

# 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 Ellis, Mr Hawksworth, Miss Kirby, Mr Pereira, Mr Smith, Mr Abel, Mr Bramson and Mr Spriddell.

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	✓	
<b>Total*</b>	<b>7</b>	<b>7</b>

\* Code provision A.3.2. 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.

---

## 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.

## 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