

## Financial review (continued)

### Results for the year ended 31 December 2007

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

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

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

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

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

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

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

# Financial review (continued)

## Valuations

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

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

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

The related weighted average nominal equivalent yields were as follows:

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

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

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

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

## Net assets per share

Adjusted net assets per share at 31 December 2007 of 1264p declined by 105p from 1369p at 30 September 2007 and by 63p from 1327p at 31 December 2006. This represents a total return for the year of minus 2.2 per cent, from 1327p at 31 December 2006 (after taking into account the 2006 final dividend of 17.25p and the interim dividend of 16.5p paid during 2007).

## Financial position

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

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

## Financial review (continued)

The group's debt is analysed below:

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

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

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

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

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

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

## Financial review (continued)

### Fair value of debt and financial instruments

Long-term interest rates declined in the second half of the year having risen strongly in the first half. The 10 year UK interest rate swap, a reasonable proxy for our fixed rate hedging strategy, rose from 5.11 per cent at 31 December 2006 to 5.92 per cent at 30 June 2007, falling back to 5.02 per cent at 31 December 2007. We recorded a surplus of £27 million in the year ended 31 December 2007 on revaluation of the derivative financial instruments used to fix our long-term debt. Compared to the surplus at 30 June 2007 of £251 million, this represents a reduction in the second half year of £224 million.

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

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

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

### Interest Rate Swap Summary

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

### Share buy-backs

Liberty International has shareholder approval to buy-back on-market up to 10 per cent of its shares. Although the current share price is at a discount to published net asset value, we would expect only to use the buy-back power very selectively given the scale of our development programme and the long-term time horizon required to bring major shopping centre projects to fruition. During the third quarter of 2007, Liberty International bought 700,000 shares at an average price of 1017p per share.