

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
Revenue	424.8	126.3	24.7	(1.2)	574.6
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
	411.7	110.3	24.7	–	546.7
Rent payable	(22.3)	(3.1)	–	–	(25.4)
Service charge and other non-recoverable costs	(100.6)	(31.8)	(14.6)	–	(147.0)
	288.8	75.4	10.1	–	374.3
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)
Segment result	5.8	77.7	14.9	(1.2)	97.2
Unallocated administration costs					(45.2)
Operating profit					52.0
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)
Net assets	3,583.4	799.0	135.4	191.1	4,708.9
Other segment items:					
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
Revenue	421.1	139.2	–	2.5	562.8
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
	387.9	105.2	–	–	493.1
Rent payable	(23.2)	(3.8)	–	–	(27.0)
Service charge and other non-recoverable costs	(92.7)	(32.8)	–	–	(125.5)
	272.0	68.6	–	–	340.6
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
Segment result	741.9	217.5	–	2.5	961.9
Unallocated administration costs					(34.2)
Operating profit					927.7
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)
Net assets	3,602.9	805.9	–	323.6	4,732.4
Other segment items:					
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)
Interest payable	209.3	190.0
Costs of termination of financial instruments	2.0	–
Issue costs written off on redemption of loans	1.3	2.0
Exceptional finance costs	3.3	2.0

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)

5 Profit/(Loss) before tax	2007 £m	2006 £m
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:	2007 £000	2006 £000
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
	1,145	784
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

6 Taxation	Current £m	Deferred £m	REIT entry charge £m	2007 £m	2006 £m
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
	2.7	23.8	3.9	30.4	(661.0)

Taxation charge for the financial year	2007 £m	2006 £m
Current UK corporation tax at 30% (2006 – 30%) on profits	6.0	27.6
Prior year items – UK corporation tax	(3.4)	0.2
	2.6	27.8
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)
Total tax charge/(credit)	30.4	(661.0)

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)	-
Total tax charge/(credit)	30.4	(661.0)

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
Dividends paid	122.1	97.4
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)
Weighted average ordinary shares in issue for calculation of basic earnings per share	361.7	338.5
Weighted average ordinary shares to be issued on conversion of bonds and under employee incentive arrangements	14.7	15.0
Weighted average ordinary shares in issue for calculation of diluted earnings per share	376.4	353.5

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
Geographical analysis:			
At 31 December 2007	8,245.5	377.3	8,622.8
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)
At 31 December	8.4	(7.2)	1.2	0.9

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)
At 31 December	1,943.7	1,962.7

Investment in group companies includes equity and debt instruments.

Joint ventures

	Group share 2007 £m	Group share 2006 £m
Summarised income statements		
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)
Profit/(loss) after tax	(2.8)	15.7
Summarised balance sheets		
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)
Net assets	574.7	295.8

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
Amounts falling due within one year:				
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
Amounts falling due after more than one year:				
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	–
At 31 December	51.0	–

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)
Goodwill	26.6

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
Non-current assets		
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
Current assets		
Trade and other receivables	19.0	19.0
Cash and cash equivalents	4.2	4.2
Current liabilities		
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
Non-current liabilities		
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)
Net assets	119.4	150.3
Minority interests	(51.5)	
Net assets acquired	67.9	

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)
Liability at the date of the balance sheet	43

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
Amounts falling due within one year:				
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
	341.7	319.5	114.4	123.2

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
Amounts falling due within one year:				
Secured borrowings				
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	-	-
Amounts falling due within one year	152.3	43.5	-	-
Amounts falling due after more than one year:				
Secured borrowings – non recourse				
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	-	-
Other secured borrowings	2,828.6	2,703.3	-	-
Debentures 2027	226.1	225.8	-	-
Other loans	428.9	189.5	-	-
Unsecured borrowings	3,483.6	3,118.6	-	-
CSC bonds 2013	26.6	26.5	-	-
CSC bonds 2009	31.4	41.3	-	-
£111.3 million (2006 – £111.3 million) 3.95% convertible bonds due 2010	3,541.6	3,186.4	-	-
	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	-	-
Amounts falling due after more than one year	3,704.0	3,341.3	111.3	108.7
Total borrowings, including finance leases	3,856.3	3,384.8	111.3	108.7
Cash and cash equivalents	(188.4)	(321.8)	(0.4)	-
Net borrowings	3,667.9	3,063.0	110.9	108.7

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
(a) Minimum lease payments under finance leases fall due:		
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) Present value of minimum finance lease obligations		
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	
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
2007					
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)
2006					
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
Debentures and other fixed rate loans				
Sterling				
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
US dollars				
Fixed rate loans*	161.0	160.6	164.0	169.1
	445.1	560.3	457.6	585.3
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)
	(72.4)	(112.5)

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 %
Sterling – pay fixed and receive floating		
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 2005 £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
At 31 December 2006 and 2007 – 362,772,673 ordinary shares of 50p each	181.4	975.6

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
At 31 December	1.3	(9.6)	1.1	(6.4)

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
At 31 December	3,075.1	3,307.6	2,483.6	1,921.8

Notes to the accounts (continued)

27 Convertible bond reserve

Company and Group

	2007 £m	2006 £m
At 31 December	9.1	9.1

28 Other non-distributable reserves

	Capital redemption reserve £m	Translation reserve £m	Other £m	Total £m
Group				
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
At 31 December 2007	61.5	(2.7)	216.6	275.4

	Capital redemption reserve £m	Translation reserve £m	Other £m	Total £m
Company				
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)
At 31 December 2007	61.5	–	(0.6)	60.9

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)

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

	2007 Net assets £m	2007 Shares million	2006 Net assets £m	2006 Shares million
Basic	4,507.0	361.5	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)	-	-	-
Adjusted	4,636.2	361.5	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
Diluted, adjusted	4,757.2	376.4	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. Hawke	–	–
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+	31 December 2007	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
The Liberty International PLC Incentive Share Option Scheme 1999							
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	5.5	5.2
Pensions and other post-employment benefits	0.5	0.4
Share-based payment	2.3	0.9
Other long-term payments	0.9	1.1
	9.2	7.6

* 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)
Schemes' assets at 31 December	59.0	46.9

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
Total	100	100

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)
Schemes' liabilities at 31 December	59.2	46.5

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.