30%)	(37.4)	270.9
UK capital allowances not reversing on sale	(8.2)	0.4
Disposals of properties and investments	1.0	(9.5)
Tax relief on items only appearing in subsidiary accounts	-	(32.2)
Prior year corporation tax items	(2.7)	0.2
Prior year deferred tax items	2.5	1.1
Expenses disallowed, net of capitalised interest	(3.2)	(4.6)
REIT exemption – corporation tax	(31.7)	-
REIT exemption – deferred tax	108.1	(1,041.9)
REIT exemption – entry charge	3.9	154.3
Utilisation of losses brought forward	(1.0)	-
Overseas taxation	0.8	0.3
Reduction in deferred tax following cut in corporate tax rate	(1.7)	-
<b>Total tax charge/(credit)</b>	<b>30.4</b>	<b>(661.0)</b>

Tax items that are taken directly to equity are shown in the Statements of Recognised Income and Expense

### 7 Profit for the financial year attributable to shareholders of Liberty International PLC

Profits of £685.0 million are dealt with in the accounts of the holding company in respect of the year (2006 – £476.5 million). No income statement is presented for the company as permitted by Section 230 Companies Act 1985

### 8 Dividends

	2007 £m	2006 £m
Ordinary shares		
Prior period final dividend paid of 17.25p per share (2006 – 15.25p)	62.4	51.1
Interim dividend paid of 16.5p per share (2006 – 13.75p)	59.7	46.3
<b>Dividends paid</b>	<b>122.1</b>	<b>97.4</b>
Proposed dividend of 17.6p per share (2006 – 17.25p)	63.6	62.4

The dividend proposed by the Board is the final dividend in respect of 2007 and is not accounted for until it has been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of retained earnings in the year ending 31 December 2008.

Details of the shares in issue and dividends waived are given in notes 24 and 25

### 9 Earnings per share

	2007 million	2006 million
Weighted average ordinary shares in issue	362.8	340.0
Weighted average ordinary shares held as treasury shares and by ESOP	(1.1)	(1.5)
<b>Weighted average ordinary shares in issue for calculation of basic earnings per share</b>	<b>361.7</b>	<b>338.5</b>
Weighted average ordinary shares to be issued on conversion of bonds and under employee incentive arrangements	14.7	15.0
<b>Weighted average ordinary shares in issue for calculation of diluted earnings per share</b>	<b>376.4</b>	<b>353.5</b>

## Notes to the accounts (continued)

9 Earnings per share continued	2007 £m	2006 £m
Earnings used for calculation of basic earnings per share	(105 0)	1,564 1
Reduction in interest charge from conversion of bonds, net of tax	5 0	5 3
Earnings used for calculation of diluted earnings per share	(100 0)	1,569 4
Basic earnings per share (pence)	(29.0)p	462 1p
Diluted earnings per share (pence)	(26 6)p	444 0p
Earnings used for calculation of basic earnings per share	(105 0)	1,564 1
Add back exceptional finance costs	3 3	2 0
Add back REIT entry charge	3 9	154 3
Less other exceptional tax	-	(30 4)
Add back/(less) gain on revaluation and sale of investment and development properties	279 1	(586 5)
Less fair value movement on derivative financial instruments	(27 0)	(163 5)
Add back/(less) deferred tax in respect of investment and development properties	4 2	(787 2)
Add back deferred tax in respect of derivative financial instruments	15 6	51 2
Add back/(less) deferred tax on capital allowances	4 5	(60 9)
Less gain on transfer of trading property to investment property net of tax	-	(28 5)
Less amounts above due to minority interests	(48 3)	-
Earnings used for calculation of adjusted earnings per share	130 3	114 6
Adjusted earnings per share (pence)	36 0p	33 9p
Earnings used for calculation of adjusted earnings per share	130 3	114 6
Reduction in interest charge from conversion of bonds, net of tax	5 0	5 3
Earnings used for calculation of adjusted, diluted earnings per share	135 3	119 9
Adjusted, diluted earnings per share (pence)	35 9p	33 9p

## 10 Investment and development property

	Freehold £m	Leasehold over 50 years £m	Total £m
At 1 January 2007	4,699 4	3,487 7	8,187 1
Additions	424 9	636 9	1,061 8
Disposals	(157 4)	(146 0)	(303 4)
Foreign exchange fluctuations	(6 2)	-	(6 2)
Deficit on valuation	(155 4)	(161 1)	(316 5)
At 31 December 2007	4,805 4	3,817 4	8,622 8

	Freehold £m	Leasehold over 50 years £m	Total £m
At 1 January 2006	3,904 7	3,033 1	6,937 8
Additions	496 2	243 0	739 2
Disposals	(102 7)	(14 2)	(116 9)
Transfers from trading properties	92 4	16 3	108 7
Foreign exchange fluctuations	(40 2)	-	(40 2)
Gain on valuation	349 0	209 5	558 5
At 31 December 2006	4,699 4	3,487 7	8,187 1

	As at 31 December 2007 £m	As at 31 December 2006 £m
Balance sheet carrying value of investment and development properties	8,622.8	8,187 1
Adjustment in respect of head leases and incentives	12.1	18 9
Market value of investment and development properties	8,634 9	8,206 0

## Notes to the accounts (continued)

### 10 Investment and development property continued

	UK £m	US £m	Total £m
<b>Geographical analysis</b>			
<b>At 31 December 2007</b>	<b>8,245.5</b>	<b>377.3</b>	<b>8,622.8</b>
At 31 December 2006	7,833.5	353.6	8,187.1

Included within investment and development properties is £13.8 million (31 December 2006 – £3.3 million) of interest capitalised on developments and redevelopments in progress.

The group's interests in investment and development properties were valued as at 31 December 2007 by independent external valuers in accordance with the Appraisal and Valuation Manual of RICS, on the basis of market value. Market value represents the figure that would appear in a hypothetical contract of sale between a willing buyer and a willing seller.

### 11 Plant and equipment

	Cost £m	Accumulated depreciation £m	2007 Net £m	2006 Net £m
At 1 January	7.8	(6.9)	0.9	0.6
Additions	0.6	–	0.6	0.5
Charge for the year	–	(0.3)	(0.3)	(0.2)
<b>At 31 December</b>	<b>8.4</b>	<b>(7.2)</b>	<b>1.2</b>	<b>0.9</b>

Plant and equipment include vehicles, fixtures, fittings and other office equipment.

### 12 Investment in group companies

	Company 2007 £m	Company 2006 £m
At 1 January	1,962.7	2,092.8
Additions	–	100.0
Disposals	(19.0)	(230.1)
<b>At 31 December</b>	<b>1,943.7</b>	<b>1,962.7</b>

Investment in group companies includes equity and debt instruments.

### Joint ventures

	Group share 2007 £m	Group share 2006 £m
<b>Summarised income statements</b>		
Gross rental income	20.0	3.9
Net rental income	17.2	2.7
Property trading profits	–	11.4
(Deficit)/gain on revaluation and sale of investment and development property	(18.9)	4.9
Administration expenses	(1.0)	(0.8)
Net finance costs	(0.1)	(1.6)
Tax	–	(0.9)
<b>Profit/(loss) after tax</b>	<b>(2.8)</b>	<b>15.7</b>
<b>Summarised balance sheets</b>		
Non-current assets	658.7	284.7
Current assets	26.5	26.1
Partners' loans	2.5	44.5
Current liabilities	(32.6)	(10.2)
Creditors' amounts falling due after more than one year	(80.4)	(49.3)
<b>Net assets</b>	<b>574.7</b>	<b>295.8</b>

All joint ventures are held equally with other joint venture investors on a 50:50 basis. Joint ventures are accounted for in the group accounts using proportional consolidation. The group's share of the assets, liabilities, income and expenditure shown above are included in the consolidated financial statements on a line-by-line basis. In the UK, joint ventures comprise the Xscape Braehead general partnership, the St David's Limited Partnership and The Great Capital Partnership. The Xscape Braehead general partnership was established in 2004, for investment in the Xscape Leisure Scheme at Braehead, Renfrew, Glasgow and has a 31 December year end. The St David's Limited Partnership was established in 2004 for investment in the existing St David's shopping centre, Cardiff, and development of a 967,500 sq. ft. retail-led mixed-use extension, and has a 31 December year end. The Great Capital Partnership was established during the year to own, manage and develop a number of Central London properties and has a 31 March year end.

All other joint ventures are registered in the United States and are in the business of property investment. Full details of all joint ventures will be attached to the company's Annual Return to be filed with the Registrar of Companies.

## Notes to the accounts (continued)

### 13 Trading property

	Group 2007 £m	Group 2006 £m
Undeveloped sites	36 7	45 2
Completed properties	7 0	-
	43 7	45 2

The estimated replacement cost of trading properties based on market value amounted to £46.1 million (31 December 2006 – £49.9 million)

### 14 Trade and other receivables

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
<b>Amounts falling due within one year</b>				
Rents receivable	27 3	26 1	-	-
Amounts owed by subsidiary undertakings	-	-	1,976 1	1,395 2
Derivative financial instruments	20 4	7 0	-	-
Tax recoverable	-	-	0 3	15 2
Other receivables	60 4	42 3	1 8	1 3
Prepayments and accrued income	47 2	38 4	4 5	1 1
	155 3	113 8	1,982.7	1,412 8
<b>Amounts falling due after more than one year</b>				
Other receivables	17 9	12 2	1 8	2 3
Derivative financial instruments	5 0	14 0	-	-
Prepayments and accrued income	60 6	55 2	-	-
	83 5	81 4	1.8	2 3

Amounts owed by subsidiary undertakings are unsecured, repayable on demand and for amounts falling within formalised loan agreements, interest bearing

### 15 Investments

	Group 2007 £m	Group 2006 £m
At 1 January	-	-
Additions	43 3	-
Revaluation of investments (dealt with in reserves)	7 7	-
<b>At 31 December</b>	<b>51 0</b>	<b>-</b>

Investments are designated as available-for-sale and held in the balance sheet at fair value with changes in fair value included in equity

### 16 Business combinations

On 24 July 2007, the group acquired 50% of the share capital of Earls Court & Olympia Group ('EC&O') which owns and manages the EC&O Centres in West London and the Brewery, Chiswell Street, London EC2. The group owns exhibition venues and provides conferencing and banqueting services to exhibition and conference organisers. This business contributed net revenues of £5.0 million, and a net loss of £3.0 million. Had the acquisition occurred on 1 January 2007 the net revenue would have been £27.2 million with net profit of £nil.

On 7 December 2007, the group acquired 100% of the share capital of the Covent Garden Restaurants Group ('Restaurants') which trades as licensed restaurants, bars and music venues. This business contributed net revenues and net profit of £nil, and had the acquisition occurred on 1 January 2007 the net revenue would have been £6.3 million with net profit of £0.4 million.

These amounts have been calculated by adjusting the results of the subsidiaries to reflect the group's accounting policies

	Group £m
Purchase consideration	
Cash paid	90 9
Direct costs relating to acquisition	3 6
Total purchase consideration	94 5
Fair value of assets acquired	(67 9)
<b>Goodwill</b>	<b>26 6</b>

The goodwill is attributable to the value of the operating businesses, primarily the Restaurants. The goodwill will be impaired over time in the course of realising the development potential in locations from which the businesses currently operate.

## Notes to the accounts (continued)

### 16 Business combinations continued

The assets and liabilities arising from the acquisition are as follows

	Total	
	Fair value £m	Acquiree's carrying value £m
<b>Non-current assets</b>		
Investment and development property	389.8	388.8
Goodwill	–	30.1
Plant and equipment	–	1.7
Trade and other receivables	1.8	1.2
Investments	0.1	0.1
<b>Current assets</b>		
Trade and other receivables	19.0	19.0
Cash and cash equivalents	4.2	4.2
<b>Current liabilities</b>		
Trade and other payables	(29.4)	(28.0)
Tax liabilities	(0.7)	(0.7)
Borrowings, including finance leases	–	(10.1)
Group intercompany balances	(10.1)	0.0
<b>Non-current liabilities</b>		
Borrowings, including finance leases	(249.9)	(249.9)
Derivative financial instruments	6.1	0.0
Deferred tax provision	(11.5)	(5.9)
Other provisions	0.0	(0.2)
<b>Net assets</b>	<b>119.4</b>	<b>150.3</b>
Minority interests	(51.5)	
<b>Net assets acquired</b>	<b>67.9</b>	

There were no business combinations in the year ended 31 December 2006

From 25 March 2007 The MetroCentre Partnership has been consolidated as a subsidiary. £240 million of capital was introduced into The MetroCentre Partnership by a third party comprising partner's capital and loan. The net proceeds received were split between liability and minority interest components, with the carrying value liability component being the fair value of similar debt obtained from the market, as follows

	£m
Net proceeds of partnership capital from third party	240
Minority interests	(197)
<b>Liability at the date of the balance sheet</b>	<b>43</b>

The effective interest rate on the liability component was 6.85 per cent

### 17 Trade and other payables

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
<b>Amounts falling due within one year</b>				
Amounts owed to subsidiary undertakings	–	–	102.6	118.7
Other taxes and social security	68.3	35.0	1.1	0.7
Other payables	55.7	91.6	–	–
Rents received in advance	104.0	99.7	–	–
Accruals and deferred income	113.7	93.2	10.7	3.8
	<b>341.7</b>	<b>319.5</b>	<b>114.4</b>	<b>123.2</b>

Amounts owed to subsidiary undertakings are unsecured, payable on demand and interest bearing

## Notes to the accounts (continued)

### 18 Borrowings, including finance leases

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
<b>Amounts falling due within one year</b>				
<b>Secured borrowings</b>				
Bank loans and overdrafts	118.8	12.9	-	-
Commercial mortgage backed securities ("CMBS") notes	27.4	24.2	-	-
Gross short-term debt	146.2	37.1	-	-
Finance lease obligations	6.1	6.4	-	-
<b>Amounts falling due within one year</b>	<b>152.3</b>	<b>43.5</b>	<b>-</b>	<b>-</b>
<b>Amounts falling due after more than one year</b>				
<b>Secured borrowings – non recourse</b>				
CMBS notes 2015	1,174.3	1,124.1	-	-
CMBS notes 2011	633.7	639.7	-	-
Bank loan 2017	117.2	-	-	-
Bank loans 2016	652.2	512.9	-	-
Bank loan 2014	-	175.6	-	-
Bank loans 2013	251.2	251.0	-	-
	2,828.6	2,703.3	-	-
<b>Other secured borrowings</b>				
Debentures 2027	226.1	225.8	-	-
Other loans	428.9	189.5	-	-
	3,483.6	3,118.6	-	-
<b>Unsecured borrowings</b>				
CSC bonds 2013	26.6	26.5	-	-
CSC bonds 2009	31.4	41.3	-	-
	3,541.6	3,186.4	-	-
£111.3 million (2006 – £111.3 million) 3.95% convertible bonds due 2010	111.3	108.7	111.3	108.7
Gross long-term debt	3,652.9	3,295.1	111.3	108.7
Finance lease obligations	51.1	46.2	-	-
<b>Amounts falling due after more than one year</b>	<b>3,704.0</b>	<b>3,341.3</b>	<b>111.3</b>	<b>108.7</b>
<b>Total borrowings, including finance leases</b>	<b>3,856.3</b>	<b>3,384.8</b>	<b>111.3</b>	<b>108.7</b>
Cash and cash equivalents	(188.4)	(321.8)	(0.4)	-
<b>Net borrowings</b>	<b>3,667.9</b>	<b>3,063.0</b>	<b>110.9</b>	<b>108.7</b>

Certain borrowings of the group's property subsidiaries are secured by charges on specific property assets of those subsidiaries

The maturity profile of gross debt (excluding finance leases) is as follows

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Wholly repayable within one year	146.2	37.1	-	-
Wholly repayable in more than one year but not more than two years	78.9	41.8	-	-
Wholly repayable in more than two years but not more than five years	1,112.1	951.3	111.3	108.7
Wholly repayable in more than five years	2,461.9	2,302.0	-	-
	3,799.1	3,332.2	111.3	108.7

Certain borrowing agreements contain financial and other conditions that, if contravened, could alter the repayment profile

The group has various undrawn committed borrowing facilities. The facilities available at 31 December in respect of which all conditions precedent had been met were as follows

	2007 £m	2006 £m
Expiring in more than two years	540.0	510.0

These undrawn facilities are available at floating rates based on LIBOR plus applicable margin

## Notes to the accounts (continued)

### 19 Convertible debt

#### 3.95 per cent convertible bonds due 2010 ("the 3.95 per cent bonds")

On 16 October 2003, the company issued £240 million nominal 3.95 per cent bonds raising £233.4 million after costs. The holders of the 3.95 per cent bonds have the option to convert their bonds into ordinary shares at any time on or up to 23 September 2010 at 800p per ordinary share, a conversion rate of 12.5 ordinary shares for every £100 nominal of 3.95 per cent bonds. The 3.95 per cent bonds may be redeemed at par at the company's option after 14 October 2008, subject to the Liberty International ordinary share price having traded at 120 per cent of the conversion price for a specified period, or at anytime once 85 per cent by nominal value of the bonds originally issued have been converted or cancelled. Unless otherwise converted, cancelled or redeemed the 3.95 per cent bonds will be redeemed by Liberty International at par on 30 September 2010.

Bondholders had the option to require redemption of outstanding bonds at par on 30 September 2007. No bondholders exercised the option to redeem bonds.

The net proceeds received from the initial issue of the convertible bonds was split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity as follows:

	Group and company	
	2007 £m	2006 £m
Net proceeds of convertible bonds issued	233.5	233.5
Equity component	(19.6)	(19.6)
Liability at date of issue	213.9	213.9
Cumulative amortisation	19.2	16.6
Cumulative conversions	(121.8)	(121.8)
Liability at 31 December	111.3	108.7

The effective interest rate on the liability element at 31 December 2007 was 3.95 per cent (2006 – 7.1 per cent).

### 20 Finance lease obligations

	Group 2007 £m	Group 2006 £m
<b>(a) Minimum lease payments under finance leases fall due</b>		
Not later than one year	6.1	6.4
Later than one year and not later than five years	24.4	26.0
Later than five years	110.1	122.4
	140.6	154.8
Future finance charges on finance leases	(83.4)	(102.2)
Present value of finance lease liabilities	57.2	52.6
<b>(b) Present value of minimum finance lease obligations</b>		
Not later than one year	6.1	6.4
Later than one year and not later than five years	21.3	23.3
Later than five years	29.8	22.9
	57.2	52.6

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

Finance lease liabilities are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default.

### 21 Financial instruments

#### Treasury policy

The group enters into derivative transactions such as interest rate swaps and forward foreign exchange contracts in order to help manage the financial risks arising from the group's activities. The main risks arising from the group's financing structure are interest rate risk, liquidity risk and market price risk, the latter in respect of both interest rates and foreign exchange. The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below.

#### Interest rate risk

Group debt carries both fixed and floating interest rates. Bank loans and CMBS notes are typically at floating rates linked to LIBOR for the relevant currency. Bond debt and other capital markets debt is generally at fixed rates. The group's policy is to eliminate substantially all exposure to interest rate fluctuations in order to establish certainty over long-term cash flows. Short-term debtors and creditors and investments are not directly exposed to interest rate risk.

# Notes to the accounts (continued)

## 21 Financial instruments continued

### Liquidity risk

The group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest risk and to refinancing risk. In effect the group seeks to borrow for as long as possible at the lowest acceptable cost. At 31 December 2007, the maturity profile of group debt showed a weighted average maturity of seven years (2006 – eight years). The group regularly reviews the maturity profile of its financial liabilities and seeks to avoid bunching of maturities through the regular replacement of facilities and by using a selection of maturity dates. Re-financing risk may be reduced by re-borrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk. The group will often pre-fund capital expenditure by arranging facilities or raising debt in the capital markets and then placing surplus funds on deposit until required for the project. Efficient treasury management and strict credit control minimise the costs and risks associated with this policy which ensures that funds are available to meet commitments as they fall due.

The tables below set out the maturity analysis of the group's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal (including notional principal in the case of gross settled foreign exchange contracts). Where interest payment obligations are based on a floating rate the rates used are those implied by the par yield curve for the relevant currency. Where payment obligations are in foreign currencies the spot exchange rate ruling at the balance sheet date is used.

### Group

	2007									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Secured borrowings – non-recourse	(190.9)	(31.9)	(155.9)	(39.6)	(424.1)	(731.3)	(310.5)	(2,137.4)	(1,081.4)	(2,940.2)
Other secured borrowings	(49.4)	(114.3)	(45.1)	(10.2)	(117.9)	(276.0)	(356.9)	(307.8)	(569.3)	(708.3)
Unsecured borrowings	(8.1)	–	(7.1)	(31.6)	(9.9)	(111.3)	(0.9)	(26.6)	(26.0)	(169.5)
Finance lease obligations	–	(6.1)	–	(6.1)	–	(18.3)	–	(110.1)	–	(140.6)
Tax and other payables	–	(5.7)	–	(30.9)	–	(56.1)	–	–	–	(92.7)
Interest rate derivatives payable	(2.5)	–	(17.6)	–	(35.1)	–	(164.3)	–	(219.5)	–
Other derivatives payable	(10.3)	(30.1)	(13.6)	(10.0)	(8.2)	(125.6)	–	–	(32.1)	(165.7)
	(261.2)	(188.1)	(239.3)	(128.4)	(595.2)	(1,318.6)	(832.6)	(2,581.9)	(1,928.3)	(4,217.0)

	2007									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Interest rate derivatives receivable	21.0	–	1.3	–	6.0	–	49.7	–	78.0	–
Other derivatives receivable	7.4	34.5	7.6	10.1	20.1	125.6	–	–	35.1	170.2
	28.4	34.5	8.9	10.1	26.1	125.6	49.7	–	113.1	170.2

	2007									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Interest rate derivatives net	18.5	–	(16.3)	–	(29.1)	–	(114.6)	–	(141.5)	–
Other derivatives net	(2.9)	4.4	(6.0)	0.1	11.9	–	–	–	3.0	4.5
	15.6	4.4	(22.3)	0.1	(17.2)	–	(114.6)	–	(138.5)	4.5

	2007 Total principal	Deduct:		Gross debt
		Finance leases	Non-cash amortisation	
Reconciliation to Gross Debt				
Maturing in 1 year	(247.7)	6.1	2.7	(238.9)
Maturing in 1-2 years	(87.5)	6.1	2.6	(78.8)
Maturing in 2-5 years	(1,136.9)	18.3	6.4	(1,112.2)
Maturing in more than 5 years	(2,579.2)	110.1	7.3	(2,461.9)
Tax and other payables	–	–	–	92.7
	(4,051.3)	140.6	19.0	(3,799.1)



## Notes to the accounts (continued)

### 21 Financial instruments continued

#### Liquidity risk continued

##### Group

	2006									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Secured borrowings – non-recourse	(160.5)	(31.6)	(163.2)	(31.9)	(78.1)	(731.1)	(343.7)	(1,983.2)	(745.5)	(2,777.8)
Other secured borrowings	(31.9)	(5.5)	(31.7)	(8.4)	(91.9)	(61.7)	(384.5)	(323.2)	(540.0)	(398.8)
Unsecured borrowings	(8.6)	–	(8.6)	–	(15.5)	(152.9)	(2.8)	(26.6)	(35.5)	(179.5)
Finance lease obligations	–	(6.4)	–	(6.1)	–	(19.9)	–	(122.4)	–	(154.8)
Tax and other payables	–	(2.1)	–	(38.0)	–	(94.2)	–	–	–	(134.3)
Interest rate derivatives payable	(4.6)	–	(4.1)	–	(20.1)	–	(275.3)	–	(304.1)	–
Other derivatives payable	(6.6)	(92.0)	(1.3)	(30.7)	(0.8)	(10.2)	–	–	(8.7)	(132.9)
	(212.2)	(137.6)	(208.9)	(115.1)	(206.4)	(1,070.0)	(1,006.3)	(2,455.4)	(1,633.8)	(3,778.1)

	2006									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Interest rate derivatives receivable	6.9	–	11.1	–	19.1	–	12.0	–	49.1	–
Other derivatives receivable	7.5	106.3	1.6	34.5	1.3	10.2	–	–	10.4	151.0
	14.4	106.3	12.7	34.5	20.4	10.2	12.0	–	59.5	151.0

	2006									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Interest rate derivatives net	2.3	–	7.0	–	(1.0)	–	(263.3)	–	(255.0)	–
Other derivatives net	0.9	14.3	0.3	3.8	0.5	–	–	–	1.7	18.1
	3.2	14.3	7.3	3.8	(0.5)	–	(263.3)	–	(253.3)	18.1

	2006 Total principal	Deduct		Gross debt
		Finance leases	Non-cash amortisation	
Reconciliation to Gross Debt				
Maturing in 1 year	(177.8)	6.4	5.4	(166.0)
Maturing in 1-2 years	(46.5)	6.1	2.8	(37.6)
Maturing in 2-5 years	(965.5)	19.9	7.7	(937.9)
Maturing in more than 5 years	(2,455.5)	122.4	8.1	(2,325.0)
Tax and other payables	–	–	–	134.3
	(3,645.3)	154.8	24.0	(3,332.2)

## Notes to the accounts (continued)

### 21 Financial instruments continued

#### Liquidity risk continued

#### Company

	2007									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Secured borrowings – non-recourse	-	-	-	-	-	-	-	-	-	-
Other secured borrowings	-	-	-	-	-	-	-	-	-	-
Unsecured borrowings	(4 4)	-	(4 4)	-	(4 4)	(111 3)	-	-	(13 2)	(111 3)
Finance lease obligations	-	-	-	-	-	-	-	-	-	-
Tax and other payables	-	(1 8)	-	-	-	-	-	-	-	(1 8)
Interest rate derivatives payable	-	-	-	-	-	-	-	-	-	-
Other derivatives payable	-	-	-	-	-	-	-	-	-	-
	(4 4)	(1 8)	(4 4)	-	(4 4)	(111 3)	-	-	(13 2)	(113 1)

#### Company

	2006									
	Within 1 year		1-2 years		2-5 years		over 5 years		Totals	
	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal	£m Interest	£m Principal
Secured borrowings – non-recourse	-	-	-	-	-	-	-	-	-	-
Other secured borrowings	-	-	-	-	-	-	-	-	-	-
Unsecured borrowings	(4 4)	-	(4 4)	-	(8 8)	(111 3)	-	-	(17 6)	(111 3)
Finance lease obligations	-	-	-	-	-	-	-	-	-	-
Tax and other payables	-	(1 7)	-	-	-	-	-	-	-	(1 7)
Interest rate derivatives payable	-	-	-	-	-	-	-	-	-	-
Other derivatives payable	-	-	-	-	-	-	-	-	-	-
	(4 4)	(1 7)	(4 4)	-	(8 8)	(111 3)	-	-	(17 6)	(113 0)

#### Market price risk

The group is exposed to market price risk through interest rate and currency fluctuations

#### Interest rates

The group's policy is to substantially eliminate risk in respect of changes in interest rates such that over the longer term changes in interest rates will have little or no impact on group cash flows. As a consequence, the group is exposed to market price risk in respect of the fair value of its fixed rate financial instruments

The approximate impact of a 50 basis point shift upwards in the level of interest rates would be a positive movement of £186.9 million in the fair value of derivatives. The approximate impact of a 50 basis point shift downwards in the level of interest rates would be a negative movement of £204.9 million in the fair value of derivatives. Movements in the fair value of derivatives are dealt with in the income statement. In practice, a parallel shift in the yield curve is highly unlikely. However, the above sensitivity analysis is a reasonable illustration of the possible effect from the changes in slope and shifts in the yield curve that may actually occur. Because the fixed rate derivative financial instruments are matched by short-term floating rate debt, the overall effect on group cash flow of such a movement would be very small.

#### Foreign exchange

The group held investments in the US during the year. The group seeks to minimise market price risk in respect of foreign exchange movements.

The group's policy is, as far as practical, to hedge the net investment in non-sterling assets. This is done by borrowing in foreign currencies and through entering into cross-currency interest rate swaps and forward foreign exchange contracts. The approximate impact of a 10 per cent appreciation in foreign currency exchange rates would be an increase of £8.8 million in group reserves. The approximate impact of a 10 per cent depreciation in foreign currency exchange rates would be a decrease of £7.2 million in group reserves.

# Notes to the accounts (continued)

## 21 Financial instruments continued

### Capital structure

The group seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure. The group uses a mix of equity, debt and hybrid financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility. The key ratios used to monitor the capital structure are the debt to assets ratio and the interest coverage ratio. The group aims not to exceed an underlying debt to assets ratio of 50 per cent and to maintain interest cover above 160 per cent.

During 2007 the underlying debt to assets ratio rose from 36 per cent to its maximum for the period of 40 per cent at 31 December 2007. Over the same period the interest coverage ratio reduced from 170 per cent to 165 per cent at the year end having reached a maximum during the period of 176 per cent.

### Financial assets

Financial assets are disclosed in notes 14, 15, 16 and below.

The group has no significant concentration of credit risk as exposure is spread over a large number of counterparties and customers.

Exposure to credit risk is limited by investing liquid funds and entering into derivative financial instruments with counterparties who have a high percentage tier one capital and strong credit ratings assigned by international credit rating agencies.

The group is exposed to credit risk in respect of its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. As at 31 December 2007, trade receivables of £27.3 million (2006 – £26.1 million) were past due but not impaired. These relate to customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	Group 2007 £m	Group 2006 £m
Up to three months	20.6	20.5
Three to six months	6.7	5.6

Periodically the group enters into equity-linked derivative "contracts for difference". The market value of the equities underlying such contracts at 31 December 2007 was £1.4 million (2006 – £nil). The market value of these contracts is £0.3 million (2006 – £nil) and the differences are cash settled monthly.

### Total financial assets and liabilities

The table below sets out the group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2007 and 31 December 2006.

	Other derivatives at fair value £m	Available for sale £m	Amortised cost £m	Total carrying value £m	Fair value £m
<b>2007</b>					
Cash and cash equivalents	–	188.4	–	188.4	188.4
Borrowings due within one year	–	–	(152.3)	(152.3)	(152.3)
Borrowings due after one year	–	–	(3,704.0)	(3,704.0)	(3,860.6)
Derivative assets	25.4	–	–	25.4	25.4
Derivative liabilities	(97.8)	–	–	(97.8)	(97.8)
Other assets	–	51.0	98.0	149.0	149.0
Other liabilities	–	–	(259.3)	(259.3)	(259.3)
<b>2006</b>					
Cash and cash equivalents	–	321.8	–	321.8	321.8
Borrowings due within one year	–	–	(43.5)	(43.5)	(43.5)
Borrowings due after one year	–	–	(3,341.3)	(3,341.3)	(3,555.7)
Derivative assets	21.0	–	–	21.0	21.0
Derivative liabilities	(133.5)	–	–	(133.5)	(133.5)
Other assets	–	–	69.9	69.9	69.9
Other liabilities	–	–	(312.5)	(312.5)	(312.5)

The fair values of quoted borrowings are based on the asking price. The fair values of borrowings, derivatives, financial instruments and other financial assets and liabilities are estimated using appropriate yield curves at 31 December each year by discounting the future contractual cash flows to the net present values.

## Notes to the accounts (continued)

### 21 Financial instruments continued

#### Fair values of financial instruments

Financial assets and liabilities comprise long-term borrowings and other payables, derivative instruments, cash, receivables and investments. The fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach has been used. Where no amount is disclosed in the table below, there is no material difference between the balance sheet value and the fair value.

	Group			
	2007		2006	
	Balance sheet value £m	Fair value £m	Balance sheet value £m	Fair value £m
<b>Debentures and other fixed rate loans</b>				
<b>Sterling</b>				
C&C 5.562% debenture 2027	226.1	342.0	225.8	348.8
CSC 6.875% unsecured bonds 2013	26.6	26.2	26.5	25.4
CSC 5.75% unsecured bonds 2009	31.4	31.5	41.3	42.0
<b>US dollars</b>				
Fixed rate loans*	161.0	160.6	164.0	169.1
	<b>445.1</b>	<b>560.3</b>	<b>457.6</b>	<b>585.3</b>
Convertible bonds – fixed rate (note 19)	111.3	152.7	108.7	195.4

\* Local currency balance sheet value US\$320.4 million, weighted average interest rate 5.64 per cent (2006 – US\$321.0 million, 5.68 per cent)

The adjustment in respect of the above, after credit for tax relief, to the diluted net assets per share (which does not require adjustment for the fair value of convertible bonds) would amount to 21p per share (2006 – 24p)

#### Derivative financial instruments

	Group	
	2007 £m	2006 £m
Non-current assets (note 14)	5.0	14.0
Current assets (note 14)	20.4	7.0
Current liabilities	(3.8)	(4.6)
Non-current liabilities	(94.0)	(128.9)
	<b>(72.4)</b>	<b>(112.5)</b>

#### Interest rate swaps

The notional principal amount of the outstanding swap agreements at 31 December 2007 is £5,428 million (2006 – £4,724 million). The table below summarises the interest rate swaps in effect on or after 31 December 2007.

	Notional principal £m	Average contracted rate %
<b>Sterling – pay fixed and receive floating</b>		
Effective on or after		
1 year	3,319	5.27
5 years	3,220	5.16
10 years	2,543	4.72
15 years	2,100	4.58
20 years	2,100	4.58
25 years	1,625	4.40

The net interest payable or receivable on interest rate swaps is settled quarterly or semi-annually. Currency and interest rate swap agreements are held by the group to hedge the net investment in the US. Under these contracts which expire in 2008 and 2012 the group pays fixed rate US interest at 4.83 per cent (weighted average) and receives fixed rate sterling interest at 5.31 per cent (weighted average).

The fair value of the net investment hedge at 31 December 2007 is an asset of £4.7 million (2006 – asset of £21.5 million).

At 31 December 2007, the net exposure to foreign currencies was US\$76.2 million (2006 – US\$80.9 million).

## Notes to the accounts (continued)

### 22 Deferred tax liabilities

#### Income taxes

Under IAS 12 (Income Taxes), provision is made for the deferred tax liability associated with the revaluation of investment properties at the corporate tax rate expected to apply to the group at the time of use. For those properties qualifying as REIT properties the relevant tax rate will be 0 per cent (2006 – 0 per cent), for other UK properties the relevant tax rate will be 28 per cent (2006 – 30 per cent) and for overseas properties the relevant tax rate will be the prevailing corporate tax rate in that country.

The deferred tax provision on the revaluation of investment properties calculated under IAS 12 is £35.8 million at 31 December 2007 (2006 – £32.1 million). This IAS 12 calculation does not reflect the expected amount of tax that would be payable if the assets were sold. The group estimates that calculated on a disposal basis the liability is £86.8 million at 31 December 2007 (2006 – £49.1 million). If upon sale the group retained all the capital allowances, which is within the control of the group, the deferred tax provision in respect of capital allowances of £49.9 million may also be released, and further capital allowances of £25.9 million may be available to reduce the amount of tax payable on sale.

Where gains such as revaluation of development properties and other assets and actuarial movements on pension funds are dealt with in reserves, any deferred tax is also dealt with in reserves.

#### Movements in the provision for deferred tax

	31 December 2006 £m	Recognised in income £m	Acquisition of subsidiaries £m	Recognised in equity £m	31 December 2007 £m
Revaluation of investment and development property	32.1	4.2	–	(0.5)	35.8
Capital allowances	31.8	4.5	14.9	(1.3)	49.9
Derivative financial instruments	(32.2)	15.6	1.9	–	(14.7)
Other temporary differences	9.1	(0.5)	(5.2)	(0.7)	2.7
Net deferred tax provision	40.8	23.8	11.6	(2.5)	73.7

	31 December 2006 £m	Recognised in income £m	Acquisition of subsidiaries £m	Recognised in equity £m	31 December 2006 £m
Revaluation of investment and development property	817.4	(787.2)	–	1.9	32.1
Capital allowances	95.7	(60.9)	–	(3.0)	31.8
Derivative financial instruments	(83.4)	51.2	–	–	(32.2)
Other temporary differences	26.5	(17.6)	–	0.2	9.1
Net deferred tax provision	856.2	(814.5)	–	(0.9)	40.8

All deferred tax balances are expected to be recovered after more than one year.

### 23 Other provisions for liabilities and charges

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
At 1 January	4.9	6.8	0.8	1.8
Net charge for the year	(3.2)	0.3	–	–
Other movements	(0.3)	(2.2)	(0.7)	(1.0)
At 31 December	1.4	4.9	0.1	0.8

Of the above provisions for liabilities and charges, £1.4 million falls due after more than five years (2006 – £5.3 million between two and five years).

## Notes to the accounts (continued)

### 24 Share capital and share premium

	Company and Group	
	2007 £m	2006 £m
Authorised 500,000,000 ordinary shares of 50p each	250.0	250.0
	Share capital £m	Share premium £m
At 31 December 2005 – 337,772,673 ordinary shares of 50p each	168.9	653.5
Shares issued	12.5	322.1
<b>At 31 December 2006 and 2007 – 362,772,673 ordinary shares of 50p each</b>	<b>181.4</b>	<b>975.6</b>

During 2006, the company issued 25 million shares at £13.50 with a nominal value of £12.5 million, raising £334.6 million after costs.

Full details of the rights and obligations attaching to the ordinary shares are contained in the company's Articles of Association. These rights include an entitlement to receive the company's report and accounts, to attend and speak at General Meetings of the Company, to appoint proxies and to exercise voting rights. Holders of ordinary shares may also receive dividends and may receive a share of the company's assets on the company's liquidation. There are no restrictions on the transfer of the ordinary shares.

At 19 February 2008, the company had an unexpired authority to repurchase shares up to a maximum of 35,577,267 shares with a nominal value of £17.8 million, and the Directors had an unexpired authority to allot up to a maximum of 82,227,766 shares with a nominal value of £41.1 million.

Included within the issued share capital as at 31 December 2007 are 570,180 ordinary shares (2006 – 1,106,525) held by the Trustee of the Employee Share Ownership Plan ("ESOP") which is operated by the company (note 25). The nominal value of these shares is £0.3 million (2006 – £0.6 million).

### 25 Treasury shares and Employee Share Ownership Plan (ESOP)

During the year the company purchased a total of 700,000 shares (0.2% of issued share capital) with a nominal value of £0.4 million for an aggregate consideration of £7.1 million with a view to increasing net asset value per share. These shares are held as treasury shares.

The cost of shares in Liberty International PLC purchased in the market and held by the Trustee of the Employee Share Ownership Plan (ESOP) operated by the company is also accounted for as treasury shares.

The purpose of the ESOP is to acquire and hold shares which will be transferred to employees in the future under the group's employee incentive arrangements as described in note 37 and the Director's remuneration report on pages 60 to 64. Dividends of £0.3 million (2006 – £0.6 million) have been waived by agreement.

	Company and Group			
	2007 Shares Million	2007 £m	2006 Shares Million	2006 £m
At 1 January	1.1	(6.4)	2.4	(13.2)
Acquired in the year	0.8	(7.9)	0.1	(1.0)
Disposed of on exercise of options	(0.6)	4.7	(1.4)	7.8
<b>At 31 December</b>	<b>1.3</b>	<b>(9.6)</b>	<b>1.1</b>	<b>(6.4)</b>

### 26 Retained earnings

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
At 1 January	3,307.6	1,856.6	1,921.8	1,456.3
Retained profit/(loss)	(227.1)	1,466.7	562.9	379.1
Actuarial gains/(losses) on defined benefit pension schemes	(2.0)	0.7	(1.5)	0.7
Tax on items taken directly to equity	0.5	(4.9)	0.4	(0.2)
Other movements	(3.9)	(11.5)	–	85.9
<b>At 31 December</b>	<b>3,075.1</b>	<b>3,307.6</b>	<b>2,483.6</b>	<b>1,921.8</b>

## Notes to the accounts (continued)

### 27 Convertible bond reserve

	Company and Group	
	2007 £m	2006 £m
<b>At 31 December</b>	<b>9 1</b>	<b>9 1</b>

### 28 Other non-distributable reserves

	Capital redemption reserve £m	Translation reserve £m	Other £m	Total £m
<b>Group</b>				
At 31 December 2005	61.5	1.2	195.5	258.2
Foreign exchange	–	(1.9)	–	(1.9)
Other movements	–	–	8.8	8.8
At 31 December 2006	61.5	(0.7)	204.3	265.1
Foreign exchange	–	(2.0)	–	(2.0)
Revaluation of investments	–	–	7.7	7.7
Other movements	–	–	4.6	4.6
<b>At 31 December 2007</b>	<b>61.5</b>	<b>(2.7)</b>	<b>216.6</b>	<b>275.4</b>

	Capital redemption reserve £m	Translation reserve £m	Other £m	Total £m
<b>Company</b>				
At 31 December 2005	61.5	–	85.3	146.8
Foreign exchange	–	1.0	–	1.0
Other movements	–	–	(85.9)	(85.9)
At 31 December 2006	61.5	1.0	(0.6)	61.9
Foreign exchange	–	(0.3)	–	(0.3)
Other movements	–	(0.7)	–	(0.7)
<b>At 31 December 2007</b>	<b>61.5</b>	<b>–</b>	<b>(0.6)</b>	<b>60.9</b>

### 29 Summaries of changes in equity

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Opening equity shareholders' funds	4,732.4	2,933.1	3,143.4	2,421.4
Issue of shares	4.7	342.4	4.7	342.4
Cancellation of shares	(7.9)	(1.0)	(7.9)	(1.0)
Total recognised income and (expense) for the period	4,729.2 (100.1)	3,274.5 1,555.3	3,140.2 682.9	2,762.8 478.0
Dividends paid	4,629.1 (122.1)	4,829.8 (97.4)	3,823.1 (122.1)	3,240.8 (97.4)
Closing equity shareholders' funds	4,507.0	4,732.4	3,701.0	3,143.4

## Notes to the accounts (continued)

<b>30 Net assets per share</b>	<b>2007</b>	<b>2006</b>
Net assets per share (basic)	<b>1246p</b>	1308p
Net assets per share (diluted, adjusted)	<b>1264p</b>	1327p

	<b>2007 Net assets £m</b>	<b>2007 Shares million</b>	<b>2006 Net assets £m</b>	<b>2006 Shares million</b>
<b>Basic</b>	<b>4,507.0</b>	<b>361.5</b>	4,732.4	361.7
Adjustments				
Fair value of derivative financial instruments	72.4	-	112.5	-
Unrecognised surplus on trading properties	2.4	-	4.7	-
Tax on the above	(15.4)	-	(32.1)	-
Deferred tax on revaluation surpluses	35.8	-	32.1	-
Deferred tax on capital allowances	49.9	-	31.8	-
Minority interests on the above	(15.9)	-	-	-
<b>Adjusted</b>	<b>4,636.2</b>	<b>361.5</b>	4,881.4	361.7
Effect of dilution				
On conversion of bonds	111.3	13.9	108.7	13.9
On exercise of options	9.7	1.0	12.3	1.5
<b>Diluted, adjusted</b>	<b>4,757.2</b>	<b>376.4</b>	5,002.4	377.1

### 31 Capital commitments

At 31 December 2007, the group was contractually committed to £317.0 million (2006 – £127.0 million) of future expenditure for the purchase, construction, development and enhancement of investment property.

The group's share of joint venture commitments included above at 31 December 2007 was £190 million (2006 – £9.0 million).

### 32 Contingent liabilities

At 31 December 2007, there were no contingent liabilities of which the Directors are aware (2006 – nil), either of the group or of the joint ventures in which the group holds an investment.



# Notes to the accounts (continued)

## 33 Principal subsidiary undertakings

Company and principal activity	Class of share capital	% held
Capital Shopping Centres PLC* (property) and its principal subsidiary undertakings	Ordinary shares of 50p each	100
Braehead Glasgow Limited (property)	*A* Ordinary shares of £1 each	100
Braehead Park Investments Limited (property)	*B* Ordinary shares of 1.3 Euros each	100
Braehead Park Estates Limited (property)	Ordinary shares of £1 each	100
Chapelfield LP Limited (property)	Ordinary shares of £1 each	100
CSC Harlequin Limited (property)	Ordinary shares of £1 each	100
CSC Lakeside Limited (property)	Ordinary shares of £1 each	100
CSC Enterprises Limited (commercial promotion)	Ordinary shares of £1 each	100
CSC MetroCentre Limited (property)	Ordinary shares of £1 each	100
CSC Properties Investments Limited (property)	Ordinary shares of £1 each	100
CSC Bromley Limited (property)	Ordinary shares of £1 each	100
CSC Potteries Limited (property)	Ordinary shares of £1 each	100
Capital & Counties Limited* (property)	Ordinary shares of 25p each	100
Capital & Counties Debenture PLC (financing) and its principal subsidiary undertakings	Ordinary shares of £1 each	100
C&C Properties 2027 Limited (property)	Ordinary shares of £1 each	100
Chelmsford Property Investments Limited (property)	Ordinary shares of £1 each	100
WRP Management Limited (property)	Ordinary shares of £1 each	100
CSC (Eldon) Square Limited (property)	Ordinary shares of £1 each	100
Potteries (GP) Limited (property)	Ordinary shares of £1 each	100
C&C Properties UK Limited (property) and its principal subsidiary undertaking	Ordinary shares of £1 each	100
C&C Greenwich Limited (property)	Ordinary shares of £1 each	100
Capital & Counties CG Limited (property)	Ordinary shares of £1 each	100
Capvestco Limited (property and financing) (Jersey) and its principal subsidiary undertakings	Ordinary shares of £1 each	100
C&C Properties Jersey Limited (property) (Jersey)	Ordinary shares of £1 each	100
C&C Properties No 9 Limited (property)	Ordinary shares of £1 each	100
CSC Uxbridge (Jersey) Limited (property) (Jersey)	Ordinary shares of £1 each	100
Capital Enterprise Centres (Jersey) Limited (property) (Jersey)	*A* Ordinary shares of £1 each	100**
Belside Limited (property) (Jersey)	*B* Ordinary shares of £1 each	40**
Curley Limited (property) (Jersey)	Ordinary shares of £1 each	100
Steventon Limited (property) (Jersey)	Ordinary shares of £1 each	100
Liberty International Asset Management Limited* (asset management)	Ordinary shares of £1 each	100
Liberty International Group Treasury Limited* (treasury management)	Ordinary shares of £1 each	100
Matterhorn Capital EC&O Limited* (holding company) and its principal subsidiary undertakings	*A* Ordinary shares of £0.01 each	50***
Earls Court & Olympia Group Limited* (financing) and its principal subsidiary undertaking	Ordinary shares of £1 each	100#
Earls Court & Olympia Limited (venues) and its principal subsidiary undertakings	Ordinary shares of £1 each	100#
Earls Court Limited (venues)	Ordinary shares of £1 each	100#
Olympia Limited (venues)	Ordinary shares of £1 each	100#
The Brewery by EC&O Limited (venues)	Ordinary shares of £1 each	100#
C&C (US) No 1, Inc * (property) (USA)	Class A Common Stock of US\$1 par value, £1 face value	100
	Class B Common Stock of US\$1 par value, £20,000 face value	100

\* Shareholdings in companies marked \* are held by intermediate subsidiary undertakings except for Capital Shopping Centres PLC where 82.5 per cent is held by Liberty International PLC, and 17.5 per cent held by Liberty International Financial Services Limited

\*\* 70 per cent effective interest held

\*\*\* 100 per cent of \*A\* Ordinary shares representing 50% of the issued share capital held

# 50 per cent effective group interest

The companies listed above are those subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the figures in the company's annual accounts. A full list of related undertakings will be annexed to the company's next annual return

Companies are incorporated and registered in England and Wales unless otherwise stated. All subsidiary undertakings have been included in the consolidated results

## Notes to the accounts (continued)

### 34 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation for the group

Key management compensation is disclosed in note 37

Significant transactions between the parent company and its subsidiaries are shown below

Subsidiary	Nature of transaction	2007 £m	2006 £m
TAI Investments Limited	Dividend	30.5	22.4
Liberty International Holdings Limited	Dividend	42.7	31.3
Conduit Insurance Holdings Limited	Dividend	33.0	24.2
C&C Properties UK Ltd	Dividend	66.1	24.7
C&C Management Services Limited	Dividend	0.1	0.1
Capital & Counties Australia (Holdings) Limited	Dividend	0.6	14.8
Capital & Counties Debenture PLC	Dividend	90.1	–
Greenhaven Industrial Properties Limited	Dividend	5.0	–
Capital Shopping Centres PLC	Dividend	387.4	301.5
	Interest receivable on bonds	–	16.8
	Re-charges	4.2	2.3
Capital & Counties Limited	Investment income	–	–
	Re-charges	1.6	1.0
	Interest payable	(0.3)	(1.4)
Liberty International Group Treasury Limited	Interest receivable	–	19.1

Significant balances outstanding between the parent company and its subsidiaries are shown below

Subsidiary	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
	2007 £m	2006 £m	2007 £m	2006 £m
Liberty International Group Treasury Limited	1,802.1	1,210.9	–	–
C&C (Australia) Holdings Limited	–	–	–	(4.4)
Capital & Counties Limited	13.1	12.9	(60.0)	(60.0)
Conduit Insurance Holdings Limited	16.0	16.0	–	–
Liberty International Holdings Limited	132.8	132.8	–	–
TAI Investments Limited	–	–	(42.6)	(42.6)
Capital Shopping Centres PLC	4.0	2.8	–	–
Liberty International Asset Management Limited	–	0.7	–	–
Capcount Trading Limited	–	–	–	(2.3)
Greenhaven Industrial Properties Limited	–	–	–	(7.9)
C&C Properties UK Limited	–	–	–	(1.4)

### 35 Directors' emoluments

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Directors' remuneration report on pages 60 to 64 form part of these financial statements. Details of gains made on exercise of share options are contained in note 36

### 36 Directors' interests

#### (a) In shares and bonds in Liberty International Group Companies

The number of ordinary shares of the company in which the Directors were beneficially interested were

	2007	2006
J G Abel	112,117	112,117
R W T Buchanan	37,088	37,088
D P H Burgess	19,250	19,250
R M Cable	22,432	18,417
K E Chaldecott	44,237	44,237
R G Finch	19,712	15,712
D A Fischel	362,289	337,290
G J Gordon	1,530,000	1,530,000
I D Hawksworth	–	–
I J Henderson	10,000	10,000
L James	10,700	10,700
M Rapp	7,929	7,929
R O Rowley	1,000	1,000
N Sachdev	–	–
A C Smith	147,716	165,970

Mr G J Gordon purchased 25,000 ordinary shares of the company on 13 February 2008. As at 26 February 2008, there had been no other changes in the interests of each Director since 31 December 2007

## Notes to the accounts (continued)

### 36 Directors' interests continued

#### Liberty International PLC ordinary shares of 50p each

Conditional awards of shares have been made under the company's annual bonus scheme

The awards comprise "restricted" shares and "additional" shares, the latter equal to 50 per cent of the restricted and Share Incentive Plan shares (see below) combined. These shares will be released two and four years respectively after the date of the award provided the individual Director has remained in service

Awards to Executive Directors under the scheme to date have been as follows

	Award date	Market price at award (pence)	Vesting date	Market price at vesting (pence)	31 December 2006	At 31 December 2006	Lapsed	Vested	Awarded+	At 31 December 2007
R M Cable	06/03/2007	1205	01/03/2011		-	-	-	-	2,863	2,863
	01/03/2006	1099	01/03/2010		2,593	-	-	-	-	2,593
	16/03/2005	978	01/03/2009		1,323	-	-	-	-	1,323
	01/03/2004	728	01/03/2008		1,648	-	-	-	-	1,648
	01/03/2003	565	01/03/2007	1204	1,925	-	1,925	-	-	-
	06/03/2007	1205	01/03/2009		-	-	-	-	5,477	5,477
	01/03/2006	1099	01/03/2008		5,187	-	-	-	-	5,187
	16/03/2005	978	01/03/2007	1204	2,339	-	2,339	-	-	-
K E Chaldecott	06/03/2007	1205	01/03/2011		-	-	-	-	3,112	3,112
	01/03/2006	1099	01/03/2010		2,866	-	-	-	-	2,866
	16/03/2005	978	01/03/2009		1,380	-	-	-	-	1,380
	01/03/2004	728	01/03/2008		1,700	-	-	-	-	1,700
	01/03/2003	565	01/03/2007	1204	1,925	-	1,925	-	-	-
	06/03/2007	1205	01/03/2009		-	-	-	-	5,975	5,975
	01/03/2006	1099	01/03/2008		5,732	-	-	-	-	5,732
	16/03/2005	978	01/03/2007	1204	2,454	-	2,454	-	-	-
D A Fischel	06/03/2007	1205	01/03/2011		-	-	-	-	9,952	9,952
	01/03/2006	1099	01/03/2010		9,218	-	-	-	-	9,218
	16/03/2005	978	01/03/2009		2,001	-	-	-	-	2,001
	01/03/2004	728	01/03/2008		3,915	-	-	-	-	3,915
	01/03/2003	565	01/03/2007	1204	4,779	-	4,779	-	-	-
	06/03/2007	1205	01/03/2009		-	-	-	-	19,656	19,656
	01/03/2006	1099	01/03/2008		18,437	-	-	-	-	18,437
	16/03/2005	978	01/03/2007	1204	3,695	-	3,695	-	-	-
A.C. Smith	06/03/2007	1205	01/03/2011		-	-	-	-	3,112	3,112
	01/03/2006	1099	01/03/2010		4,232	-	-	-	-	4,232
	16/03/2005	978	01/03/2009		1,132	-	-	-	-	1,132
	01/03/2004	728	01/03/2008		2,215	-	-	-	-	2,215
	01/03/2003	565	01/03/2007	1204	2,549	-	2,549	-	-	-
	06/03/2007	1205	01/03/2009		-	-	-	-	5,975	5,975
	01/03/2006	1099	01/03/2008		8,463	-	-	-	-	8,463
	16/03/2005	978	01/03/2007	1204	1,958	-	1,958	-	-	-

+ Bonus shares in respect of the year ended 31 December 2006 awarded in February 2007. Details of bonus shares awarded in respect of the year ended 31 December 2007 are given in the Directors' remuneration report on page 64.

Awards are also made under the company's Share Incentive Plan (SIP). The SIP shares can be released three years after the date of the award provided the individual Director has remained in employment but the shares must be held in trust for a further two years in order to qualify for tax advantages. The dividend payable in respect of the shares held in trust is used to purchase additional shares, known as Dividend Shares, which are also held in trust.

	At 31 December 2006	Vested	Lapsed	Awarded+	Partnership, matching and dividend shares	At 31 December 2007
R.M. Cable	3,443	-	-	248	259	3,950
K.E. Chaldecott	3,443	-	-	248	259	3,950
D.A. Fischel	3,443	-	-	248	259	3,950
I.D. Hawksworth	-	-	-	248	6	254
A.C. Smith	3,443	-	-	248	259	3,950

+ SIP shares in respect of the year ended 31 December 2006 awarded in February 2007. Details of SIP shares awarded in respect of the year ended 31 December 2007 are given in the Directors' remuneration report on page 64.

## Notes to the accounts (continued)

### 36 Directors' interests continued

#### (b) In share options in the company

The following Directors had options to subscribe for shares in the company

Director	Year granted	Option price (pence)	Held at 31 December 2006	Granted in year	Exercised in year	Held at 31 December 2007	Exercisable between
<b>The Liberty International PLC Incentive Share Option Scheme 1999</b>							
R M. Cable	2004	698	25,000	–	25,000	–	19/02/07–19/02/14
K.E. Chaldecott	2004	698	25,000	–	–	25,000	19/02/07–19/02/14
D.A. Fischel	1999	475	21,000	–	21,000	–	11/08/02–11/08/09
	2002	545	69,496	–	69,496	–	20/02/05–20/02/12
	2003	565	50,000	–	50,000	–	21/02/06–21/02/13
A C. Smith	2003	565	40,000	–	40,000	–	21/02/06–21/02/13

#### **The Liberty International PLC Executive Share Option Scheme 1999**

D A. Fischel	2002	545	5,504	–	5,504	–	20/02/05–20/02/12
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Mr D A. Fischel exercised options on 4 September 2007, at a market price of 1172p per share, at which time the difference between the exercise price and market price was in aggregate £920,375. Mr A.C. Smith exercised options on 28 September 2007, at a market price of 1153p per share, at which time the difference between the exercise price and market price was in aggregate £235,200. Mr R M. Cable exercised options on 11 December 2007, at a market price of 1142p per share, at which time the difference between the exercise price and market price was in aggregate £111,000.

The aggregate gains made by Directors on the exercise of options is £1.3 million (2006 – £2.0 million).

The market price of Liberty International ordinary shares at 31 December 2007 was 1077p and during the year the price varied between 1010p and 1397p.

(c) Mr G J. Gordon purchased 25,000 ordinary shares of the company on 13 February 2008. No other Director had any dealings in the shares of any group company between 31 December 2007 and 12 February 2008, being a date less than one month prior to the date of the notice convening the Annual General Meeting.

Other than as disclosed in these accounts, no Director of the company had a material interest in any contract (other than service contracts), transaction or arrangement with any group company during the year ended 31 December 2007.

### 37 Employees' information

	2007		2006	
	£m Group	£m Company	£m Group	£m Company
Wages and salaries	26.6	6.0	24.6	6.0
Social security costs	3.2	0.9	3.3	1.0
Other pension costs	2.0	0.9	1.7	1.0
	31.8	7.8	29.6	8.0

At 31 December 2007 the number of persons employed by the group was 672 (2006 – 384) and by the company was 77 (2006 – 84). The average number of persons employed during the year was

	2007 Number	2006 Number
Liberty International PLC	80	84
Capital Shopping Centres	214	336
Capital & Counties	213	95
	507	515

## Notes to the accounts (continued)

### 37 Employees' information continued

#### Key management\* compensation

	2007 £m	2006 £m**
Salaries and short-term employee benefits	55	52
Pensions and other post-employment benefits	05	04
Share-based payment	23	09
Other long-term payments	09	11
	92	76

\* Key management comprises the Directors of Liberty International and Capital & Counties, the Executive Directors of Capital Shopping Centres, the Company Secretary and General Corporate Counsel of Liberty International PLC and the President of C&C USA Inc.

\*\* Figure revised to include bonus provision in respect of USA Stock Appreciation Rights Plan

#### Share options

Options to subscribe for ordinary shares under the Liberty International Holdings PLC Incentive Share Option Scheme 1990, the Liberty International PLC Incentive Share Option Scheme 1999 and the Liberty International PLC Executive Share Option Scheme 1999, were outstanding as set out below. The vesting period of the options is three years and all schemes are equity settled. Exercise is subject to meeting an earnings per share ("EPS") performance condition. The performance condition requires smoothed earnings growth equal to or greater than 5 per cent per annum (or, if greater in any year, 120 per cent of the percentage increase in the Retail Price Index) over a minimum three year comparison period. "Smoothed" earnings excludes exceptional and trading profits above a certain level. If the option remains unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the group before the options vest.

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 January	1,193,586	613p	2,430,310	581p
Options granted	—	—	—	—
Options exercised	(488,565)	633p	(1,221,724)	548p
Options expired/lapsed	—	—	(15,000)	698p
At 31 December	705,021	599p	1,193,586	613p

The average share price during the year was 1164p (2006 – 1155.5p). All 705,021 of the outstanding options at 31 December 2007 (2006 – 1,193,586), were exercisable (2006 – 685,154).

The options outstanding at 31 December 2007 were exercisable between 419p and 698p per share and have a weighted average remaining contractual life of six years.

Date of grant	Scheme	Price per share pence	Ordinary shares number	Exercisable between
12 March 1999	1990	419	17,500	2002 and 2009
11 August 1999	ISOS	475	7,000	2002 and 2009
3 March 2000	ISOS	406	45,000	2003 and 2010
22 February 2001	ESOS	512	6,798	2004 and 2011
22 February 2001	ISOS	512	35,983	2004 and 2011
20 February 2002	ESOS	545	365	2005 and 2012
20 February 2002	ISOS	545	27,500	2005 and 2012
6 March 2002	ISOS	567	119,709	2005 and 2012
21 February 2003	ESOS	565	8,992	2006 and 2013
21 February 2003	ISOS	565	157,242	2006 and 2013
19 February 2004	ESOS	698	8,594	2007 and 2014
19 February 2004	ISOS	698	270,338	2007 and 2014
Total			705,021	

There were no options granted during 2007 or 2006.

## Notes to the accounts (continued)

### 37 Employees' information continued

#### Share awards

Conditional awards of Additional and Restricted shares are made under the company's annual bonus schemes

Awards are also made under the company's Share Incentive Plan (SIP). The SIP shares can be released three years after the date of the award provided the individual employee has remained in employment but the shares must then be held in trust for a further two years in order to qualify for tax advantages. The dividend payable in respect of the shares held in trust is used to purchase additional shares, known as Dividend Shares, which are also held in trust.

The number of share awards granted in the year as at the date of grant are set out below

	2007 Number	2006 Number
Annual bonus scheme		
SIP	28,403	28,128
Restricted	90,256	96,239
Additional	59,209	59,676

The fair values of share awards were determined by the market price of the shares at the date of grant

The number of awards outstanding at 31 December 2007 are shown below

	Annual bonus scheme	SIP	Restricted	Additional
2002	Liberty International	17,521	–	–
2003	Liberty International	16,710	–	–
2004	Liberty International	19,870	–	32,968
2005	Liberty International	18,718	–	28,393
2006	Liberty International	20,893	80,686	48,481
2007	Liberty International	24,553	86,117	54,985
Total		118,265	166,803	164,827

A total of 570,180 ordinary shares were held by LI Share Plan (Jersey) Limited at 31 December 2007 for the purposes of satisfying the future exercise of options and provision of shares on maturity of conditional awards under the annual bonus schemes. A further 241,927 shares (including Partnership, Matching and Dividend Shares) are held by Capita IRG Trustees Ltd as trustee for the SIP.

The total expenses for share-based payments for the group were £0.8 million (2006 – £2.1 million).

### 38 Pensions

#### (a) Current pension arrangements

The group operates a number of pension schemes in the United Kingdom and the USA, the assets of which are held in separate trustee-administered funds. The group's current policy is to largely provide future retirement benefits through defined contribution arrangements. Consequently group personal pensions were established in 1997/98 for new and some existing employees and previous schemes closed and, with one exception, wound up.

The one older arrangement not wound up was the Liberty International Group Retirement Benefit Scheme ("the LI Scheme"), which was closed to new members, but continues to accrue future service benefits for those employees who were members at date of closure. It is a funded defined benefit scheme and is not contracted out of the State Second Pension (S2P).

In July 2007, Liberty International acquired a 50 per cent interest in the Earls Court & Olympia group ("EC&O"), whose results are being consolidated with Liberty International. EC&O has a hybrid pension scheme comprising an ongoing money purchase section and a final salary section which was closed to new members in 2000, but continues to accrue future service benefits for those employees who were members at date of closure. The final salary section is a funded defined benefit scheme which is contracted out of S2P.

The figures in this report relate to the full year for the LI Scheme and the six month period for EC&O.

#### (b) Pension costs

(i) **The LI and EC&O Schemes – defined benefit schemes** The retirement benefit liability recognised in the balance sheet is the present value of the defined benefit obligations, less the fair value of the Scheme assets, adjusted for past service costs. The defined benefit obligation and current service cost are calculated annually by an independent actuary using the projected unit method. Actuarial gains and losses are immediately recognised in the statement of recognised income and expense. The pension costs and balance sheet items for the year ended 31 December 2007 have been based on the results of the last valuation of the Schemes at 5 April 2007, suitably adjusted for different methodology, rolled forward to 31 December 2007 and adjusted for the different financial conditions applying at that time.

Amounts recognised in income in respect of the Schemes	2007* £m	2006** £m
Current service cost	0.9	0.8
Interest cost	2.7	2.1
Expected return on Schemes' assets	(3.3)	(2.5)
	0.3	0.4
Actuarial (gains) and losses immediately recognised in the statements of recognised income and expense	2.6	(0.7)

\* Full year for LI Scheme and half year for EC&O Scheme

\*\* LI Scheme only

## Notes to the accounts (continued)

### 38 Pensions continued

Whilst the actuarial gains and losses in respect of the Schemes are dealt with in the statement of recognised income and expense, the difference between the notional interest cost on the Schemes' liabilities and the expected return on the Scheme's assets is included in the group's net interest cost. For the year ended 31 December 2007 this amounts to a credit of £0.6 million (2006 – £0.4 million). Of the current service cost for the year, £0.9 million (2006 – £0.8 million) has been included in administrative expenses.

Amounts recognised in the consolidated balance sheet	2007 £m	2006 £m
Fair value of Schemes' assets*	59.0	46.9
Present value of Schemes' liabilities*	(59.2)	(46.5)
Pension asset/(liability)	(0.2)	0.4

The amounts attributable to EC&O at 31 December 2007 are assets of £10.0 million and liabilities of £11.2 million.

The pension asset/(liability) is included in the balance sheet in provisions for liabilities and charges.

Movements in the fair value of Schemes' assets	2007 £m	2006 £m
At 1 January	46.9	42.2
EC&O assets at 30 June	10.0	–
Expected return on Schemes' assets	3.3	2.5
Excess asset (losses)/gains	(1.8)	1.5
Employer contributions paid	2.4	1.9
Member contributions paid	0.1	0.2
	60.9	48.3
Benefits paid	(1.9)	(1.4)
<b>Schemes' assets at 31 December</b>	<b>59.0</b>	<b>46.9</b>

The weighted average assets allocations for the year end were as follows:

Asset category	31 December 2007 %	31 December 2006 %
Equities	60	51
Index-linked gilts	18	20
Property	6	9
Corporate bonds	12	11
Cash	4	9
<b>Total</b>	<b>100</b>	<b>100</b>

Movements in the present value of Schemes' liabilities	2007 £m	2006 £m
At 1 January	46.5	44.0
EC&O liabilities at 30 June	10.0	–
Current service cost	0.9	0.8
Employee Contributions	0.2	0.2
Interest cost	2.7	2.1
Actuarial losses	0.8	0.8
	61.1	47.9
Benefits paid	(1.9)	(1.4)
<b>Schemes' liabilities at 31 December</b>	<b>59.2</b>	<b>46.5</b>

## Notes to the accounts (continued)

### 38 Pensions continued

The main economic assumptions used to calculate the present value of the Schemes' liabilities at 31 December were as follows

	31 December 2007 % (per annum)	31 December 2006 % (per annum)
Discount rate	5.6	5.1
Rate of inflation	3.2	2.8
Earnings increases	5.2*	4.8
Increases to pensions in payment	3.2	2.8
Increases to deferred pensions before payment		
left before 1 January 1985	3.2	2.8
left after 31 December 1984	3.2	2.8
Expected return on Schemes' assets	7.0	6.2

\*4.7 per cent for EC&O members

	2007 £m	2006 £m
Actual return on Schemes' assets in the year	1.5	4.0

Mortality assumptions are based on standard tables provided by the Institute of Actuaries using insurance company data updated from time to time to reflect current trends. The standard tables currently used by the LI Scheme are the PA92 (year of birth) medium cohort and those used by the EC&O Scheme are the PA00 (year of birth) medium cohort tables. Both standard tables make allowance for future improvements in longevity based on the year of birth of each member.

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected annual return for each asset class was then weighted based on the target asset allocation and asset values of each section to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 7.0 per cent assumption at 31 December 2007.

Details of experience adjustments for the year to 31 December

	2007	2006	2005	2004	2003
Fair value of Schemes' assets (£m)	59.0	46.9	42.2	36.3	33.8
Present value of Schemes' liabilities (£m)	(59.2)	(46.5)	(44.0)	(36.9)	(34.0)
Surplus/(deficit) in the Scheme (£m)	(0.2)	0.4	(1.8)	(0.6)	(0.2)
Difference between the expected and actual return on Scheme assets					
Amount (£m)	(1.8)	1.5	2.6	0.8	1.8
Percentage of Schemes' assets	(3.1%)	3.2%	6.2%	2.2%	5.5%
Total gains and (losses)					
Amount (£m)	(2.6)	0.7	(2.6)	(0.5)	(3.1)
Percentage of present value of Schemes' liabilities	(4.4%)	1.5%	(5.9%)	(1.4%)	(9.1%)
Experience gains and (losses) on Schemes' liabilities					
Amount (£m)	(1.1)	0.5	(1.1)	(1.0)	0.9
Percentage of the present value of the Schemes' liabilities	(1.9%)	1.1%	(2.5%)	(2.8%)	2.6%

The group has no significant exposure to any other post-retirement benefit obligations.

The estimated amounts of contributions expected to be paid to the Schemes during 2008 is £2.5 million.

(ii) **Defined contribution arrangements** The pension charge in respect of the other schemes are the actual contributions paid. These amount to £1.0 million, (2006 – £0.8 million) in respect of the other UK pension schemes (including £0 for EC&O from acquisition) and £0.1 million (2006 – £0.1 million) for the US scheme.



# Corporate governance

The company is required to comply with the "Combined Code – Principles of Good Governance and Code of Best Practice" issued by the Financial Reporting Council in 2003 and revised and reissued in 2006

## **The framework of corporate governance**

The Board's overriding objective is to ensure that the group delivers long-term sustainable growth in returns for its shareholders

Liberty International recognises that corporate governance is not an end in itself but an important means to an end. The Code contains no definition of corporate governance. The first supporting principle it contains, at provision A.1, reads as follows

*"The Board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The Board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met."*

The Board believes that any system which is adopted must also be geared to meeting the necessary standards of accountability and probity and considers that the processes which it has adopted do so

The Board is accountable to the company's shareholders for the good conduct of the company's affairs and the information and statements set out below describe how the principles contained in the Code are applied by the company. The company's internal procedures are regularly reviewed and updated by the Board and the various relevant Board Committees

The policy papers which are the foundation of those procedures specify responsibilities and levels of responsibility. They cover all aspects of the company's activities including those relating to financial, operational and compliance controls and risk management

The company has also demonstrated a strong commitment to high standards of Corporate Responsibility, details of which are set out in the Chairman's statement on pages 7 to 10 and on the company's website, and has been included in the FTSE4Good listing, the JSE SRI index and other important indices

## **Statement of compliance**

The Board believes that, as demonstrated by the information set out in this section together with the statements and procedures referred to in the Directors' remuneration report on pages 60 to 64, the company has, throughout the accounting period under review, applied the principles and complied with the provisions set out in Section 1 of the Code

## **Relations with shareholders and the investment community**

The company seeks to develop regular dialogue with individual and institutional shareholders

through meetings and announcements and constructive liaison with private shareholders who also have the opportunity to attend and put questions at the company's Annual General Meeting. The company has a comprehensive website on which up-to-date information is available to all shareholders and potential investors.

The company has a strong investor relations programme. The Chairman, Chief Executive and Finance Director aim to meet major shareholders and analysts at least twice a year to discuss the results of the group, to learn of any concerns that may have arisen and (within the appropriate constraints) to respond to any queries they may have. The Non-Executive Directors may attend such meetings. The Chief Executive and Finance Director maintain file notes of all meetings with investors and provide a full briefing to the Board. Investor relations, and reports from the company's brokers on meetings with investors, are a regular agenda item at Liberty International Board meetings. In addition analysts' and brokers' reports are circulated to the Board on a frequent basis

## **The Board**

The Board is responsible not only to all shareholders but to its other stakeholders for the effective control and proper management of the Liberty International group. A description of the company's activities over the last year is contained in the Chairman's statement on pages 7 to 10 and in the Financial review on pages 11 to 17. Certain matters have been reserved for decision by the whole Board and a schedule setting out a list of these is regularly reviewed. In other cases the Board has delegated its authority under clearly defined conditions to technical Committees of the Board. It has been the Board's custom over many years to ensure that major decisions are taken after a reiterative process which involves examination and review at several levels. In part, this examination and review process is dealt with by the Board Committees mentioned below

At the year end, the Board consisted of the Chairman, Sir Robert Finch, five Executive and nine Non-Executive Directors. The Board's views on the independence of the Non-Executive Directors are set out on page 58

The separate roles of the Chairman Sir Robert Finch and of the Chief Executive Mr D A Fischel, are recognised and prescribed by the Board

The Executive Directors have service contracts which have a notice period of 12 months. Non-Executive Directors are appointed for three year periods and their continuing service thereafter is subject to review by the Board

Mr D P H Burgess was appointed as Senior Independent Director in 2004

In accordance with the Articles of Association, Directors are subject to retirement and re-election by shareholders, at least every three years

The Board met seven times in the year to consider all aspects of the company's affairs and any further information which it requested from management. Additional meetings are arranged when necessary and Directors are kept regularly

informed of the up-to-date business position of the group. The Chairman and Executive Directors regularly contact the Non-Executive Directors to discuss specific matters, typically of a strategic nature, and regular informal meetings are held with the Non-Executive Directors. The Chairman of the Audit Committee, Mr Burgess, holds regular meetings with the Internal Auditor, to monitor and progress matters between scheduled Audit Committee meetings. Mr Burgess also meets regularly with the Chairman and Chief Executive between Board meetings. Mr Buchanan holds regular meetings with the Chief Executive and the Company Secretary to progress remuneration matters between scheduled Remuneration Committee meetings, and Mrs James holds regular meetings with the Company Secretary and Personnel Manager to monitor human resources issues within the group, providing advice when required. Other Non-Executives provide input from time to time on specific property issues

In the context of the Board's overriding objective to deliver long-term sustainable returns for its shareholders, the Board discusses and makes decisions relating to, but not limited to: strategy, top management performance, retention, remuneration and succession, financial measures and performance, acquisitions and disposals, other capital expenditure and controls, risk management, corporate reputation including shareholder communication, and the Board's own effectiveness. It also receives reports on the proceedings of its Committees. Each Board Committee's established authority limits are reviewed on an annual basis by the Audit Committee and, subsequently, by the full Board

The Chairman's role is to ensure that the Board's discussions go into any matter put before it in adequate depth and in an appropriately focused way, that the opinions of all the Directors are taken into account and accorded proper weight, and that all the Board's decisions are supported by adequate and timely information

Matters relating to corporate governance are kept under regular review by the Audit Committee as well as by the full Board. Matters relating to corporate responsibility are also kept under regular review by the CR Committee as well as by the Board

All matters which fall outside the normal course of business are carefully recorded and reviewed and monitored by the Chief Executive, the Company Secretary and General Corporate Counsel and, in accordance with the amounts involved, referred to the relevant Board Committee or to the Board itself. The company's position has always been that, in the event that a Director has a concern which cannot be resolved about the running of the company or a proposed action, such concern is recorded in the minutes. The Board considers that it has clear and robust procedures for monitoring the signing of all documents within the group and the approval of all transactions, no matter what their size, through formal Board Committees and formally delegated authority limits

## Corporate governance (continued)

A table of attendance of members of the Board/Committees during 2007 is set out below:

	Board (7 meetings)	Audit Committee (4 meetings)	Remuneration Committee (5 meetings)	Nomination and Review Committee (2 meetings)	CSC Capital Projects Committee (6 meetings)	C&C Capital Projects Committee (5 meetings)
Sir Robert Finch	7	–	–	2	–	–
D A. Fischel	7	–	–	–	6	5
J G Abel	7	–	–	–	6	–
R W T Buchanan	5	3	5	2	–	–
D P H Burgess	7	4	4	2	–	–
R M Cable	5	–	–	–	6	–
K E Chaldecott	7	–	–	–	6	–
G J Gordon	5	–	–	–	–	–
I D Hawksworth	7	–	–	–	5	5
I J Henderson	7	–	4	–	–	–
L James	6	–	5	2	–	–
M Rapp	6	–	–	–	6	5
R Rowley	6	3	–	–	–	–
A C Smith	7	–	–	–	6	5
N Sachdev	6	–	–	–	–	–

The Directors have always had high levels of attendance at Board and Committee meetings. There are a number of important Committee meetings between Board meetings and these are normally fully attended. Meeting papers are distributed in a timely manner giving Directors sufficient time to consider matters for discussion. In addition, Directors are kept fully informed of progress on matters between formal meetings by way of ad hoc meetings and other communications on a regular basis.

The principal business commitment of Sir Robert Finch, the Chairman, is his Chairmanship of Liberty International.

Mr Hawksworth is a director of AIM-listed Japan Residential Investment Company Limited. No other Executive Director of Liberty International PLC currently serves as a Non-Executive Director elsewhere.

The terms of reference for each of the Audit, Remuneration and Nomination and Review Committees described below are available on the company's website. The terms of appointment for each of the Non-Executive Directors are available on written request from the Company Secretary at Liberty International.

### Capital Shopping Centres Capital Projects Committee and Capital & Counties Capital Projects Committee

During the year, the Capital Projects Committees for CSC and C&C reviewed all projects and project expenditure in detail. The members of the CSC Capital Projects Committee were Mr Rapp (Chairman), Mr Fischel, Mrs Chaldecott, Mr Cable, Mr Elis, Mr Hawksworth, Miss Kirby, Mr Perera, Mr Smith, Mr Abel, Mr Bramson and Mr Spindall.

The members of the C&C Capital Projects Committee were Mr Rapp (Chairman), Mr Fischel, Mr Smith, Mr Hawksworth, and Mr Yardley.

In addition, Sir Robert Finch attended the CSC and C&C Capital Projects Committee meetings.

In February 2008, the Board decided to establish an Investment Committee to review all major projects, in place of the Capital Projects Committees. The new Investment Committee

is chaired by Mr Rapp, a Non-Executive Director. The members of the Committee are Sir Robert Finch, Mr Fischel, Mr Hawksworth, Mrs Chaldecott and two other Non-Executive Directors.

### Audit Committee

The members of the Audit Committee during the year under review were, Mr Burgess (Chairman), Mr Buchanan and Mr Rowley. Sir Robert Finch attends at the request of the Committee. The Board considers all three members of the Committee have recent and relevant financial experience. All members are independent in the Board's opinion.

The Audit Committee is responsible for, among other matters, monitoring the adequacy of the group's financial and internal controls, the efficiency and aptness of the company's risk management and insurance procedures and arrangements, accounting policies and financial reporting and a responsible approach to taxation, providing a forum through which the auditors can report to the Board and for ensuring the provision of information to enable the Board to present a balanced and understandable assessment of the company's position and prospects. The Audit Committee monitors and reviews the effectiveness of the internal audit activities.

The terms of reference of the Audit Committee are reviewed annually.

The Audit Committee also makes recommendations on the appointment, reappointment or removal of the company's external auditors. To date the Board has always accepted the Audit Committee's recommendation.

In the event that the Board does not accept the Audit Committee's recommendation, a statement will be provided in the company's annual report and accounts.

Liberty International has a policy to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The term "non-audit services" does not include reference to any advice on tax. The Audit Committee has delegated to the Executive

Directors the authority to contract for non-audit services with the external auditors subject to observing the following guidelines:

- Executive Directors have the authority to commission the external auditors to undertake non-audit work where this is in relation to a specific project with a cost not exceeding the lower of £50,000 or 15 per cent of the estimated annual level of the auditors' fees for the time being. If the cost is likely to exceed the limits mentioned above, the agreement of the Chairman of the Audit Committee is required before the work is commissioned,
- when external auditors are considered for the provision of non-audit work, the Executive Directors must consider whether proposed arrangements will maintain audit independence,
- the external auditors must certify to the company that they are acting independently and the Audit Committee or the commissioning Director (as applicable) must be satisfied that such is the case,
- in providing a non-audit service, external auditors should not:
  - audit their own work,
  - make management decisions,
  - create a mutuality of interest, or
  - find they have placed themselves in the role of advocate for the company.

### Corporate Responsibility Committee

Liberty International's strong commitment to high standards of Corporate Responsibility is the responsibility of the Chairman and the Board of Liberty International and is managed through a CR Committee comprising Sir Robert Finch (Chairman), Mr Fischel, Mr Nicoll (responsible for Corporate Responsibility), Mr Henderson, Mr Burgess, Mrs James and Mr Badcock. The CR Management Committee comprises Directors and Senior Executives from all sections of the business and reports to the CR Committee, which in turn reports to the Board.

## Corporate governance (continued)

### Nomination and Review Committee

The members of the Nomination and Review Committee are Sir Robert Finch (Chairman), Mr Buchanan, Mr Burgess and Mrs James. The terms of reference of the Nomination and Review Committee are reviewed annually.

The Committee is responsible for carrying out an annual performance evaluation of the Board, its Committees and individual Directors, as well as making recommendations to the Board on appointments to the Board and to subsidiary Boards and on succession planning. In 2007 the established practice of a comprehensive performance evaluation of the Board, its

Committees and individual Directors was carried out by way of detailed questionnaires followed by discussion, the results of which were considered by the Nomination and Review Committee, the Board, and the relevant Board Committees. In addition, the Senior Independent Director carries out an annual evaluation of the Chairman.

The responses to all questions relating to the performance of the Board and its Committees were generally highly positive and showed a continued high level of satisfaction with the performance of the Board and its Committees.

There is a comprehensive induction programme for new Directors and the Committee considers the need for existing Directors to update and refresh their skills and knowledge as part of the annual performance evaluation exercise.

The Nomination and Review Committee has determined that the current balance of skills, knowledge and experience on the Board and on the Board Committees is satisfactory, but will of course be kept under review.

The composition of the Board, in terms of the balance of independent and non-independent Directors, is as follows:

	Independent in opinion of Board	Non-Independent in opinion of Board
D A Fischel (Executive Director)		✓
R M Cable (Executive Director)		✓
K E Chaldecott (Executive Director)		✓
I D Hawksworth (Executive Director)		✓
A C Smith (Executive Director)		✓
J G Abel (was Executive Director until Sept 05)		✓
R W T Buchanan (note 1)	✓	
D P H Burgess	✓	
G J Gordon (representative of major shareholder)		✓
I J Henderson	✓	
L James	✓	
M Rapp (note 1)	✓	
R Rowley	✓	
N Sachdev	✓	
Total*	7	7

\* Code provision A3.2 of the Combined Code on Corporate Governance states that "at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent".

Note 1 – Mr Buchanan and Mr Rapp have each served on the Board for more than nine years. Notwithstanding the length of service, the Board considers that Mr Buchanan and Mr Rapp are each fully independent and free from any business or other relationship which could interfere with the exercise of their independent judgement.

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## Corporate governance (continued)

The continuing independence of each of Mr Buchanan and Mr Rapp was carefully considered and reviewed by the Board during the annual performance evaluation, and the Nomination and Review Committee also undertook a separate review specifically focused on independence, taking into account the issue of Board succession and refreshment.

The conclusion of both reviews in 2007 was that Mr Buchanan and Mr Rapp remain robustly independent.

In forming this view, the Board and the Nomination and Review Committee considered (a) their financial independence from the company, (b) their business commitments outside the company, (c) their personal character, and (d) their experience as evidenced by their past and present careers. In particular, Mr Buchanan is the former UK Senior Partner of global business consulting firm Bain & Company Inc, and became the Dean of the London Business School in September 2007. Mr Rapp is Chairman of Floral Holdings Limited. The reviews were considered by the Board to be in depth, specific to the individual and suitably rigorous. The entire Board, and significantly the independent Non-Executive Directors, were unanimous in judging both Directors as independent.

In addition to being a member of the Audit Committee and the Nomination and Review Committee, Mr Buchanan is the Chairman of the Remuneration Committee, a post which he took up in 2004.

Shareholders should also take into account the company's general adherence to high standards of corporate governance and the active process of Board refreshment in place, as demonstrated by the appointment of two independent Non-Executive Directors in the past three years.

### Remuneration Committee

The members of the Remuneration Committee are Mr Buchanan (Chairman), Mr Burgess, Mr Henderson and Mrs James.

The Committee's primary responsibilities are to determine the remuneration packages and other terms and conditions of service applying to Executive Directors and Senior Executives of the group and the provision of incentivisation and performance related benefits to any Executive Director or employee. The Directors' remuneration report is set out on pages 60 to 64.

### Independence of Non-Executive Directors

At the start and at the end of the year at least half the Board comprised independent Non-Executive Directors. The Code requires that the Board should identify each Non-Executive Director it considers to be independent. Accordingly, details for each Director are set out below.

**Mr J G Abel** Mr Abel joined the Liberty International Group in 1972 becoming a Director of Capital Shopping Centres in 1994 and Managing Director of Capital Shopping Centres in 2001. He became a Non-Executive Director of Liberty International in October 2005. Mr Abel is not therefore considered by the Board to be fully independent.

**Mr R W T Buchanan** Mr Buchanan has served on the Board for more than nine years and accordingly offers himself for annual re-election by shareholders. Mr Buchanan is regarded by the Board as independent and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent. Further explanation regarding the independence of Mr Buchanan is provided under the section headed "Nomination and Review Committee" above.

**Mr D P H Burgess** Mr Burgess was appointed to the Board in 2001. Mr Burgess is considered by the Board as independent and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

**Mr G J Gordon** Mr Gordon is the son of Sir Donald Gordon, the former Chairman of Liberty International and a substantial shareholder. Mr Gordon is not therefore considered by the Board to be fully independent. Mr Gordon has served more than nine years and accordingly offers himself for annual re-election by shareholders.

**Mr I J Henderson** Mr Henderson was appointed to the Board on 7 February 2005. Mr Henderson is regarded by the Board as independent, and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

**Mrs L James** Mrs James was appointed to the Board in 2004. Mrs James is regarded by the Board as independent, and she has confirmed in writing to the Board that she knows no reason of which the Board might otherwise be unaware as to why she should not be considered independent.

**Mr M Rapp** Mr Rapp has served on the Board for over 20 years. The Board considers that Mr Rapp is fully independent and is free from any business or other relationship which could materially interfere with the exercise of his independent judgement, notwithstanding his length of service. Mr Rapp has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent. Further explanation regarding the independence of Mr Rapp is provided under the section headed "Nomination and Review Committee" above.

**Mr R Rowley** Mr Rowley was appointed to the Board in 2004. Mr Rowley is regarded by the Board as independent, and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

**Mr N Sachdev** Mr Sachdev was appointed to the Board on 1 November 2006. Mr Sachdev is regarded by the Board as independent, and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

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## Corporate governance (continued)

### Internal control

It is the Board's responsibility to oversee the group's system of internal control and to keep its effectiveness under review. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only a reasonable, rather than absolute, assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks of the group and this has been in place throughout the year ended 31 December 2007 and up to the date of approval of the Annual Report and Accounts. It is regularly reviewed by the Board and it complies with the 1999 Turnbull Committee's internal control guidance for Directors.

Liberty International has an internal audit function. The Internal Auditor reports to the Audit Committee and, in addition, has regular meetings with the Chairman of that Committee.

The Board regularly receives detailed reports setting out key performance and business risks from the individual business units, together with financial reports. Monitoring of key indicators allows the Board to consider control issues. The Board receives regular reports through the Audit Committee from both the internal audit and compliance functions, which may include recommendations for improvement.

The internal audit function carries out an annual review of internal controls, which includes a group-wide certification that effective internal controls are in place and are being operated effectively. The Internal Auditor carries out a programme of verification of the certification and reports his findings to the Audit Committee.

### Internal financial reporting

Key internal financial reporting procedures, which exist within the wider system of control, are described under the following headings.

**Financial information** The group has a comprehensive system for reporting financial results to the Board, each business unit prepares regular financial reports with comparisons against budget. The Board reviews these for the group as a whole and takes action when appropriate.

**Major investments** All major investments of the group, whether in the ordinary course of business or of an exceptional nature, are reviewed by at least one Committee of the Board and by the Board itself before being authorised and implemented.

**Group treasury** The group has a centralised treasury function which reports to the Board on a regular basis. The reports provide details of counterparties, interest rate and foreign exchange risks and derivatives. Additional information on this subject is given in note 21 on pages 37 to 42.

**Operating unit financial controls** Key controls over major financial risks include reviews against performance indicators and exception reporting. The operating units make regular assessments of their exposure to major financial risks and the extent to which these risks are controlled. These assessments are considered and reviewed by the Board and by regular internal audit visits.

The Board has conducted a review of the effectiveness, on the basis of criteria set out in the Turnbull Committee's Guidance for Directors – "Internal Control and Financial Reporting" issued in 1999, of systems of internal financial control for the year ended 31 December 2007 and has taken into account material developments which have taken place since the year end.

### Non-compliance with the Combined Code

It is the opinion of the Board that Liberty International fully complied with the provisions of the Code for the year ended 31 December 2007.

### D P H Burgess

Senior Independent Director on behalf of the Board

7 March 2008

# Directors' remuneration report

This report is produced in accordance with Schedule 7A to the Companies Act 1985 introduced by the Directors' Remuneration Report Regulations 2002 and contains both auditable and non-auditable information. The information subject to audit is set out in table 3 and table 4 on pages 63 and 64 respectively

## Remuneration Committee

The Remuneration Committee's principal responsibility is to determine remuneration for the group's Executive Directors and senior executives. The Committee is constituted under terms of reference laid down by the Board. These terms are designed to enable the company to comply with the requirements relating to remuneration policy contained in "The Combined Code on Corporate Governance" ("the Code"). The Code is issued by the Financial Reporting Council. The full terms of reference of the Committee can be found on the Liberty International website and copies are available on request.

The members of the Remuneration Committee during the 2007 financial year were Mr Buchanan (Chairman), Mr Burgess, Mr Henderson and Mrs James. The Chairman, Chief Executive, and Company Secretary attended meetings by invitation and provided advice to the Committee to help it make informed decisions. No director was present when his or her own remuneration was being discussed. During the year, the Committee met five times.

The Committee also received information and independent advice from Kepler Associates, an external consultancy, who were appointed by the Committee. During the year, Kepler Associates provided advice to the Committee on market trends, incentive design and other remuneration matters. Kepler Associates does not advise the company on any other matters.

## Remuneration policy for Executive Directors

The company's remuneration policy aims to attract, motivate and retain high calibre executives by rewarding them with competitive compensation and benefit packages. These packages are linked to both business and individual performance. In determining policy, the Remuneration Committee has given full consideration to the best practice provisions of the Code. The Remuneration Committee has complied with the principles and provisions of the Code in developing remuneration policies. These policies align directly the interests of Executive Directors and senior staff with the performance of the company and the interests of shareholders. There is no formal requirement for Directors to hold shares in the company. However there is an expectation that Directors will want to own shares. Indeed the majority of Directors, both executive and non-executive, do own shares in the company.

The key objectives of Liberty International's remuneration policy are to:

- Align executive and shareholder interests
- Reward executives primarily for results
- Attract and retain high quality individuals
- Provide value for money for shareholders
- Deliver upper quartile total remuneration for upper decile performance
- Follow best practice as far as possible, and explain any divergence
- Be simple and flexible

The policy and the components of the remuneration package as described below were applied during the year under review.

The components of the remuneration package are:

### (1) Annual base salary and benefits

Salaries of Executive Directors and other staff are reviewed annually in the light of competitive market practice, including reference to comparable data of other companies in the FTSE 100 and the real estate sector. The main elements of the benefits are pension contributions, private healthcare and the provision of company cars or cash alternative.

### (2) Performance-related remuneration

Performance-related components include annual bonus arrangements as well as the annual review of salaries in the light of individual and corporate performance. The policy is to place emphasis on the performance-related components of each Director's remuneration, whilst ensuring that the base salary remains competitive.

The aggregate cost of annual bonuses which may be provided under the group's annual bonus scheme, excluding employer's National Insurance, is not expected to exceed 40 per cent of the aggregate base salaries of all eligible employees. There is no specified maximum award for the individual Directors. However, the Committee pays close regard to the overall remuneration culture of the company in this respect. The Remuneration Committee decides on the appropriate level of bonus award for Directors each year depending on group results and individual performance. In relation to the annual share-based bonuses for Directors and senior executives, the Remuneration Committee sets rigorous and challenging additional performance criteria based on personal and corporate targets. Exceptional performance is also rewarded.

Bonuses are paid by way of allocation of cash as well as Restricted and Additional shares with a view to ensuring that the group has in place effective reward and retention plans.

Performance criteria for payments under the annual bonus arrangements are based on the achievement of both corporate and individual results and objectives against predetermined budgets and targets.

The corporate performance targets for the annual bonus arrangements are described in the following table:

Table 1

Annual bonus targets	Comparator
Shareholders' Funds	Prior year Shareholders' Funds
Asset Performance	IPD Monthly Index
Profit before tax, valuation, and exceptional items for the year	Budget and Prior year profit

In addition, each executive is evaluated on both individual and overall corporate objectives. The individual objectives are tailored before the beginning of each year and include specific strategic, financial and implementation goals. Bonuses are set on the achievement of those objectives.

Not less than two-thirds of the annual bonus for Executive Directors is determined on the basis of objective performance measures, primarily financial.

Following the end of the financial year, the Committee reviews the performance of executives and the group as a whole, against the set corporate and individual objectives and then determines the level of bonus payable.

Part of the bonus is awarded, at the company's election, in the form of shares in the company, conditional on the individuals concerned remaining in employment for specified periods. The Remuneration Committee decides each year on the proportion of cash and shares to be awarded to employees.

The conditional awards comprise "Restricted" shares and "Additional" shares. Additional shares awarded are equal to 50 per cent of the Restricted shares and SIP shares (see below) combined. Employees must remain in employment with the company for periods of two years after the date of award for Restricted shares, and four years after the date of award for Additional shares, before such shares are released.

## New incentive arrangements

During the year, the Remuneration Committee conducted a review of Liberty International's Executive Director and Senior Executive remuneration, advised by Kepler Associates. As a result of this review, the Committee concluded that performance-related incentives should be changed to support the continued delivery of strong performance. It is intended to introduce a new discretionary performance related bonus plan to replace the Supplementary Bonus Plan. No further awards will be made under the Supplementary Bonus Plan.

The new arrangements will be in addition to the normal annual bonus arrangements. The new performance related bonus plan will be linked to both absolute and relative shareholder returns as well as growth in earnings. With this new plan in place, the aggregate cost of normal annual bonuses, excluding National Insurance, has been reduced from a maximum of 40 per cent of aggregate salaries in 2006 and is not expected to exceed 25 per cent of the aggregate base salaries of all eligible employees, except in exceptional circumstances.

It is the company's policy that a significant proportion, up to 70 per cent of Executive Director and Senior Executive total remuneration be performance-related.

# Directors' remuneration report (continued)

In addition to supporting the Committee's remuneration policy, the key objectives of the new arrangements are to

- a) Align the interests of executives with shareholders,
- b) Play a vital role in the retention and recruitment of talent, and
- c) Encourage additional long-term share ownership by executives, based on delivering superior performance

The aggregate pool for the plan will be based on three measures: Total Return on Shareholders' funds, out-performance of the Investment Property Databank (IPD) Capital Growth Index, and absolute EPS growth

The Committee believes these measures to be the best indications of success and are aligned with shareholder value creation

To provide further alignment with shareholders, individual awards will be deferred into shares and released after 2 and 4 years. Deferred amounts would be forfeited on resignation

At the end of the performance period, the Remuneration Committee will allocate awards on a discretionary basis from the pool based on individual performance but having regard to the measures described. The Committee will consider Environmental, Social, and Governance performance when determining both the overall incentive pool at the year end and the allocation of the incentive pool to individuals

It is the Committee's desire to maintain a near median base salary culture while providing incentives that can deliver an upper quartile level of total remuneration for significant out-performance. The net effect is to increase the emphasis on "pay for performance"

In 2007, the principles of the new arrangements were used by the Remuneration Committee to determine Executive Director and Senior Executive bonuses. The Remuneration Committee is satisfied that the 2007 Executive Director and Senior Executive bonuses are appropriate in the light of the company's exceptional relative performance for the year

In 2007 the Chief Executive's variable compensation was 209 per cent of his base salary. Further details of the Executive Directors' individual bonus awards in cash and shares under the annual bonus scheme for the year ended 31 December 2007 and the previous year are set out on pages 63 and 64 and in note 36

## (3) All employee share schemes

The company has in recent years operated and provided funds for an Employee Share Ownership Plan ("ESOP") which uses the funds to purchase shares required under the annual bonus scheme

No options have been granted since 2004. It is intended to renew the company's Share Option Scheme at the Annual General Meeting in 2008 as the existing scheme is due to expire in 2009. It is considered necessary to maintain option schemes to provide flexibility to the Remuneration Committee both in respect of existing and potential senior executives and employees. To the extent any options are granted to Executive Directors and Senior Executives, the value of these option grants would be taken into account in determining the annual Performance Incentive Plan outcome

The company operates a Share Incentive Plan ("SIP") for all eligible employees, including Executive Directors, who may receive up to £3,000 worth of shares as part of their annual bonus arrangements. The SIP arrangements offer worthwhile tax advantages to employees and to the company. Also, as part of the SIP arrangements, the company offers eligible employees the opportunity to participate in a "Partnership" share scheme, the terms of which are governed by Inland Revenue regulations

## (4) Pensions

Executive Directors and staff who joined the company prior to April 1997 continue to participate in the group's defined benefit pension scheme. This scheme provides a pension of up to two-thirds of salary on retirement, dependent on length of service and Inland Revenue approved limits. Pension contributions for Executive Directors are calculated by reference to base salary

Executive Directors and staff who joined or join the company after April 1997 are eligible to receive defined contribution pension benefits

Mr Fischel and Mr Smith elected for "Enhanced Protection" under the Government's "single lifetime limit" which came into force in April 2006. Accordingly they receive a monthly sum, in lieu of any contribution by the company to their pension arrangements. On an annual basis this sum does not exceed the amount of the company's normal pension contribution on their behalf and is presently capped at 24.5 per cent of salary. PAYE and NI are deducted. The cost to the company is no higher than the present cost of pension contributions and associated life assurance premiums

No aspect of remuneration other than base salary is pensionable

Details of the pension benefits provided to Executive Directors for the year ended 31 December 2007 are set out on page 64

## (5) Service contracts

The company's policy is to provide contracts terminable on 12 months' notice or less on either side. Executive Directors have rolling service contracts which are terminable on 12 months' notice on either side. None of the existing service contracts makes any provision for termination payments, other than for payment in lieu of notice. In the event of the company terminating an Executive Director's contract the level of compensation would be subject to mitigation if considered appropriate and legally sustainable. No termination payments were made during the year to any former Directors of Liberty International

**Table 2**

The following service contracts in respect of Executive Directors who were in office during 2007 are rolling service contracts and therefore do not have an end date

	Date of commencement of contract	Notice period
R.M. Cable*	11 April 2000	12 Months
K.E. Chaldecott*	6 April 2000	12 Months
D.A. Fischel	24 June 1999	12 Months
I.D. Hawksworth†	1 Sept 2006	12 Months
A.C. Smith	24 June 1999	12 Months

\* Contract with Capital Shopping Centres PLC

† Contract with Capital & Counties Limited

## Remuneration policy for non-executive Directors

All non-executive Directors with less than nine years service have been appointed on fixed terms of three years, subject to renewal thereafter. Those with more than 9 years service, Messrs Rapp, Gordon and Buchanan, have a term of one year. Non-executive Directors each received a fee of £45,000 per annum in 2007. Non-executive Directors who are members of the Audit Committee received an additional £5,000 per annum and members of the Remuneration Committee received an additional £5,000 per annum. The Chairman of the Audit Committee received £10,000 per annum and the Chairman of the Remuneration Committee received £10,000 per annum. Non-executive Directors received no benefits from their office other than fees. They are not eligible to participate in group pension arrangements

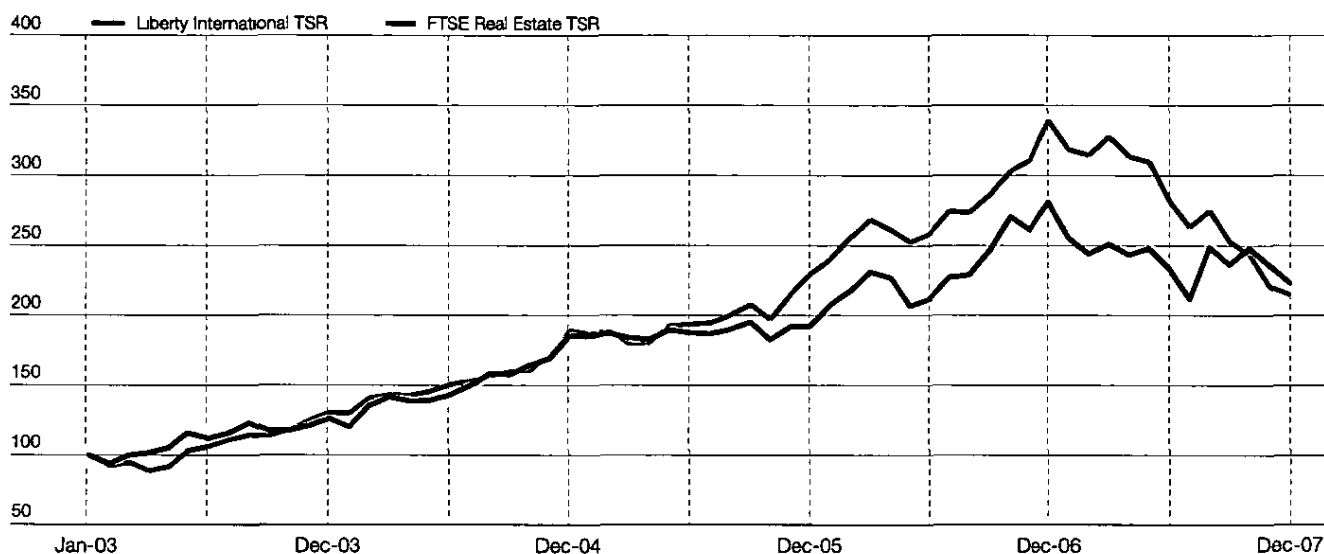
Non-executive Directors are entitled to receive an additional payment of an amount equal to their basic annual fee in the event of a change in control of the company

## Directors' remuneration report (continued)

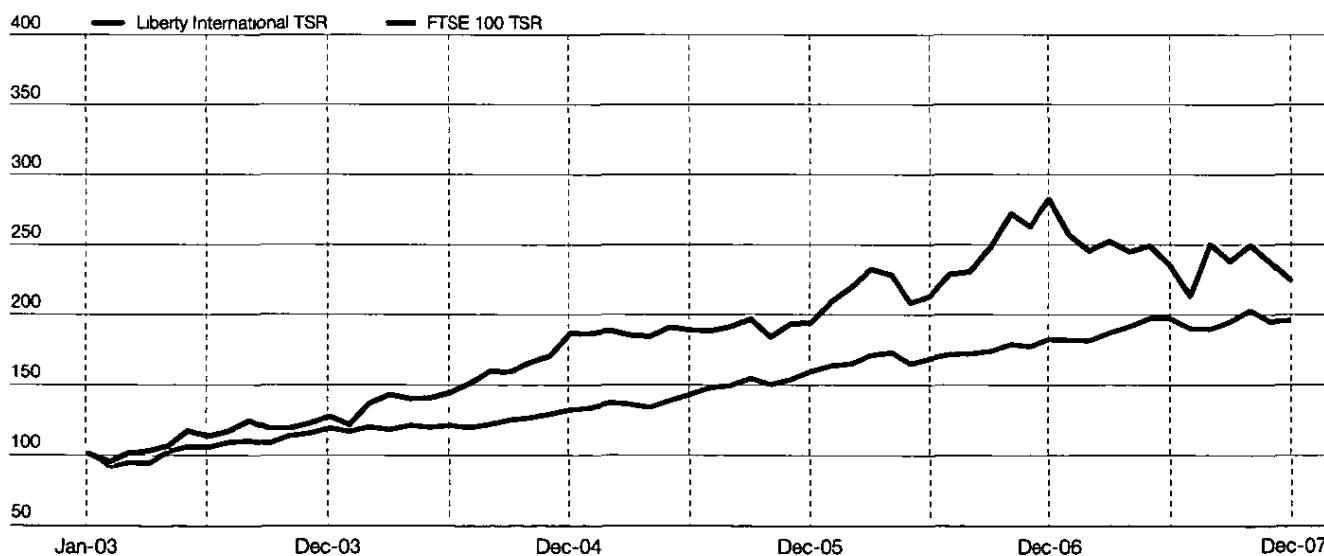
### Performance graph

The following graph shows the Total Shareholder Return ("TSR") for Liberty International over the five-year period ended 31 December 2007, compared with our closest comparator group for this purpose, the FTSE Real Estate Index. TSR is defined as share price growth plus reinvested dividends. For additional information, a graph showing the TSR for Liberty International compared with the FTSE 100 is provided

Total Shareholder Return (TSR) for period 1 January 2003 to 31 December 2007



Total Shareholder Return (TSR) for period 1 January 2003 to 31 December 2007





# Directors' remuneration report (continued)

Directors' emoluments – Table 3

Name	Salary and service contract remuneration £	Benefits in kind (including car allowance) £	Annual cash bonus £	Other (see notes below) £	Directors' fees £	Other fees £	Directors' fees and other remuneration paid by subsidiaries £	Aggregate emoluments* 2007 £	Aggregate emoluments* 2006 £
<b>Chairman</b>									
Sir Robert Finch <sup>1</sup>	375,000	22,298		48,878				446,176	427,067
<b>Executive</b>									
D.A. Fischel <sup>2</sup>	430,562	18,980	100,000	103,335				652,877	655,448
K.E. Chaldecott	287,500	10,762	45,000					343,262	325,101
R.M. Cable	275,000	18,980	43,500					337,480	307,223
I.D. Hawksworth <sup>3</sup>	311,250	18,980	134,500	100,000				564,730	306,346
J.I. Saggars (retired 26/10/2006)									343,512
A.C. Smith <sup>4</sup>	268,750	18,980	100,000	63,156				450,886	382,916
<b>Non-executive</b>									
J.G. Abel <sup>5</sup>					45,000	60,000		105,000	105,000
D. Bramson (retired 31/03/2006)									11,250
R.W.T. Buchanan					45,000	20,000		65,000	55,000
D.P.H. Burgess					45,000	30,000		75,000	60,000
G.J. Gordon					45,000			45,000	45,000
I.J. Henderson					45,000	5,000		50,000	50,000
L. James					45,000	10,000		55,000	45,000
M. Rapp					45,000	40,000		85,000	80,000
R.O. Rowley					45,000	5,000		50,000	42,500
N. Sachdev <sup>6</sup>					45,000			45,000	6,667
<b>Total</b>	1,948,062	108,980	423,000	315,369	405,000	170,000		3,370,411	3,248,030

\* Aggregate emoluments exclude share bonuses and pensions which are detailed below

1 Sir Robert Finch received £48,878 under contractual arrangements whereby he is entitled to receive each quarter such additional remuneration that will purchase 1,000 Liberty International ordinary shares

2 Mr Fischel received a payment of £103,335, representing 24% of basic salary in lieu of accruing further benefits under the defined benefit scheme

3 Mr Hawksworth was appointed on 15 September 2006. Mr Hawksworth received a joining bonus of £250,000, £100,000 of which was paid on 1 September 2006 and a further £100,000 of which was paid in March 2007. A final sum of £50,000 will be paid in March 2008.

4 Mr Smith received a payment of £63,156 representing 23.5% of basic salary in lieu of accruing further benefits under the defined benefit scheme

5 "Other fees" include a total of £55,000 paid to Mr Abel in connection with consultancy arrangements

6 Mr Sachdev was appointed on 1 November 2006

Sir Donald Gordon retired as Chairman on 30 June 2005. During 2007 a total of £350,000 (2006: £350,000) was paid to Sir Donald in connection with his Life Presidency and consultancy arrangements.

Mr David Bramson retired from the Board on 31 March 2006. During 2007 Mr Bramson received £10,000 as Chairman of the Trustees of the Liberty International Group Retirement Benefit Scheme and £5,000 as a member of the CSC Capital Projects Committee.

During 2007, Mr Hawksworth received a fee of £20,000 in respect of his Non-Executive Directorship of AIM listed Japan Residential Investment Company Limited.

Benefits provided for the Chairman and Executive Directors relate primarily to the provision of a car or car allowance and medical insurance.

Full details relating to the holding and exercise of share options by Directors and the performance conditions relating to the options are set out in note 36 to the accounts, which are subject to audit.

Bonuses for Executive Directors were determined on 7 February 2008 (under the annual bonus scheme for the year ended 31 December 2007). Part of the bonus entitlement will be taken in cash, part will be awarded in the form of shares under the SIP, and a further part as a conditional award of shares in the company. The SIP shares are held in trust for a period of five years to qualify for tax advantages. The conditional awards comprise "Restricted" shares and "Additional" shares. Additional shares are equal to 50 per cent of the Restricted and SIP shares combined. The Restricted and Additional shares will be released respectively two and four years after the date of the award, provided the Director has remained in service.

## Directors' remuneration report (continued)

The bonus share awards to the Executive Directors were as follows

Name	SIP*	Restricted*	Additional*
D.A. Fischel	302	53,461	26,882
I.D. Hawksworth	302	26,580	13,441
A.C. Smith	302	–	–
K.E. Chaldecott	302	20,061	10,181
R.M. Cable	302	4,765	2,534

\* The numbers and values of shares shown above are based on a share price of £9.92 per share

The interests of Directors in previous conditional awards of ordinary shares under the annual bonus scheme are detailed in note 36 on pages 48 to 50

### Directors' pensions – Table 4

One Director, Mr Hawksworth, was a member of a money purchase scheme, contributions of £74,700 (2006: £21,143 from 15 September 2006) were made in the year by the company on his behalf. Four Directors were members of a defined benefit arrangement, benefits earned being as shown below

Two disclosures on transfer values are required, one is defined by the Directors' Remuneration Report Regulations 2002, which introduced Schedule 7A into the Companies Act 1985 – see (a) below. The other is defined by UKLA Listing Rules, derived from the Companies Act 1985 – see (b) below

The Companies Act Schedule 7A disclosure shows the difference between the transfer valuation of each Director's total pension benefit both at the start and at the end of the year. The valuation takes into account, at each such date, the Director's age, certain economic factors and financial market conditions, the basis of calculation applied at that date, and any increase in pension. In some years, the effect of the change in factors used in the calculation can outweigh the actual increase in pension. By contrast, the Listing Rules disclosure is based on the actual increase in pension benefit in the year and states the transfer value of the increase using actuarial factors as at the year end.

#### (a) Disclosures as required by Schedule 7A of the Companies Act 1985

Name	Total pension accrued at 31 December 2007* £ p.a.	Increase in accrued pension over the year (including inflation) £ p.a.	Transfer value of benefits 1 January 2007 £	Transfer value of benefits 31 December 2007 £	Increase in transfer value over year £	Increase in transfer value over year less Director contributions† 2007 £	Increase in transfer value over year less Director contributions† 2006 £
R.M. Cable	55,514	12,844	496,957	812,632	315,675	301,925	86,525
K.E. Chaldecott	86,420	17,716	701,701	1,123,978	422,277	407,902	117,292
D.A. Fischel†	155,259	5,691	1,837,342	2,431,671	594,329	594,329	82,537
A.C. Smith†	83,058	5,950	885,667	1,220,630	334,963	334,963	45,223
<b>Total</b>	<b>380,251</b>	<b>42,201</b>	<b>3,921,667</b>	<b>5,588,911</b>	<b>1,667,244</b>	<b>1,639,119</b>	<b>331,577</b>

\* The pension entitlement shown is that which would be paid annually based on service to the end of the year

† The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less the Director's contributions

#### (b) Additional disclosure required under the Listing Rules of the UK Listing Authority

Name	Increase in accrued pension over the year (excluding inflation) £ p.a.	Transfer value of increase (less Director contributions) £
R.M. Cable	11,308	146,009
K.E. Chaldecott	15,243	178,511
D.A. Fischel†	307	4,453
A.C. Smith†	3,174	43,485
<b>Total</b>	<b>30,032</b>	<b>372,458</b>

#### Notes

1. On 5 April 2006, Mr Fischel and Mr Smith ceased to accrue further benefits in the defined benefit scheme as a result of new pensions legislation which introduced the single lifetime limit\*. Mr Fischel and Mr Smith have each since 5 April 2006 received an actuarially determined amount of cash, subject to PAYE and NI deductions, as set out in the footnotes to Table 4 above in lieu of accruing further benefits under the defined benefit scheme. Although no additional benefits have been accrued, deferred benefits are related to current salary.

Directors who are members of the Retirement Benefit Scheme have the option to pay additional voluntary contributions. No contributions were made in the year.

**Robin Buchanan**

Chairman of the Remuneration Committee, on behalf of the Board

7 March 2008



## Five year record 2003 – 2007

### Balance sheet

	UK GAAP		IFRS			
	2003 £m	2004 £m	2004 £m	2005 £m	2006 £m	2007 £m
Investment properties						
UK shopping centres	3,760.3	4,362.9	4,349.0	5,839.0	6,542.8	6,466.0
Other	864.9	950.0	948.6	1,098.8	1,644.3	2,156.8
	4,625.2	5,312.9	5,297.6	6,937.8	8,187.1	8,622.8
Other assets less current liabilities	366.3	381.2	451.6	(66.1)	193.4	46.2
Total assets less current liabilities	4,991.5	5,694.1	5,749.2	6,871.7	8,380.5	8,669.0
Long-term debt	(1,814.4)	(2,118.8)	(2,268.0)	(2,970.2)	(3,493.7)	(3,773.7)
Convertible bonds	(233.9)	(235.4)	(220.9)	(105.4)	(108.7)	(111.3)
Provisions for liabilities and charges	(83.8)	(95.9)	(726.1)	(863.0)	(45.7)	(75.1)
Total shareholders' funds including minority interests	2,859.4	3,244.0	2,534.2	2,933.1	4,732.4	4,708.9

### Profit and loss account

	2003 £m	2004 £m	2004 £m	2005 £m	2006 £m	2007 £m
UK shopping centres	175.9	181.2	187.4	235.6	272.0	288.8
Other commercial properties	61.4	64.0	68.9	64.5	68.6	75.4
Exhibition	–	–	–	–	–	10.1
Net rental income	237.3	245.2	256.3	300.1	340.6	374.3
Property trading	4.5	9.9	6.2	11.6	32.8	2.9
Other income	10.8	8.9	8.9	2.6	2.0	(0.9)
Administrative expenses	(24.8)	(26.5)	(27.2)	(29.2)	(34.2)	(45.2)
Share of operating profit of joint ventures	8.1	7.7	–	–	–	–
Operating profit	235.9	245.2	244.2	285.1	341.2	331.1
Net interest payable	(131.7)	(129.5)	(137.2)	(164.2)	(186.1)	(200.5)
Profit before taxation, valuation and exceptional items	104.2	115.7	107.0	120.9	155.1	130.6
Gains on revaluations and sale of investment properties	–	–	357.3	565.5	586.5	(279.1)
Exceptional profits	5.8	42.6	32.2	(13.7)	(2.0)	(3.3)
Change in fair value of derivative financial instruments	–	–	(41.4)	(145.8)	163.5	27.0
Profit on ordinary activities before taxation	110.0	158.3	455.1	526.9	903.1	(124.8)
Profit for the financial year attributable to shareholders after taxation and minority interests	80.6	124.6	332.1	366.3	1,564.1	(105.0)
Ordinary dividends	(77.7)	(84.0)	(81.1)	(86.3)	(97.4)	(122.1)
Transfers to retained profit	2.9	40.6	251.0	280.0	1,466.7	(227.1)

### Per share information

	2003	2004	2004	2005	2006	2007
Earnings per share before exceptional items (adjusted)	27.45p	29.02p	27.1p	29.8p	33.9p	36.0p
Earnings per share (basic) (includes exceptional items)	26.25p	39.32p	104.8p	114.8p	462.1p	(29.0)p
Dividends per share	25.00p	26.50p	26.50p	28.25p	31.00p	34.10p
Net assets per share (diluted, adjusted)	906p	1017p	1025p	1188p	1327p	1264p
Ordinary shares in issue	316.6m	317.3m	317.3m	335.4m	361.7m	361.5m
Ordinary shares in issue (diluted)	351.7m	352.1m	352.1m	352.0m	377.1m	376.4m

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# Shareholder information

## Registrars

All enquiries concerning shares or shareholdings, including notification of change of address, queries regarding loss of a share certificate and dividend payments should be addressed to

### For shareholders registered in the UK

#### **Capita Registrars**

The Registry, 34 Beckenham Road

Beckenham, Kent BR3 4TU

Telephone 0871 664 0300 (calls cost 10p per minute plus network extras)

(within UK)

+44 208 639 3399 (outside UK)

Facsimile 020 8639 2342

Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

[www.capitaregistrars.com](http://www.capitaregistrars.com)

### For shareholders registered in South Africa

#### **Computershare Investor Services (Pty) Ltd**

70 Marshall Street, Johannesburg 2001

South Africa

Postal address

PO Box 61051

Marshalltown 2107, South Africa

Telephone +27 11 370 5000

Facsimile +27 11 688 5221

[www.computershare.com](http://www.computershare.com)

### For shareholders holding

#### **American Depositary Receipts**

##### **The Bank of New York**

Investor Services

PO Box 11258

Church Street Station

New York, NY 10286-1258

Freephone number within USA

1-888-BNY-ADRS (1-888-269-2377)

Telephone number outside USA

+1-610-382-7836

Email [shareowners@bankofny.com](mailto:shareowners@bankofny.com)

<http://www.stockbny.com>

## Payment of dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should complete a mandate form available from the appropriate registrars

## Share price information

The latest information on the Liberty International PLC share price is available on the website [www.liberty-international.co.uk](http://www.liberty-international.co.uk)

## Web-based enquiry service for shareholders

Found at [www.capitaregistrars.com](http://www.capitaregistrars.com), shareholders registered in the UK can use this service to obtain details of their shareholdings and dividends. The shareholder's surname, Investor Code (found on any correspondence from registrars) and postcode are required to use this service. Shareholders may also use this service to amend or change their address and dividend mandate details

## Share dealing

Existing UK shareholders may trade Liberty International PLC shares through Capita Share Dealing Services who provide an easy to use, real-time online, telephone and postal dealing service [www.capitadeal.com](http://www.capitadeal.com) telephone 0871 664 0445 (calls cost 10p per minute plus network extras)

## Electronic communication

Shareholders' consent to send or supply communications to shareholders via the company's website was received at the Annual General Meeting in April 2007. The company will now be supplying information such as the Annual and Interim Report via the website to shareholders who have consented to such communication. Shareholders will be notified by email or post when new information is available on the website

Shareholders can at any time revoke a previous instruction in order to receive hard copies of shareholder information

UK shareholders may register to receive communications electronically by logging on to the website of the UK Registrars ([www.capitaregistrars.com](http://www.capitaregistrars.com)) and following the instructions given to register an email address. Once registered, shareholders are sent a "Notice of Availability" email highlighting that the Annual Report, Interim Report or Notice is available for viewing on the website

# Management structure and advisers

## Liberty International PLC

Sir Donald Gordon, President for Life

### Chairman and Executive Directors

Sir Robert Finch, Chairman  
David Fischel, Chief Executive  
Aidan Smith, Finance Director  
Richard Cable  
Kay Chaldecott  
Ian Hawksworth

### Non-executive Directors

John Abel  
Robin Buchanan  
Patrick Burgess  
Graeme Gordon (Alternate – Richard Gordon)  
Ian Henderson  
Lesley James  
Michael Rapp  
Rob Rowley  
Neil Sachdev

### Company Secretary

Susan Folger

### General Corporate Counsel

Hugh Ford

### Registered Office

40 Broadway, London SW1H 0BT  
Telephone 020 7960 1200  
Facsimile 020 7960 1333

### Registered Number

3685527

### Website

[www.liberty-international.co.uk](http://www.liberty-international.co.uk)

## Property Companies

### Capital Shopping Centres

Kay Chaldecott, Managing Director  
Richard Cable, Development Director  
Martin Ellis, Construction Director  
Caroline Kirby, Asset Management Director  
Trevor Parera, Commercial Director

40 Broadway, London SW1H 0BU

Telephone 020 7887 4220

Facsimile 020 7887 4225

[www.capital-shopping-centres.co.uk](http://www.capital-shopping-centres.co.uk)

### Group Managers

#### Property Management

Jonathan Ainsley, Martin Breeden

Kate Grant, Philip Wardle

#### Centre Management

Bob Tingle

#### Development & Construction

Rosemary Coles, Robert Danks

Charles Forrester, Gavin Mitchell

#### Leasing

Julie Lawrence

### General Managers

#### Braehead, Renfrew, Glasgow

[www.braehead.co.uk](http://www.braehead.co.uk)

Peter Beagley 0141 885 1441

#### Chapelfield, Norwich

[www.chapelfield.co.uk](http://www.chapelfield.co.uk)

Steve Bunce 01603 753340

#### The Chimes, Uxbridge

[www.thechimes.co.uk](http://www.thechimes.co.uk)

Tony Dunn 01895 819400

#### Eldon Square, Newcastle upon Tyne

[www.eldon-square.co.uk](http://www.eldon-square.co.uk)

Tim Lamb 0191 261 1891

#### The Glades, Bromley

[www.theglades.co.uk](http://www.theglades.co.uk)

Howard Oldstein 020 8313 9292

#### The Harlequin, Watford

[www.theharlequin.co.uk](http://www.theharlequin.co.uk)

Michael Stevens 01923 250292

#### Lakeside, Thurrock

[www.lakeside.co.uk](http://www.lakeside.co.uk)

Steve Chandler 01708 860087

#### The Mall at Cribbs Causeway, Bristol

[www.mallcribbs.com](http://www.mallcribbs.com)

Jonathan Edwards 0117 915 5555

#### Manchester Arndale

[www.manchesterarndale.com](http://www.manchesterarndale.com)

Glen Barkworth 0161 833 9851

#### MetroCentre, Gateshead

[www.metrocentre.co.uk](http://www.metrocentre.co.uk)

Barry Turnbull 0191 493 0200

#### The Potteries, Stoke-on-Trent

[www.potteries.co.uk](http://www.potteries.co.uk)

Paul Lancaster 01782 289822

#### St David's Centre, Cardiff

[www.stdavidsshoppping.co.uk](http://www.stdavidsshoppping.co.uk)

Steven Madeley 029 2039 6041

#### The Victoria Centre, Nottingham

[www.victoriacentre.co.uk](http://www.victoriacentre.co.uk)

Paul Francis 0115 912 1111

## Capital & Counties

Ian Hawksworth, Managing Director  
Gary Yardley, Chief Investment Officer  
Bill Black, Executive Director  
Gary Marcucci, Executive Director

40 Broadway, London SW1H 0BU

Telephone 020 7887 7000

Facsimile 020 7887 0000

[www.capitalandcounties.com](http://www.capitalandcounties.com)

### Business Units

#### Covent Garden London

Beverley Churchill, Andrew Hicks

020 7395 3765

#### Earls Court & Olympia

[www.eco.co.uk](http://www.eco.co.uk)

Robin Barton 020 7370 8488

#### Capco Urban

[www.capitalandcounties.com](http://www.capitalandcounties.com)

Mark Imms 020 7887 7000

### Capital & Counties U.S.A. Inc

Turner Newton, President

100 The Embarcadero, Suite 300

San Francisco, California CA 94105 USA

Telephone 001 415 421 5100

Facsimile 001 415 421 6021

[www.capcount-usa.com](http://www.capcount-usa.com)

### Group Treasury and Accounting

Mark Kidea, Treasurer

Mike King, Financial Controller

### Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and

Registered Auditors

### Solicitors

Linklaters

The company's website, which contains further information, is available at [www.liberty-international.co.uk](http://www.liberty-international.co.uk)