

# 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.

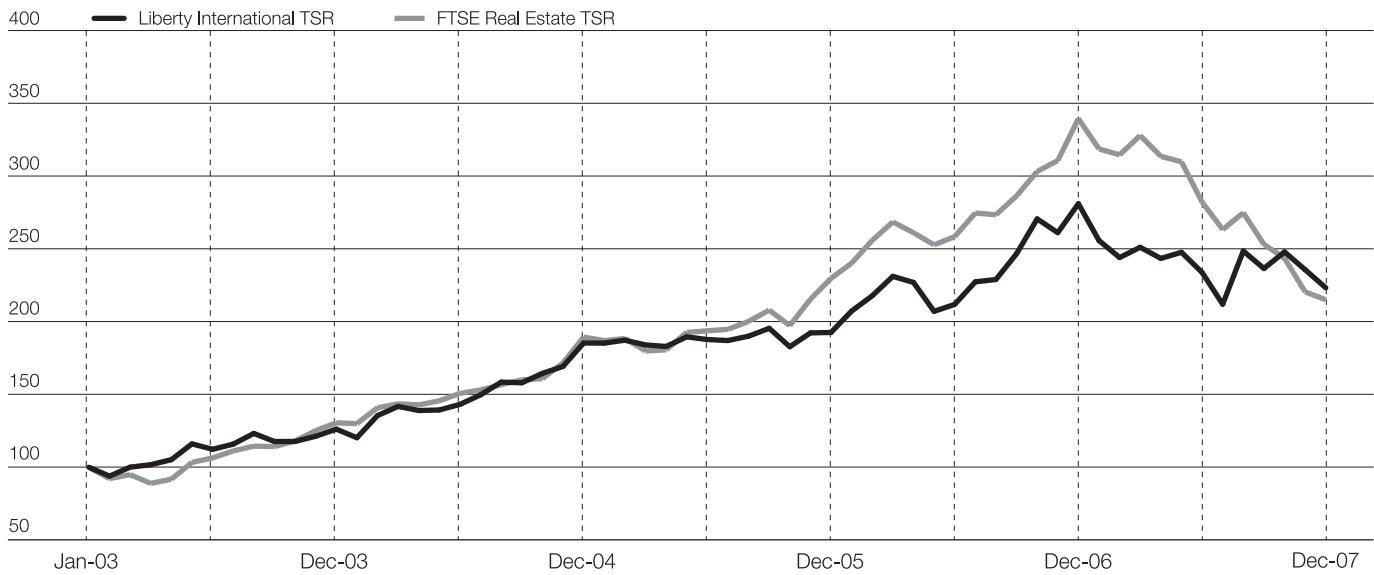
Non-executive Directors are entitled to receive an additional payment of an amount equal to their basic annual fee in the event of a change in control of the company.

# Directors' remuneration report (continued)

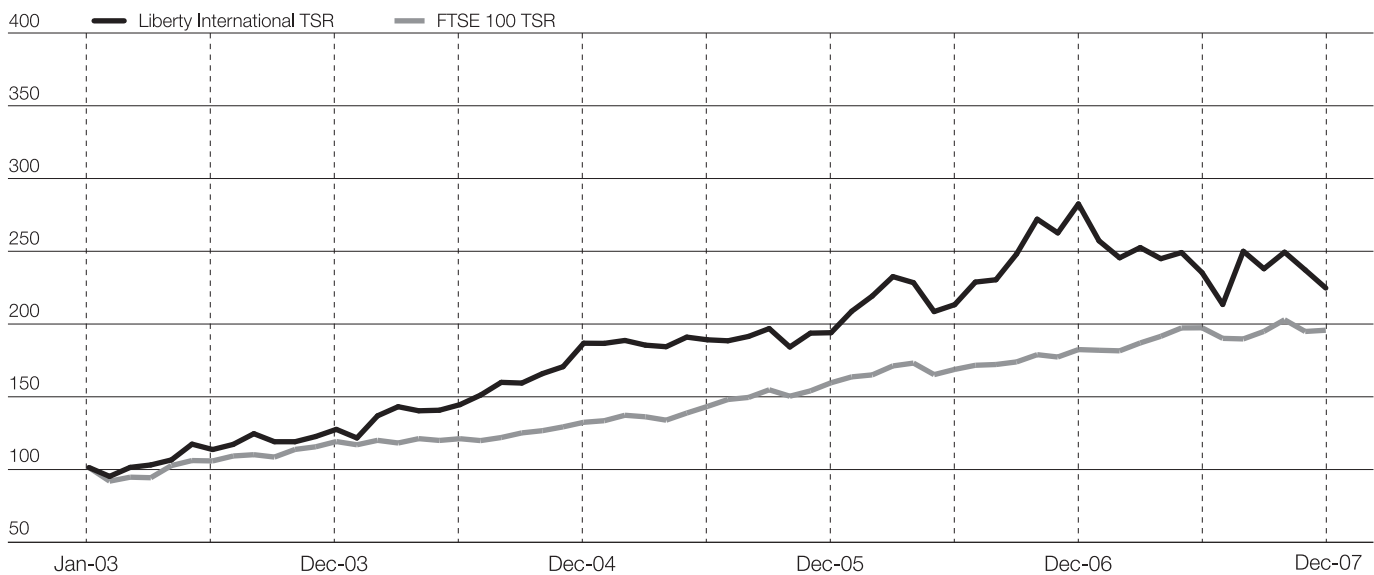
## Performance graph

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>	<b>1,948,062</b>	<b>108,980</b>	<b>423,000</b>	<b>315,369</b>	<b>405,000</b>	<b>170,000</b>		<b>3,370,411</b>	<b>3,248,030</b>

\* 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 <sup>1</sup>	155,259	5,691	1,837,342	2,431,671	594,329	594,329	82,537
A.C. Smith <sup>1</sup>	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 <sup>1</sup>	307	4,453
A.C. Smith <sup>1</sup>	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