# Liberty International PLC
# Annual Report 2001

This document, together with the Annual Review and Summary Financial Report 2001, constitute the Annual Report of Liberty International PLC within the meaning of Section 240 of the Companies Act 1985.

Copies of the Annual Review and Summary Financial Report 2001 are available on request from the Company Secretary, Liberty International PLC, 40 Broadway, London SW1H 0BT. Telephone 020 7960 1200.

Designed and produced by Radley Yeldar (London)

# Directors' Report

for the year ended 31 December 2001

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2001.

There are two separate documents which together constitute the full statutory report and accounts. The Chairman's Statement and Review of Operations are contained in the "Annual Review and Summary Financial Report 2001" whilst the Directors' Report, Report on Directors' Remuneration, Corporate Governance and full accounts appear in the "Annual Report 2001".

*Principal activities*

The principal activity of Liberty International PLC ("Liberty International") is that of an investment holding company incorporated in the United Kingdom whose business is the making of selected investments with long-term potential in the property sector predominantly, but not exclusively, in the United Kingdom.

Liberty International's activities are focussed on its two major subsidiaries: Capital Shopping Centres PLC ("CSC"), which specialises in the ownership, management and development of regional shopping centres and Capital & Counties plc ("Capital & Counties"), which engages in commercial and retail property investment, management and development both in the United Kingdom and the USA.

*Operating and financial review*

The Chairman's Statement on pages 2 to 9 of the Annual Review and Summary Financial Report, the Review of Operations on pages 10 to 14 and the Financial Review on pages 46 to 49 of the Annual Review and Summary Financial Report provide detailed information relating to the group, the operation and development of the business and the results and financial position for the year ended 31 December 2001.

*Future prospects*

Future prospects are dealt with in the Chairman's Statement.

*Results and financial position*

The group's results are set out in full in the consolidated profit and loss account on page 70, the consolidated balance sheet on page 71 and the notes relating thereto.

*Dividends*

The Directors declared an interim ordinary dividend of 10.75p (2000 – 10.25p) per share on 1 August 2001, which was paid on 5 October 2001, and have recommended a final ordinary dividend of 12p per share (2000 – 11.5p) which will be paid on 3 May 2002 to shareholders on the register on the Record Date, 12 April 2002. The Sterling/Rand conversion rate on which payment of the dividend in South Africa will be calculated will be fixed on 27 March 2002. The Directors will not be offering a share dividend alternative to the 2001 final cash dividend.

The dividends absorbed £62.3 million.

*Share capital*

Details of the changes during the year in the issued share capital, which include repurchases of the company's own shares for cancellation, are set out in note 20 on page 88.

*Going concern*

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

*Internal control*

The statement on Corporate Governance on pages 102 to 104 includes the Board's assessment following a review of internal controls and consideration of the guidance issued by the Turnbull Committee of the Institute of Chartered Accountants of England & Wales.

*Directors*

Lord Newall retired as a non-Executive Director at the Annual General Meeting held on 27 March 2001. Mr D. Bramson and Mr D.P.H. Burgess were each appointed as a non-Executive Director with effect from 1 January 2001.

Mr D.R. Leslie retired as Managing Director of CSC on 27 March 2001 and changed status from Executive to non-Executive Director of Liberty International with effect from that date.

Mr D. Gordon and Mr G.J. Gordon each appointed Mr R.M. Gordon to act as their alternate with effect from 9 January 2001.

In accordance with the Articles of Association, Mr R.A.M. Baillie and Mr P. Sober fall to retire by rotation. Mr R.A.M. Baillie, being eligible, offers himself for re-election at the forthcoming Annual General Meeting of the company. Mr Sober has expressed his intention to retire at the forthcoming Annual General Meeting and will not offer himself for re-election. The terms of appointment of Mr R.A.M. Baillie provide for termination by either party giving less than 12 months' notice.

Biographies of the Directors of Liberty International are set out on pages 52 and 53 of the Annual Review and Summary Financial Report.

*Directors' interests*

The interests of the Directors and their families in shares in the company and its subsidiaries during the year are set out in note 30 to the accounts on pages 94 to 97.

*Substantial shareholdings*

At 25 January 2002 Liberty International had 17,423 shareholders and had been notified under the provisions of the Companies Act 1985 of the following substantial interests:

Mr D. Gordon has notified an interest, including a non-beneficial interest held by The Donald Gordon Foundation, in 25,103,930 (8.83 per cent) ordinary shares of Liberty International.
Mrs W.D. Appelbaum has notified a beneficial interest in 16,000,000 (5.63 per cent) ordinary shares of Liberty International.

The above interests of Mr D. Gordon and Mrs Appelbaum plus interests of other members of the Gordon family have been disclosed under the Rules governing the Substantial Acquisition of Shares as a combined total of 47,891,347 (16.85 per cent) ordinary shares of Liberty International.

Liberty Group Limited ("LGL") was beneficially interested in 13,645,480 (4.8 per cent) ordinary shares of Liberty International. Additionally, non-beneficial interests totalling 11,292,579 (3.97 per cent) ordinary shares in Liberty International were held by subsidiaries of LGL and Standard Bank Investment Corporation Limited on behalf of clients pursuant to discretionary investment management arrangements.

*Employees*

The majority of employees were employed by CSC and Capital & Counties. Liberty International actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of the company's activities and financial performance by such means as employee briefings and publication to all staff of relevant information and corporate announcements.
The annual bonus scheme and share option arrangements help develop employees' interest in the company's performance; full details of these arrangements are given in the Report on Directors' Remuneration on pages 105 to 108.
Note 31 on pages 97 and 98 contains details of options and conditional awards of shares under the annual bonus scheme currently outstanding.

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

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

The Liberty International group provides retirement benefits for the majority of its employees. Details of the group pension arrangements are set out in note 32 on pages 98 to 100.

*The environment*

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

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

*Donations*

During the year, the group made charitable donations amounting to £64,548. No political donations were made during the year.

*Creditor payment policy*

The company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers, the company's policy is to: (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction; (b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and (c) pay in accordance with its contractual and other legal obligations. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Wherever possible UK subsidiaries follow the same policy and overseas subsidiaries are encouraged to adopt similar policies, by applying local best practices.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year ended 31 December 2001 and the amounts owed to its creditors as at 31 December 2001 was 27 days (2000 – 102), as calculated in accordance with the requirements of the Companies Act.

*Auditors*

A resolution to reappoint the Auditors, PricewaterhouseCoopers, will be proposed at the forthcoming Annual General Meeting.

*Purchase of own shares*

The Articles of Association of the company empower the company to purchase its own shares for cancellation. Details of purchases made in 2001 and the existing shareholder authority to purchase own shares, for which renewal will be sought by way of a special resolution at the 2002 Annual General Meeting, are given in note 20 on page 88.

*Annual General Meeting*

The notice convening the 2002 Annual General Meeting of the company is distributed separately with the Annual Report or Annual Review and Summary Financial Report to shareholders.

By Order of the Board

**S. Folger**
Secretary

12 February 2002

# Independent Auditors' Report

*To the members of Liberty International PLC*

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 74 to 76.

*Respective responsibilities of Directors and auditors*

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practises Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report which comprises the Annual Review and Summary Financial Report 2001 set out on pages 1 to 64 together with the Annual Report 2001 on pages 65 to 108. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

*Basis of audit opinion*

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

*Opinion*

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2001 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers**
Chartered Accountants and Registered Auditors
London

12 February 2002

# Statement of Directors' Responsibilities

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

a) select suitable accounting policies and then apply them consistently;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

By Order of the Board

**S. Folger**
Secretary

12 February 2002

# Consolidated Profit and Loss Account

| For the year ended 31 December 2001 | Notes | **Total 2001 £m** | Continuing activities 2000 £m | Discontinued activities 2000 £m | Total 2000 £m |
|---|---|---|---|---|---|
| *Turnover* | 1 | **331.0** | 356.6 | 5.4 | 362.0 |
| *Property investment income* | | | | | |
| Rents receivable | | **258.3** | 243.1 | – | 243.1 |
| Service charge and other income | | **41.0** | 35.8 | – | 35.8 |
| | | **299.3** | 278.9 | – | 278.9 |
| Rents payable | | **(45.0)** | (37.5) | – | (37.5) |
| Property outgoings | | **(50.4)** | (49.4) | – | (49.4) |
| Net property investment income | | **203.9** | 192.0 | – | 192.0 |
| Property trading | | **6.3** | 11.4 | – | 11.4 |
| Investment and financial services income | | **5.6** | 8.9 | 0.7 | 9.6 |
| Realised gains on listed property shares | | **3.5** | 24.3 | – | 24.3 |
| Administrative expenses | | **(19.9)** | (18.4) | (2.7) | (21.1) |
| *Operating profit* | 1 | **199.4** | 218.2 | (2.0) | 216.2 |
| Exceptional profit on disposal of fixed assets and subsidiaries | 2 | **4.0** | | | 26.0 |
| *Profit before interest and taxation* | | **203.4** | | | 242.2 |
| Interest payable less receivable – recurring | 3 | **(119.9)** | | | (83.4) |
| Interest payable less receivable – exceptional | 2 | **7.4** | | | (5.8) |
| *Profit on ordinary activities before taxation* | | **90.9** | | | 153.0 |
| Taxation on profit on ordinary activities | 5 | **(11.7)** | | | (27.0) |
| Taxation on profit on exceptional items | 5 | **(2.8)** | | | (1.4) |
| *Profit on ordinary activities after taxation* | | **76.4** | | | 124.6 |
| Equity minority interests | | **(0.9)** | | | (19.1) |
| *Profit for the financial year* | | **75.5** | | | 105.5 |
| Ordinary dividends – paid and proposed | 7 | **(62.3)** | | | (62.8) |
| *Transfer to retained profit* | | **13.2** | | | 42.7 |
| *Dividends per ordinary share* | 7 | **22.75p** | | | 21.75p |
| *Earnings per share before exceptional items* | | **24.49p** | | | 32.05p |
| *Earnings per share (basic)* | 8 | **27.61p** | | | 39.02p |
| *Earnings per share (diluted)* | 8 | **27.08p** | | | 38.83p |
| *Weighted average number of shares* | 8 | **273.6m** | | | 270.4m |

# Consolidated Balance Sheet

| As at 31 December 2001 | Notes | **Group As at 31 December 2001 £m** | Group As at 31 December 2000 Restated £m | **Company As at 31 December 2001 £m** | Company As at 31 December 2000 £m |
|---|---|---|---|---|---|
| *Fixed assets* | | | | | |
| Investment properties | | | | | |
| UK shopping centres | | **3,216.9** | 3,099.8 | **–** | – |
| Other | | **838.1** | 831.1 | **–** | – |
| | 9 | **4,055.0** | 3,930.9 | **–** | – |
| Investment in group companies | 10 | **–** | – | **2,399.2** | 3,241.3 |
| Other tangible assets and investments | 11 | **197.3** | 76.6 | **135.8** | 39.8 |
| Intangible assets | 12 | **–** | 6.0 | **–** | – |
| | | **4,252.3** | 4,013.5 | **2,535.0** | 3,281.1 |
| *Current assets* | | | | | |
| Cash and near cash investments | 13 | **84.2** | 106.2 | **–** | – |
| Other short-term investments | 13 | **1.9** | 17.7 | **–** | – |
| Other current assets | 14 | **118.4** | 144.6 | **790.4** | 715.2 |
| | | **204.5** | 268.5 | **790.4** | 715.2 |
| *Creditors: amounts falling due within one year* | 15 | **(270.8)** | (217.0) | **(856.3)** | (901.2) |
| *Net current (liabilities)/assets* | | **(66.3)** | 51.5 | **(65.9)** | (186.0) |
| *Total assets less current liabilities* | | **4,186.0** | 4,065.0 | **2,469.1** | 3,095.1 |
| *Creditors: amounts falling due after more than one year:* | | | | | |
| Loans | 16 | **(1,707.9)** | (1,481.5) | **–** | (535.0) |
| Subordinated convertible debt | 16 | **(70.4)** | (207.4) | **(70.4)** | (207.4) |
| Other creditors | | **(0.5)** | (0.5) | **–** | – |
| | | **(1,778.8)** | (1,689.4) | **(70.4)** | (742.4) |
| Provisions for liabilities and charges | 19 | **(8.5)** | (9.0) | **–** | – |
| *Net assets* | | **2,398.7** | 2,366.6 | **2,398.7** | 2,352.7 |
| *Capital and reserves:* | | | | | |
| Called up ordinary share capital | 20 | **142.1** | 139.5 | **142.1** | 139.5 |
| Share premium account | 21 | **346.0** | 316.6 | **346.0** | 316.6 |
| Revaluation reserve | 21 | **1,319.0** | 1,314.5 | **680.0** | 1,330.5 |
| Other reserves | 21 | **546.9** | 546.0 | **61.3** | 60.4 |
| Profit and loss account | 21 | **44.7** | 36.1 | **1,169.3** | 505.7 |
| *Shareholders' funds* | | **2,398.7** | 2,352.7 | **2,398.7** | 2,352.7 |
| Equity minority interests | | **–** | 13.9 | **–** | – |
| *Total shareholders' funds including minority interests* | | **2,398.7** | 2,366.6 | **2,398.7** | 2,352.7 |
| *Net assets per share* | 22 | **844p** | 843p | | |
| *Net assets per share (diluted)* | 22 | **827p** | 796p | | |

Approved by the Board on 12 February 2002

**D. Gordon**
Chairman

**D.A. Fischel**
Chief Executive

# Statement of Total Recognised Gains and Losses

| For the year ended 31 December 2001 | **2001 £m** | 2000 £m |
|---|---|---|
| Profit for the financial year attributable to shareholders | **75.5** | 105.5 |
| Group's share of increase in valuation of investment properties | **11.7** | 135.5 |
| Unrealised (deficit)/surplus on other fixed asset investments | **(3.7)** | 12.2 |
| Foreign exchange and other movements | **0.6** | 4.1 |
| Total recognised gains and losses in the year | **84.1** | 257.3 |

# Reconciliation of Movements in Shareholders' Funds

| For the year ended 31 December 2001 | **2001 £m** | 2000 Restated £m |
|---|---|---|
| Opening shareholders' funds | **2,352.7** | 2,231.0 |
| Recognised gains and losses for the year | **84.1** | 257.3 |
| Dividends | **(62.3)** | (62.8) |
| Acquisition of minority through issue of shares | **–** | 351.7 |
| Capital reserve arising on consolidation (note 21) | **–** | 193.2 |
| Shares issued on conversion of bonds | **32.9** | – |
| Cancellation of shares | **(8.7)** | (617.7) |
| *Closing shareholders' funds* | **2,398.7** | 2,352.7 |

# Note of Historical Cost Profits and Losses

| For the year ended 31 December 2001 | **2001 £m** | 2000 £m |
|---|---|---|
| Profit on ordinary activities before taxation | **90.9** | 153.0 |
| Prior year revaluation surplus realised | **1.2** | 28.6 |
| *Historical cost profit on ordinary activities before taxation* | **92.1** | 181.6 |
| *Historical cost profit retained for the period after taxation, minority interests and dividends* | **14.4** | 71.3 |

# Consolidated Cash Flow Statement

| For the year ended 31 December 2001 | Notes | **2001 £m** | 2000 £m |
|---|---|---|---|
| Net cash inflow from operating activities | 23 | **187.4** | 240.8 |
| Returns on investments and servicing of finance | 23 | **(117.9)** | (110.1) |
| Taxation paid | | **(24.9)** | (36.2) |
| Capital expenditure and financial investment | 23 | **(147.9)** | (67.0) |
| Acquisitions and disposals | 25 | **35.9** | (14.3) |
| Equity dividends paid | | **(60.8)** | (94.3) |
| *Cash outflow before use of liquid resources and financing* | | **(128.2)** | (81.1) |
| Management of liquid resources | 23 | **39.3** | 102.6 |
| Financing | 24 | **111.0** | (36.5) |
| *Increase/(decrease) in cash during the year* | | **22.1** | (15.0) |

| | | | |
|---|---|---|---|
| *Reconciliation of net cash flow to movement in net debt* | | | |
| Increase/(decrease) in cash during the year | | **22.1** | (15.0) |
| Net cash inflow from increase in debt | | **(127.5)** | (593.5) |
| Non cash change in net debt – conversion of bonds | 33 | **32.9** | – |
| Cash inflow from decrease in liquid resources | | **(42.3)** | (139.0) |
| *Movement in net debt during the year* | | **(114.8)** | (747.5) |
| *Net debt at 1 January* | | **(1,585.6)** | (838.1) |
| *Net debt at 31 December* | 17 | **(1,700.4)** | (1,585.6) |

# Principal Accounting Policies

*Accounting convention and basis of preparation*

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom under the historical cost convention as modified by the revaluation of properties and investments as described below.

*Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings. As provided by Section 230(3) of the Companies Act 1985, a separate profit and loss account is not presented for the company.

*Change in accounting policy*

In preparing the 2000 Report and Accounts and the fair value table relating to the acquisition of the remaining minority interests in CSC, the Directors reduced the fair value of assets acquired to match the consideration given, on the grounds that there had been no “bargain purchase” and therefore negative goodwill should not arise. This treatment resulted in the recognition at the end of the year of £193.2 million as part of a revaluation surplus in respect of the share of these assets acquired from the minority interests.

Following discussions with the Financial Reporting Review Panel (FRRP), which opened an inquiry in December 2001, the fair value table from the 2000 accounts has been amended as set out in note 21 with the result that negative goodwill of £193.2 million arises. In respect of this transaction the Directors have adopted the revised accounting policy set out below under Goodwill, which credits negative goodwill directly to other reserves as a negative consolidation difference, to ensure that the financial statements continue to show a true and fair view. The FRRP has indicated that it has no objection to the revised presentation.

The changes referred to above have no effect on the profit and loss account or cash flows for the year ended 31 December 2000 or shareholders’ funds and net assets per share at that date.

*Goodwill*

Goodwill arising on acquisition of group undertakings is carried as an intangible asset and is amortised over its estimated useful economic life which does not exceed 20 years.

The negative goodwill which arose as a result of the acquisition of the minority interest in CSC during 2000 has been credited to other reserves. This is not in accordance with FRS 10 which requires that negative goodwill should be presented as a negative asset immediately below the Goodwill heading on the balance sheet. Since the negative goodwill relates to investment properties which are neither depreciated nor held for resale, the negative goodwill could remain on the balance sheet as a negative asset indefinitely. The Directors consider that the treatment required by FRS 10 would not show a true and fair view, as it would not properly reflect the particular transaction or correctly state the net assets of the group. The treatment adopted is not inconsistent with the requirements of the Companies Act 1985.

*Investment properties*

Completed investment properties are professionally valued on an open market basis by external valuers at the balance sheet date. Surpluses and deficits arising during the year are reflected in the revaluation reserve.

Investment properties under development and land are included in the balance sheet at cost. Provision is made where necessary for any anticipated valuation deficiencies arising on completion. Cost includes interest and other attributable outgoings, except in the case of properties and land where no development is imminent, in which case no interest is included.

*Depreciation*

In accordance with Statement of Standard Accounting Practice 19, no depreciation is provided in respect of freehold or long leasehold investment properties including integral plant. The requirement of the Companies Act 1985 is to depreciate all properties but that requirement conflicts with the generally accepted principles set out in Statement of Standard Accounting Practice 19. The Directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view and it is necessary to adopt Statement of Standard Accounting Practice 19 for the accounts to show a true and fair view.

The financial effect of the departure from the Act cannot reasonably be quantified, as depreciation is only one of the many factors reflected in the annual valuation of properties so the amount which might otherwise have been charged cannot be separately identified or quantified.

The value of short leasehold investment properties (under 20 years) at the beginning of the year is amortised over the remaining term of the lease.

Other fixed assets are depreciated mainly by equal instalments over their expected economic lives which do not exceed five years.

*Trading properties*

Trading properties and land are included in the balance sheet at the lower of cost and net realisable value. Cost consists of direct cost excluding interest. Profits on sales are recognised only when legal title passes.

*Other investments*

Listed fixed asset investments are revalued to their mid-market listed values ruling at the balance sheet date. Other fixed asset investments are carried in the balance sheet at Directors' valuation based on net asset value. Any surplus or deficit on revaluation, to the extent that a deficit is not permanent, is taken to the revaluation reserve.

Other listed investments held as current assets are revalued to market value and the resulting gains or losses are taken through the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued, any revaluation differences be taken to revaluation reserve. The Directors consider that these requirements would fail to give a true and fair view of the profit for the year of the company since the marketability of the securities enables decisions to be taken continually about whether to hold or sell them, and hence the economic measure of profit in any period is properly made by reference to market values.

*Interests in subsidiary undertakings*

Interests in subsidiary undertakings are carried in the company balance sheet at net asset value. Any surplus or deficit on revaluation, to the extent that a deficit is not permanent, is taken to the revaluation reserve.

*Turnover*

Property turnover consists of gross rental income calculated on an accruals basis, together with sales and services in the ordinary course of business, excluding sales of investment properties.

Turnover in respect of financial services, investment and other income represents investment income, fees and commissions earned on an accruals basis and profits or losses recognised on investments held for the short term.

*Cost of sales*

For property, cost of sales consists of ground rents payable, rents payable by way of participating interests of funding partners and other property outgoings directly attributable to investment and trading properties. For financial services, cost of sales includes direct costs relating to financial services business other than those attributable to administrative costs.

*Deferred taxation*

Deferred taxation is provided, to the extent that it is probable that a liability will crystallise, on the liability method on short-term timing differences, including the difference between capital allowances on assets subject to depreciation and the depreciation charged in the accounts and on chargeable capital gains and related balancing charges on those investments and investment properties earmarked for sale at the date of the accounts. No deferred tax is provided, on capital allowances in respect of assets not subject to depreciation. The potential amount of taxation which would be payable if such assets were disposed of in such a way as to generate balancing charges is disclosed in note 5 to the accounts.

No provision is made for the contingent taxation liability arising in respect of valuation surpluses on investments held for the long term where disposal is not contemplated in the foreseeable future. The potential amount of taxation which would be payable if all such surpluses were to be realised is disclosed in note 5 to the accounts.

*Pensions*

The expected cost to the group of defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. The costs of defined contribution schemes and group personal plans are charged against profits in the year in which they are incurred.

*Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Results in foreign currencies are translated into sterling at the average rate of exchange for the period. Exchange differences arising from the retranslation of the opening net investment in overseas undertakings, after taking account of related foreign currency borrowings and other hedging instruments, are recorded as adjustments to the appropriate opening reserves and are reported in the statement of total recognised gains and losses. Other exchange differences are dealt with through the profit and loss account.

*Derivatives and financial instruments*

Profits and losses in respect of derivatives and other financial instruments, where these have been entered into in accordance with the group's policies in relation to hedging of interest rate and currency risk, are recognised on an accruals basis, reflecting the cash flows over the life of the instrument. No adjustment is made in the accounts in respect of the market value of such instruments unless such instruments are judged to be in excess of current or future hedging requirements.

# Notes to the Accounts

*1 Segmental reporting*

| | **Turnover 2001 £m** | Turnover 2000 £m | **Operating profit 2001 £m** | Operating profit 2000 £m | **Attributable net assets 2001 £m** | Attributable net assets 2000 £m |
|---|---|---|---|---|---|---|
| *Property investment* | | | | | | |
| UK shopping centres | **227.7** | 209.7 | **146.5** | 136.0 | **3,216.9** | 3,099.8 |
| Commercial properties | | | | | | |
| United Kingdom | **53.4** | 52.3 | **45.5** | 45.2 | **712.2** | 694.0 |
| United States | **18.2** | 16.9 | **11.9** | 10.8 | **125.9** | 137.1 |
| *Property trading* | **11.1** | 40.9 | **6.3** | 11.4 | **68.3** | 65.9 |
| *Investment and other income* | **18.7** | 32.4 | **7.9** | 32.4 | **180.8** | 77.2 |
| *Financial services* | **1.9** | 9.8 | **1.2** | 1.5 | **–** | 6.6 |
| | **331.0** | 362.0 | **219.3** | 237.3 | **4,304.1** | 4,080.6 |
| *Administrative expenses* | | | **(19.9)** | (21.1) | | |
| | | | **199.4** | 216.2 | | |
| *Non interest bearing assets and liabilities* | | | | | **(205.0)** | (128.4) |
| *Interest bearing assets and liabilities:* | | | | | | |
| Cash and near cash investments | | | | | **84.2** | 106.2 |
| Short-term borrowings | | | | | **(6.3)** | (2.9) |
| Long-term borrowings | | | | | **(1,778.3)** | (1,688.9) |
| | | | | | **2,398.7** | 2,366.6 |
| *Geographical analysis:* | | | | | | |
| United Kingdom | **311.4** | 344.0 | **188.2** | 205.0 | **2,301.6** | 2,272.5 |
| United States | **19.6** | 18.0 | **11.2** | 11.2 | **97.1** | 94.1 |
| | **331.0** | 362.0 | **199.4** | 216.2 | **2,398.7** | 2,366.6 |

Turnover has been analysed by reference to geographical origin. Turnover analysed by geographical destination would be the same.

Included within financial services turnover is £0.8 million (2000 – £3.9 million) in respect of Portfolio Fund Management which was disposed of during 2001 (see note 2).

*2 Exceptional items*

*(a) Profit on disposal of fixed assets and subsidiaries*

| | 2001 £m | 2000 £m |
|---|---|---|
| Profits/(losses) arising on disposal of investment properties | **0.2** | (0.8) |
| Profits arising on disposal of fixed asset investments | **0.7** | – |
| Profits arising on disposal of subsidiaries | **3.1** | 26.8 |
| | **4.0** | 26.0 |

During the year, the group sold Portfolio Fund Management Limited for cash consideration of £12.0 million. The exceptional profit arising on the sale amounted to £3.0 million, on which no tax is payable. The cash effect of this transaction is shown in note 25.

*(b) Interest payable less receivable – exceptional*

| | 2001 £m | 2000 £m |
|---|---|---|
| Early termination of interest rate hedging contracts | **8.9** | 3.2 |
| Repurchase of CSC unsecured bonds | **8.3** | – |
| Repurchase of Liberty International convertible bonds | **(8.7)** | (3.3) |
| Early redemption of US notes 1999 – 2006 | **–** | (5.7) |
| Other exceptional finance charges | **(1.1)** | – |
| | **7.4** | (5.8) |

*3 Interest payable less receivable*

| | 2001 £m | 2000 £m |
|---|---|---|
| *Interest payable* | | |
| On sums not wholly repayable within five years | **(103.7)** | (68.7) |
| On subordinated convertible debt | **(8.1)** | (12.2) |
| On bank loans, overdrafts and other loans wholly repayable within five years | **(16.0)** | (17.3) |
| | **(127.8)** | (98.2) |
| *Interest receivable* | **4.2** | 7.6 |
| | **(123.6)** | (90.6) |
| *Adjustment in respect of interest capitalised on investment properties under development* | **3.7** | 7.2 |
| | **(119.9)** | (83.4) |

Interest is capitalised on the basis of the average rate of interest paid on the relevant debt applied to the cost of developments during the year.

*4 Profit on ordinary activities before taxation*

| | **2001 £'000** | 2000 £'000 |
|---|---|---|
| *Profit on ordinary activities before taxation is arrived at after charging:* | | |
| Amortisation of short leaseholds | **985** | 796 |
| Amortisation of goodwill | **156** | 567 |
| Depreciation | **725** | 933 |
| Auditors' remuneration (Company £55,000 (2000 – £47,200)) | **323** | 275 |
| Remuneration paid to the company's auditors for non-audit work* | **404** | 1,511 |
| Staff costs (see note 31) | **25,534** | 28,998 |

*2000 auditors' remuneration for non-audit work includes £1.2 million deducted in arriving at exceptional profit on disposal of subsidiaries. In addition in 2000, the auditors received a further £0.7 million in fees, which were charged to reserves, in respect of repurchase of own shares and issuance of share capital.

*5 Taxation on profit on ordinary activities*
*(a) Current taxation charge*

| | **2001 £m** | 2000 £m |
|---|---|---|
| Current United Kingdom corporation tax at 30% (2000 – 30%) on profits excluding exceptional items | **(13.0)** | (26.3) |
| Prior year items | **1.8** | 0.7 |
| | **(11.2)** | (25.6) |
| Overseas taxation | **(0.5)** | (1.4) |
| | **(11.7)** | (27.0) |
| Tax on exceptional items | **(2.8)** | (1.4) |
| | **(14.5)** | (28.4) |

The principal factors contributing to the low tax charge for the year were losses brought forward from prior years, tax relief on capitalised interest and capital allowances on assets not subject to depreciation and in respect of which no provision for deferred taxation has been made.

*(b) Deferred taxation charge*
At 31 December 2001 a provision of £368.3 million (2000 – £385.5 million) would be required if contingent deferred taxation were to be provided in respect of all revaluation surpluses before balancing charges.

*(c) FRS19 "Deferred Tax"*
FRS 19 "Deferred Tax" becomes effective for accounting periods ending on or after 23 January 2002. The group has not opted for early adoption of this standard. The potential amount of taxation which could become payable by way of balancing charges if all relevant assets were disposed of in such a way as to create them would be £64.5 million (2000 – £57.8 million). If this liability were to be discounted for an appropriate period (20 years at 5 per cent), this figure would be reduced to £24.3 million (2000 – £22.7 million). The taxation charge for 2001 would be £5.6 million higher were the potential liability to be provided in full at 31 December 2001 (if discounted, £2.1 million). This timing difference would only reverse on disposal of the underlying assets.

*6 Profit for the financial year attributable to shareholders of Liberty International*

Profits of £732.8 million are dealt with in the accounts of the holding company in respect of the year (2000 – £869.4 million). No profit and loss account is presented for the company as permitted by Section 230 Companies Act 1985.

*7 Dividends*

| | **2001 £m** | 2000 £m |
|---|---|---|
| *Ordinary shares* | | |
| Interim ordinary dividend paid of 10.75p per share (2000 – 10.25p) | **(28.8)** | (30.7) |
| Final ordinary dividend declared of 12.0p per share (2000 – 11.5p) | **(33.5)** | (32.1) |
| | **(62.3)** | (62.8) |

Dividends of £1.0 million have been waived by LI Share Plan (Jersey) Limited as Trustee of the ESOP in respect of 2001 (see note 11).

Details of the shares in issue are given in note 20.

*8 Earnings per share*

| | **2001 millions** | 2000 millions |
|---|---|---|
| Weighted average ordinary shares in issue | **278.2** | 274.4 |
| Weighted average ordinary shares held by ESOP | **(4.6)** | (4.0) |
| Weighted average ordinary shares in issue for calculation of basic earnings per share | **273.6** | 270.4 |
| Effect of dilution | **35.3** | 24.7 |
| *Weighted average ordinary shares in issue for calculation of diluted earnings per share* | **308.9** | 295.1 |

| | **2001 £m** | 2000 £m |
|---|---|---|
| Earnings used for calculation of basic earnings per share | **75.5** | 105.5 |
| Exceptional items, net of tax | **(8.6)** | (18.8) |
| *Earnings used for calculation of earnings per share before exceptional items* | **66.9** | 86.7 |
| Earnings used for calculation of basic earnings per share | **75.5** | 105.5 |
| Effect of dilution | **8.1** | 9.1 |
| *Earnings used for calculation of diluted earnings per share* | **83.6** | 114.6 |

*9 Investment properties*

| | Freehold £m | Leasehold over 50 years £m | Leasehold under 50 years £m | Total £m |
|---|---|---|---|---|
| *Completed properties at external valuation:* | | | | |
| At 31 December 2000 | 1,914.1 | 1,870.0 | 5.8 | 3,789.9 |
| Additions | 126.3 | 14.0 | – | 140.3 |
| Disposals | (20.5) | – | – | (20.5) |
| Foreign exchange fluctuations | 3.5 | – | – | 3.5 |
| Amortisation | – | – | (1.0) | (1.0) |
| Reclassification – completed developments | 155.8 | – | – | 155.8 |
| Reclassification – Portfolio Property Fund | (54.4) | – | – | (54.4) |
| Surplus on valuation | 7.9 | 3.1 | 0.7 | 11.7 |
| *At 31 December 2001* | **2,132.7** | **1,887.1** | **5.5** | **4,025.3** |
| *Properties under development at cost:* | | | | |
| At 31 December 2000 (including £11.8 million capitalised interest) | 138.3 | 2.7 | – | 141.0 |
| Additions | 37.7 | 6.8 | – | 44.5 |
| Reclassification – completed developments | (155.8) | – | – | (155.8) |
| *At 31 December 2001 (including £1.3 million capitalised interest)* | **20.2** | **9.5** | **–** | **29.7** |
| *Investment properties* *At 31 December 2001* | **2,152.9** | **1,896.6** | **5.5** | **4,055.0** |
| At 31 December 2000 | 2,052.4 | 1,872.7 | 5.8 | 3,930.9 |

| | UK £m | US £m | Total £m |
|---|---|---|---|
| *Geographical analysis* | **3,929.1** | **125.9** | **4,055.0** |

The group's interests in completed investment properties were valued as at 31 December 2001 by external valuers in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market value, gross of purchasers' costs.

In the UK, properties were valued by either DTZ Debenham Thorpe Tie Leung, Chartered Surveyors, CB Hillier Parker, Chartered Surveyors, Matthews and Goodman, Chartered Surveyors or Richard Ellis St Quintin, Chartered Surveyors. In the United States properties were valued by Jones Lang LaSalle.

The historic cost of completed investment properties was £2,340.8 million (2000 – £2,087 million).

In accordance with the group's accounting policy and Statement of Standard Accounting Practice 19, no depreciation has been charged in respect of freehold or long leasehold investment properties. The effect of this departure from the Companies Act 1985 has not been quantified because it is impracticable and, in the opinion of the Directors, would be misleading.

Investment properties are valued without deduction of purchasers' costs as the Directors do not consider such deduction to be appropriate. Full provision for purchasers' costs at 5 per cent in the UK and 3.5 per cent in the US would amount to £160.4 million in respect of UK shopping centres and £39.0 million in respect of the other commercial properties (2000 – £148.6 million and £38.8 million respectively). The provision required in respect of contingent deferred taxation disclosed in note 5(b) would be reduced by 30 per cent of the above amounts if provision had been made for these purchasers' costs.

Upon disposal of the manager of the Portfolio Property Fund (see note 2), the group ceased to consolidate its interest in the renamed Edinburgh Property Portfolio. The group investment at 31 December 2001 is included in investments in listed shares and units.

*10 Investment in group companies*

| | Company £m |
|---|---|
| At 31 December 2000 | 3,241.3 |
| Additions | 109.1 |
| Disposals | (100.4) |
| Redemptions | (104.1) |
| Revaluations | (746.7) |
| *At 31 December 2001* | **2,399.2** |

Investment in group companies includes equity and debt investments. The historical cost of company investments at 31 December 2001 was £1,819.2 million (2000 – £1,914.6 million).

*11 Other tangible assets and investments*

| | Tangible assets | | | Investments | | | |
|---|---|---|---|---|---|---|---|
| | Cost £m | Accumulated depreciation £m | Net £m | Listed shares and units £m | Own shares £m | Group Total £m | Company Total £m |
| At 31 December 2000 | 5.8 | (4.3) | 1.5 | 59.5 | 15.6 | 76.6 | 39.8 |
| Additions | 0.2 | – | 0.2 | 70.5 | 6.2 | 76.9 | 104.2 |
| Disposals | (1.2) | 0.7 | (0.5) | (8.8) | – | (9.3) | (8.8) |
| Charge for the year | – | (0.7) | (0.7) | – | – | (0.7) | – |
| Revaluation to market value | – | – | – | (3.7) | – | (3.7) | 4.5 |
| Reclassification (note 9) | – | – | – | 61.4 | – | 61.4 | – |
| Allocations | – | – | – | – | (3.9) | (3.9) | (3.9) |
| *At 31 December 2001* | **4.8** | **(4.3)** | **0.5** | **178.9** | **17.9** | **197.3** | **135.8** |

Other tangible assets include vehicles, fixtures, fittings and other office equipment. Investments in listed shares and units are listed on the London and Amsterdam stock exchanges and include 9.4 per cent of the ordinary share capital of Great Portland Estates P.L.C.

Other tangible assets and investments of the company comprise £17.9 million investments in own shares and £117.9 million investments in listed shares and units (2000 – £15.6 million and £24.2 million respectively).

*Own shares*

Investment in own shares represents 4,639,625 ordinary shares in Liberty International (2000 – 4,178,283) with a nominal value of £2.3 million (2000 – £2.1 million). The historic cost of own shares at 31 December 2001 was £20.3 million (31 December 2000 – £16.9 million). The shares are held by the Trustee of the Employee Share Ownership Plan ("ESOP") operated by the company.
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 the Report on Directors' Remuneration on pages 105 to 108. All own shares are stated at cost less amounts written off in respect of allocations to employees. The market value of the Liberty International shares at 31 December 2001 was £22.4 million (2000 – £20.4 million). Dividends payable on these shares have been waived by agreement. The costs of administering the ESOP are included in administration costs of the company.

*12 Intangible assets*

| | **Group 2001 £m** | Group 2000 £m |
|---|---|---|
| At 31 December 2000 | **6.0** | 12.7 |
| Disposals | **(5.9)** | (6.2) |
| Amortisation | **(0.1)** | (0.5) |
| *At 31 December 2001* | **–** | 6.0 |

Disposals relate to the realisation of goodwill upon sale of Portfolio Fund Management Limited (2000 – Liberty International Jersey Limited).

*13 Cash and near cash investments*

| | **Group 2001 £m** | Group 2000 £m |
|---|---|---|
| Cash and deposits | **74.1** | 53.8 |
| Liberty International Money Funds | **–** | 18.3 |
| Other near cash investments | **10.1** | 34.1 |
| | **84.2** | 106.2 |
| Other short-term investments | **1.9** | 17.7 |

All short-term investments are stated at market value. The effect on the accounts of using this alternative accounting method is to increase profit before taxation by £0.5 million (2000 – £2.0 million) and to increase the carrying value of short-term investments held at 31 December 2001 by £0.6 million (2000 – £1.6 million).

In addition to the holdings of listed investments the group has entered into equity-linked derivative “contracts for difference”. The group’s gross exposure to movements in the underlying equity prices at 31 December 2001 was £14.1 million. The market value of these contracts is nil as the differences are cash settled daily.

## *14 Other current assets*

| | Group 2001 £m | Group 2000 £m | Company 2001 £m | Company 2000 £m |
|---|---|---|---|---|
| *Debtors* | | | | |
| *Amounts falling due within one year:* | | | | |
| Rents receivable | **16.5** | 13.9 | **–** | – |
| Dividends receivable from subsidiary undertakings | **–** | – | **590.4** | 525.6 |
| Amounts owed by subsidiary undertakings | **–** | – | **175.1** | 174.0 |
| Tax recoverable | **–** | – | **24.1** | 10.9 |
| Other debtors | **6.8** | 48.9 | **0.6** | 2.7 |
| Prepayments and accrued income | **23.6** | 12.8 | **0.2** | 2.0 |
| | **46.9** | 75.6 | **790.4** | 715.2 |
| *Amounts falling due after more than one year:* | | | | |
| Other debtors | **0.3** | 0.6 | **–** | – |
| Prepayments and accrued income | **2.9** | 2.5 | **–** | – |
| | **50.1** | 78.7 | **790.4** | 715.2 |
| *Trading properties* | | | | |
| Undeveloped sites | **37.2** | 39.8 | **–** | – |
| Completed properties | **31.1** | 26.1 | **–** | – |
| | **68.3** | 65.9 | **–** | – |
| | **118.4** | 144.6 | **790.4** | 715.2 |

The estimated replacement cost of trading properties based on market value amounted to £72.1 million at 31 December 2001 (2000 – £68.4 million).

## *15 Creditors: amounts falling due within one year*

| | Group 2001 £m | Group 2000 £m | Company 2001 £m | Company 2000 £m |
|---|---|---|---|---|
| Bank loans and overdrafts (note 17) | **6.3** | 2.9 | **–** | 2.0 |
| Trade creditors | **9.5** | 3.4 | **–** | – |
| Rents receivable in advance | **46.0** | 55.7 | **–** | – |
| Amounts owed to subsidiary undertakings | **–** | – | **819.8** | 832.0 |
| Other creditors | **77.1** | 19.2 | **0.7** | 3.0 |
| Corporation tax | **14.0** | 26.8 | **–** | – |
| Other taxes and social security | **11.4** | 8.3 | **0.1** | – |
| Dividends payable | **33.5** | 32.1 | **33.5** | 32.1 |
| Accruals and deferred income | **73.0** | 68.6 | **2.2** | 32.1 |
| | **270.8** | 217.0 | **856.3** | 901.2 |

*16 Creditors: amounts falling due after more than one year*

| | **Group 2001 £m** | Group 2000 £m | **Company 2001 £m** | Company 2000 £m |
|---|---|---|---|---|
| Debentures – secured | **230.0** | 230.0 | **–** | – |
| Bank loan due 2016 – secured | **172.5** | 172.5 | **–** | – |
| Bank loan due 2015 – secured – non-recourse | **544.2** | – | **–** | – |
| Bank loan due 2011 – secured – non-recourse | **445.6** | – | **–** | – |
| Other fixed rate loans – secured | **42.1** | 52.0 | **–** | – |
| Bank loans – unsecured | **41.0** | 685.9 | **–** | 535.0 |
| Unsecured bonds | **232.5** | 341.1 | **–** | – |
| | **1,707.9** | 1,481.5 | **–** | 535.0 |
| 5.5% Liberty International Subordinated Convertible Bonds due 2009 | **–** | 103.3 | **–** | 103.3 |
| 6.25% Liberty International Subordinated Convertible Bonds due 2006 | **70.4** | 104.1 | **70.4** | 104.1 |
| *Total debt: amounts falling due after more than one year (note 17)* | **1,778.3** | 1,688.9 | **70.4** | 742.4 |
| Other creditors | **0.5** | 0.5 | **–** | – |
| | **1,778.8** | 1,689.4 | **70.4** | 742.4 |

*17 Debt*

*(a) Analysis of net debt*

| | **Group 2001 £m** | Group 2000 £m | **Company 2001 £m** | Company 2000 £m |
|---|---|---|---|---|
| Debt due within one year (note 15) | **6.3** | 2.9 | **–** | 2.0 |
| Debt due after more than one year (note 16) | **1,778.3** | 1,688.9 | **70.4** | 742.4 |
| Gross debt | **1,784.6** | 1,691.8 | **70.4** | 744.4 |
| Cash and near cash investments (note 13) | **(84.2)** | (106.2) | **–** | – |
| *Net debt* | **1,700.4** | 1,585.6 | **70.4** | 744.4 |

*(b) Maturity of gross debt*

| | **Group 2001 £m** | Group 2000 £m | **Company 2001 £m** | Company 2000 £m |
|---|---|---|---|---|
| Wholly repayable within one year | **6.3** | 2.9 | **–** | 2.0 |
| Wholly repayable in more than one year but not more than two years | **3.1** | 271.3 | **–** | 250.0 |
| Wholly repayable in more than two years but not more than five years | **126.3** | 428.4 | **70.4** | 285.0 |
| Wholly repayable in more than five years | **1,648.9** | 989.2 | **–** | 207.4 |
| | **1,784.6** | 1,691.8 | **70.4** | 744.4 |

*(c) Security profile*

| | **Group 2001 £m** | Group 2000 £m | **Company 2001 £m** | Company 2000 £m |
|---|---|---|---|---|
| Secured | **1,440.5** | 455.4 | **–** | – |
| Unsecured | **344.1** | 1,236.4 | **70.4** | 744.4 |
| | **1,784.6** | 1,691.8 | **70.4** | 744.4 |

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

## *18 Financial instruments*

### *Treasury policy*

The group enters into derivative transactions such as interest rate swaps and forward foreign exchange contracts in order to manage the 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 debt is 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.

*Liquidity risk* The group's policy is to minimise refinancing risk. At 31 December 2001 the maturity profile of group debt showed an average maturity of 12 years (2000 – 9 years). The group will often pre-fund capital expenditure by drawing on facilities or raising debt in the capital markets 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.

*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 reported profits. As a consequence the group is exposed to market price risk in respect of the fair value of its fixed rate financial instruments.

*Foreign exchange* The group held investments in the US and Australia and cash investments denominated in Euros during the year. The group seeks to minimise market price risk in respect of foreign exchange movements. The group's policy is to significantly hedge the opening net investment in non-sterling assets. This is done by matching borrowings in US dollars and through entering into cross-currency interest rate swaps and forward foreign exchange contacts.

*Fair values of financial assets and liabilities* Financial assets and liabilities comprise long-term borrowings, interest rate swaps and similar instruments, and cash and short-term investments. Short-term debtors and creditors are excluded from financial assets and liabilities. 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.

*Financial assets* Financial assets are disclosed in note 13 under cash and near cash investments. These are stated in the balance sheet at market value and earn interest at interest rates which are fixed for periods of less than one year. Short-term interest rate swaps have been entered into to secure fixed rates over a longer period and these are disclosed below.

*18 Financial instruments* continued

*Financial liabilities*

| | **Weighted average interest rate 2001** | **Balance sheet value at 31 December 2001 £m** | **Fair value at 31 December 2001 £m** | Weighted average interest rate 2000 | Balance sheet value at 31 December 2000 £m | Fair value at 31 December 2000 £m |
|---|---|---|---|---|---|---|
| *Debentures and other fixed rate loans* | | | | | | |
| *Sterling* | | | | | | |
| 9.875% debenture 2027 | **9.88%** | **150.0** | **211.1** | 9.88% | 150.0 | 225.0 |
| 11.25% debenture 2021 | **11.25%** | **80.0** | **120.2** | 11.25% | 80.0 | 125.2 |
| 6.875% unsecured bonds 2013 | **6.88%** | **115.3** | **103.5** | 6.88% | 196.1 | 184.9 |
| 5.75% unsecured bonds 2009 | **5.75%** | **117.2** | **101.9** | 5.75% | 145.0 | 127.8 |
| *US dollars* | | | | | | |
| Fixed rate loans | **7.71%** | **48.2** | **48.5** | 7.97% | 52.8 | 52.8 |
| | **8.59%** | **510.7** | **585.2** | 7.99% | 623.9 | 715.7 |
| *Bank loans (LIBOR linked)* | **–** | **1,203.5** | **1,203.5** | – | 860.5 | 860.5 |
| *Hedging instruments* | **5.60%** | **–** | **32.3** | 6.08% | – | 21.6 |
| | | **1,714.2** | **1,821.0** | | 1,484.4 | 1,597.8 |
| *Convertible bonds – fixed rate (note 33)* | **6.25%** | **70.4** | **79.7** | 5.88% | 207.4 | 231.0 |

The adjustment in respect of the above, after credit for tax relief, to the diluted net assets per share would amount to 25p per share (2000 – 25p). The maturity profile of financial liabilities is disclosed in note 17.

An analysis of the unrecognised hedging gains and losses at 31 December 2001 is set out below.

| | Gains £m | Losses £m | Total net gains/losses £m |
|---|---|---|---|
| Unrecognised gains and losses on hedges at 31 December 2000 | – | (21.6) | (21.6) |
| Gains and losses arising in prior periods that were recognised in the current period | – | 3.9 | 3.9 |
| Gains and losses arising in prior years that were not recognised in the current period | – | (17.7) | (17.7) |
| Net gains and losses arising in the current period that were not recognised in the current period | – | (14.6) | (14.6) |
| *Unrecognised gains and losses on hedges at 31 December 2001* | **–** | **(32.3)** | **(32.3)** |
| Gains and losses expected to be recognised in the next period | – | (16.1) | (16.1) |

Hedging instruments in place at 31 December 2001 were as follows:

*Interest rate swap agreements*

Outstanding during the period from 31 December 2001

| | Notional principal Average £m | Notional principal Maximum £m | Average contracted rate % |
|---|---|---|---|
| *Sterling – pay fixed and receive floating* | | | |
| In one year or less | 1,170 | 1,170 | 5.80% |
| In more than one year but not more than two years | 1,170 | 1,170 | 5.80% |
| In more than two years but not more than five years | 1,170 | 1,170 | 5.80% |
| In more than five years but not more than ten years | 1,096 | 1,470 | 5.78% |
| More than ten years | 587 | 660 | 5.20% |

*18 Financial instruments* continued

*US dollars* At 31 December 2001, the group had US$70 million cross currency interest rate swaps held to hedge Capital & Counties' net investment in US dollars. Under these contracts, which expire in September 2003, the group pays fixed rate US dollar interest at 6.93 per cent and receives floating rate sterling interest.

At 31 December 2000, the net investments in US and Australian dollars were fully hedged. At 31 December 2001, the net exposure to foreign currencies was US$10 million and AU$6 million. During the year the group held investments in Euro-denominated instruments. These investments were hedged using forward foreign exchange contracts so that the returns achieved are commensurate with sterling interest rates and there is no exposure to exchange movements on the capital invested.

*Facilities*

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2001 in respect of which all conditions precedent had been met were as follows:

| | **2001 £m** |
|---|---|
| Expiring in one year or less | **–** |
| Expiring in more than one year but not more than two years | **–** |
| Expiring in more than two years | **459** |

*19 Provisions for liabilities and charges*

| | **Group 2001 £m** | Group 2000 £m |
|---|---|---|
| Deferred tax – excess of book values of properties and investments earmarked for disposal over their cost for tax purposes | **3.4** | 2.7 |
| Deferred consideration in respect of property interests | **5.1** | 6.3 |
| | **8.5** | 9.0 |

See discussion of deferred tax in note 5(b) above.

*20 Called up share capital*

| | **2001 £m** | 2000 £m |
|---|---|---|
| *Authorised* | | |
| 500,000,000 ordinary shares of 50p each | **250.0** | 250.0 |
| *Issued and fully paid equity interests* | | |
| 284,175,555 (2000 – 278,958,438) ordinary shares of 50p each | **142.1** | 139.5 |

During the year, the company purchased in the market for cancellation, with the objective of enhancing net asset value per share, 1,700,000 ordinary shares of 50p each with a total nominal value of £850,000. The cost of purchases amounted to £8.7 million and the shares cancelled represented 0.61 per cent of the issued share capital as at 31 December 2000. As at 25 January 2002, the company had an unexpired authority to repurchase further shares up to a maximum of 26,195,844 shares with a nominal value of £13.1 million.

The company issued during the year a total of 6,917,117 shares on conversion of convertible bonds, as described in note 33.

*20 Called up share capital* continued

These movements in share capital are summarised below:

| | Ordinary share capital Number millions | Ordinary share capital Nominal value £m |
|---|---|---|
| At 31 December 2000 | 279.0 | 139.5 |
| On-market repurchases | (1.7) | (0.9) |
| Bond conversions | 6.9 | 3.5 |
| *At 31 December 2001* | **284.2** | **142.1** |

*21 Capital and reserves*

| | Share capital £m | Share premium account £m | Capital redemption reserve £m | Revaluation reserve £m | Other reserve £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|---|---|
| *Reconciliation of movements in shareholders' funds* | | | | | | | |
| *Group* | | | | | | | |
| At 31 December 2000 | 139.5 | 316.6 | 60.4 | 1,507.7 | 292.4 | 36.1 | 2,352.7 |
| Restatement (see below) | – | – | – | (193.2) | 193.2 | – | – |
| At 31 December 2000 restated | 139.5 | 316.6 | 60.4 | 1,314.5 | 485.6 | 36.1 | 2,352.7 |
| Shares issued during the year | 3.5 | 29.4 | – | – | – | – | 32.9 |
| Shares cancelled during the year | (0.9) | – | 0.9 | – | – | (8.7) | (8.7) |
| Retained profit for the year | – | – | – | – | – | 13.2 | 13.2 |
| Group's share of revaluation of investment properties | – | – | – | 11.7 | – | – | 11.7 |
| Revaluation of fixed asset investments | – | – | – | (3.7) | – | – | (3.7) |
| Prior year revaluations realised | – | – | – | (1.2) | – | 1.2 | – |
| Foreign exchange and other movements | – | – | – | (2.3) | – | 2.9 | 0.6 |
| *At 31 December 2001* | **142.1** | **346.0** | **61.3** | **1,319.0** | **485.6** | **44.7** | **2,398.7** |
| *Company* | | | | | | | |
| At 31 December 2000 | 139.5 | 316.6 | 60.4 | 1,330.5 | – | 505.7 | 2,352.7 |
| Retained profit for the year | – | – | – | – | – | 670.5 | 670.5 |
| Shares issued during the year | 3.5 | 29.4 | – | – | – | – | 32.9 |
| Shares cancelled during the year | (0.9) | – | 0.9 | – | – | (8.7) | (8.7) |
| Prior year revaluations realised | – | – | – | (1.4) | – | 1.4 | – |
| Other movements | – | – | – | – | – | 0.4 | 0.4 |
| Revaluation of investments | – | – | – | (649.1) | – | – | (649.1) |
| *At 31 December 2001* | **142.1** | **346.0** | **61.3** | **680.0** | **–** | **1,169.3** | **2,398.7** |

*21 Capital and reserves* continued

*Restatement – negative goodwill*

The fair value table presented in the 2000 Report and Accounts in relation to the acquisition of the remaining minority interests in CSC included a fair value adjustment which reduced the fair value of investment properties at acquisition by £193.2 million. Consequently neither goodwill nor negative goodwill arose. Under the previous presentation the revaluation of investment properties to open market value at 31 December 2000 resulted in a credit to the revaluation reserve of £193.2 million in respect of the share of these assets acquired from the minorities. The revised accounting policy adopted in respect of negative goodwill included the recognition of a negative consolidation difference in other reserves. The restatement of the opening reserves therefore takes the form of a transfer of £193.2 million from the revaluation reserve to other reserves.

The following table is a summary of the fair value table as it would have appeared in the 2000 Report and Accounts following the revised accounting treatment explained above and in Principal Accounting Policies on page 74 (with the previously reported figures shown for comparison).

Fair value of assets acquired (summarised):

| | Revised presentation | | | | Previously reported |
|---|---|---|---|---|---|
| | CSC book value at acquisition £m | Portion acquired £m | Fair value adjustment £m | Fair value acquired £m | Fair value acquired £m |
| Investment properties | 3,048.5 | 807.1 | – | 807.1 | 613.9 |
| Borrowings | (783.4) | (207.4) | (4.1) | (211.5) | (211.5) |
| Other net assets/liabilities | (25.5) | (6.8) | – | (6.8) | (6.8) |
| Net assets acquired | 2,239.6 | 592.9 | (4.1) | 588.8 | 395.6 |
| Fair value of consideration: | | | | | |
| Equity | | | | 352.0 | 352.0 |
| Cash | | | | 40.0 | 40.0 |
| Costs | | | | 3.6 | 3.6 |
| | | | | 395.6 | 395.6 |
| Negative goodwill – dealt with in reserves as a negative consolidation difference | | | | 193.2 | – |

The changes referred to above have no effect on the profit and loss account or cash flow for the year ended 31 December 2000 or shareholders' funds and net assets per share at that date.

*22 Net assets per share*

| | **2001 Net assets £m** | **2001 Shares million** | 2000 Net assets £m | 2000 Shares million |
|---|---|---|---|---|
| Basic | **2,398.7** | **284.2** | 2,352.7 | 279.0 |
| Shares to be issued on conversion of bonds | **70.4** | **14.5** | 207.4 | 42.8 |
| *Diluted* | **2,469.1** | **298.7** | 2,560.1 | 321.8 |

*23 Cash flow*

*(a) Reconciliation of operating profit to net cash inflow from operating activities*

| | 2001 £m | 2000 £m |
|---|---|---|
| Operating profit | **199.4** | 216.2 |
| Depreciation and amortisation | **2.0** | 2.3 |
| (Decrease)/increase in provision | **(0.5)** | 0.6 |
| Change in debtors | **(6.4)** | 9.0 |
| Change in creditors | **(7.1)** | 12.7 |
| | **187.4** | 240.8 |

*(b) Returns on investments and servicing of finance*

| | 2001 £m | 2000 £m |
|---|---|---|
| Interest received | **13.3** | 7.6 |
| Interest paid | **(131.2)** | (106.0) |
| Dividends paid to minority interest | **–** | (11.7) |
| | **(117.9)** | (110.1) |

Interest received and paid include £8.9 million and £1.5 million respectively in respect of exceptional interest paid and received (see note 2(b)).

*(c) Capital expenditure and financial investment*

| | 2001 £m | 2000 £m |
|---|---|---|
| Development expenditure and investment property additions | **(104.4)** | (109.7) |
| Sale of investment properties | **20.7** | 57.8 |
| Purchase of other fixed assets | **(70.7)** | (49.7) |
| Sale of other fixed assets | **9.6** | – |
| Purchase of trading properties and current investments | **(14.4)** | (123.6) |
| Sale of trading properties and current investments | **11.3** | 158.2 |
| | **(147.9)** | (67.0) |

*(d) Liquid resources*

| | 2001 £m | 2000 £m |
|---|---|---|
| Acquisition of listed investments | **(3.0)** | (4.4) |
| Inflow from disposal of money funds | **18.3** | 95.3 |
| Withdrawals from other deposits | **24.0** | 11.7 |
| | **39.3** | 102.6 |

Liquid resources comprise investments in money funds and other deposits not qualifying as cash including commercial paper, certificates of deposit and fixed rate notes.

## *24 Financing cash flows*

| | **2001 £m** | 2000 £m |
|---|---|---|
| Borrowings drawn and bonds issued | **1,030.8** | 1,143.9 |
| Borrowings repaid and bonds cancelled | **(907.3)** | (567.1) |
| Payments to acquire own shares | **(8.7)** | (611.3) |
| Other financing cash flows | **(3.8)** | (2.0) |
| | **111.0** | (36.5) |

## *25 Acquisitions and disposals of subsidiary undertakings – analysis of movements in cash and cash equivalents*

| | **2001** | | | 2000 | | |
|---|---|---|---|---|---|---|
| | **Acquisitions £m** | **Disposals £m** | **Total £m** | Acquisitions £m | Disposals £m | Total £m |
| Cash consideration (paid)/received | **(2.3)** | **47.2** | **44.9** | (58.3) | 52.3 | (6.0) |
| Costs | **–** | **(1.0)** | **(1.0)** | (4.0) | (3.0) | (7.0) |
| Cash and cash equivalents disposed of | **–** | **(8.0)** | **(8.0)** | – | (1.3) | (1.3) |
| | **(2.3)** | **38.2** | **35.9** | (62.3) | 48.0 | (14.3) |

Cash consideration received in 2001 includes £12.0 million in respect of Portfolio Fund Management Limited (see note 2) and £33.5 million relating to the disposal in 2000 of Liberty International Jersey Limited which was included in debtors at 31 December 2000.

Cash and cash equivalents disposed of comprises £2.4 million in respect of Portfolio Fund Management Limited and £5.6 million in respect of the Portfolio Property Fund (see note 9).

## *26 Capital commitments*

At 31 December 2001 the estimated amounts of commitments for future expenditure were:

| | **Group 2001 £m** | Group 2000 £m |
|---|---|---|
| Under contracts | **27.4** | 70.4 |
| Authorised by the Directors but not contracted | **70.2** | 91.6 |
| | **97.6** | 162.0 |

## *27 Contingent liabilities*

At 31 December 2001, there were no contingent liabilities of which the Directors are aware (2000 – nil).

*28 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 |
| | "B" Ordinary shares of 1 Irish Punt each | 100 |
| Braehead Park Investments Limited (property) | Ordinary shares of £1 each | 100 |
| Braehead Park Estates 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 Limited (property) | Ordinary shares of £1 each | 100 |
| | 7% Preference shares of £1 each | 100 |
| CSC Property Investments Limited (property) | Ordinary shares of £1 each | 100 |
| CSC Uxbridge Limited (property) | Ordinary shares of £1 each | 100 |
| Capital & Counties plc (property) | Ordinary shares of 25p each | 100 |
| C&C Management Services Limited (property services) | Ordinary shares of £1 each | 100 |
| CSC Management Services Limited (property services) | Ordinary shares of £1 each | 100 |
| C&C Properties UK Limited (property) and its principal subsidiary undertakings: | Ordinary shares of £1 each | 100 |
| Capcount Kensington Limited (property) | Ordinary shares of £1 each | 100 |
| Kestrel Properties Limited (property) | Ordinary shares of £1 each | 100 |
| Qudos Broadband Limited (facilities) | Ordinary shares of £1 each | 100 |
| Capital & Counties U.S.A., Inc. (USA) (property and financing) | Common stock of US$1 par value | 100 |
| Capvestco Limited (property and financing) (Jersey)and its principal subsidiary undertakings: | Ordinary shares of £1 each | 100 |
| Capcount Kingsreach (Jersey) Limited (property) (Jersey) | Ordinary shares of £1 each | 100 |
| Capital Enterprise Centres (Jersey) Limited (property) (Jersey) | Ordinary shares of £1 each | 50 |
| 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 |

*81.1 per cent held by Liberty International PLC, 17.6 per cent held by Liberty International Financial Services PLC, and 1.3 per cent held by Capcount Property Investment Company Limited.

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.

*29 Directors' emoluments*

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Report on Directors' Remuneration on pages 107 and 108 form part of these financial statements. Details of gains made on exercise of share options are contained in note 30 on page 96.

*30 Directors' interests*

*(a) In shares in Liberty International Group Companies*

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

| | **2001** | 2000† |
|---|---|---|
| D. Gordon* | **5,403,569** | 7,161,245 |
| J.G. Abel | **91,043** | 88,901 |
| P.C. Badcock | **17,403** | 17,403 |
| R.A.M. Baillie | **5,727** | 5,727 |
| D. Bramson (appointed 01.01.01) | **–** | – |
| R.W.T. Buchanan | **37,088** | 37,088 |
| D.P.H. Burgess (appointed 01.01.01) | **3,250** | – |
| D.A. Fischel | **158,259** | 154,419 |
| G.J. Gordon | **576,891** | 524,260 |
| R.M. Gordon (appointed alternate 09.01.01) | **6,210,526** | 1,000,000 |
| D.R. Leslie | **44,239** | 44,239 |
| M. Rapp | **7,929** | 5,079 |
| J.I. Saggers | **38,200** | 35,136 |
| F.B. Sher | **4,350** | – |
| A.C. Smith | **56,730** | 20,482 |
| P. Sober | **7,320** | 7,320 |

†Date of appointment if later.

Other interests in shares and bonds of the group as at 31 December 2001 and 2000, or date of appointment if later, were:

*Liberty International PLC ordinary shares of 50p each*

*Mr D. Gordon had a non-beneficial interest in 19,700,361 ordinary shares in Liberty International (2000 – 8,850,000).

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 shares. These shares will be released respectively three and five years in respect of awards made up to and including 2000, and two and four years respectively for awards made in 2001 and subsequently, after the date of the award provided the individual employee has remained in service. Awards to Executive Directors under the scheme to date have been as follows:

| | Bonus shares | | | |
|---|---|---|---|---|
| | At 31 December 2000 | Vested and lapsed | Awarded* | **At 31 December 2001** |
| J.G. Abel | 17,452 | 3,575 | 7,200 | **21,077** |
| P.C. Badcock | 14,056 | 2,900 | 5,850 | **17,006** |
| D.A. Fischel | 34,400 | 6,410 | 18,585 | **46,575** |
| D.R. Leslie† | 21,163 | 21,163 | – | **–** |
| J.I. Saggers | 25,422 | 5,114 | 11,400 | **31,708** |
| F.B. Sher | 21,720 | 4,350 | 8,505 | **25,875** |
| A.C. Smith | 21,161 | 3,460 | 10,320 | **28,021** |

*Bonus shares in respect of the year ended 31 December 2000 awarded in February 2001. Details of Bonus shares awarded in respect of the year ended 31 December 2001 are given on page 108 of the Report on Directors' Remuneration.

†Bonus awards comprising 16,873 shares lapsed, following Mr Leslie's retirement as an Executive Director of the company on 27 March 2001.

*5.5 per cent Liberty International Subordinated Convertible Bonds due 2009* As stated in note 33, the 5.5 per cent Bonds were redeemed by the company on 31 December 2001. Prior to the redemption Mr D. Gordon, Mr G.J. Gordon and Mr R.M. Gordon converted their interests in the Bonds into ordinary shares which are included in the interests disclosed above. Consequently beneficial interests held at 31 December 2001 were Mr D. Gordon (nil) (2000 – £1,170,000), Mr G.J. Gordon (nil) (2000 – £250,000) and Mr R.M. Gordon (nil) (09.01.01 – £1,000,000).

*30 Directors' interests* continued
*(a) In shares in Liberty International Group Companies* continued
*6.25 per cent Liberty International Subordinated Convertible Bonds due 2006* Beneficial interests were held by Mr R.A.M. Baillie (£1,072) (2000 – £1,072), Mr G.J. Gordon (£45,000) (2000 – £45,000), Mr D.R. Leslie (nil) (2000 – £1,214) and Mr J.G. Abel (£2,638) (2000 – £2,638). Mr D. Gordon held a non-beneficial interest in £3,000,000 of the Bonds (2000 – nil).

*CSC 6.875 per cent Eurosterling Bonds due 2013* A beneficial interest was held by Mr D. Gordon (£2,500,000) (2000 – nil).

*Capital & Counties plc ordinary shares of 25p each* A non-beneficial interest of 400 (2000 – 400) shares was held by Mr D.A. Fischel.

*(b) In share options in the company*
The following Directors had options to subscribe for shares in the company:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Director | Year granted | Option price (p) | Held at 31 December 2000 | Granted in year | Exercised in year or lapsed | **Held at 31 December 2001** | Exercisable between |
| *The Liberty International Holdings PLC Executive Share Option Scheme 1987* | | | | | | | |
| D.A. Fischel | 1995 | 322 | 17,500 | – | – | **17,500** | 10/08/1998 – 10/08/2005 |
| J.I. Saggers | 1993 | 322 | 25,000 | – | – | **25,000** | 19/08/1996 – 19/08/2003 |
| | 1995 | 322 | 35,000 | – | – | **35,000** | 10/08/1998 – 10/08/2005 |
| | 1996 | 331 | 40,000 | – | – | **40,000** | 18/03/1999 – 18/03/2006 |
| A.C. Smith | 1994 | 366 | 20,000 | – | – | **20,000** | 06/09/1997 – 06/09/2004 |
| | 1995 | 322 | 17,500 | – | – | **17,500** | 10/08/1998 – 10/08/2005 |
| *The Liberty International Holdings PLC Incentive Share Option Scheme 1990* | | | | | | | |
| D.A. Fischel | 1995 | 322 | 22,500 | – | – | **22,500** | 10/08/1998 – 10/08/2005 |
| | 1996 | 331 | 50,000 | – | – | **50,000** | 18/03/1999 – 18/03/2006 |
| | 1999 | 419 | 160,000 | – | – | **160,000** | 12/03/2002 – 12/03/2009 |
| J.I. Saggers | 1999 | 419 | 50,000 | – | – | **50,000** | 12/03/2002 – 12/03/2009 |
| F.B. Sher | 1999 | 419 | 60,000 | – | – | **60,000** | 12/03/2002 – 12/03/2009 |
| A.C. Smith | 1991 | 306 | 3,670 | – | 3,670 | **–** | 07/03/1994 – 07/03/2001 |
| | 1992 | 169 | 40,000 | – | 40,000 | **–** | 22/09/1995 – 22/09/2002 |
| | 1993 | 322 | 15,000 | – | – | **15,000** | 19/08/1996 – 19/08/2003 |
| | 1995 | 322 | 12,500 | – | – | **12,500** | 10/08/1998 – 10/08/2005 |
| | 1996 | 331 | 30,000 | – | – | **30,000** | 18/03/1999 – 18/03/2006 |
| | 1999 | 419 | 60,000 | – | – | **60,000** | 12/03/2002 – 12/03/2009 |

*30 Directors' interests* continued
*(b) In share options in the company* continued

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Director | Year granted | Option price (p) | Held at 31 December 2000 | Granted in year | Exercised in year or lapsed | **Held at 31 December 2001** | Exercisable between |
| *The Liberty International PLC Incentive Share Option Scheme 1999* | | | | | | | |
| J.G. Abel | 2001 | 512 | – | 94,141 | – | **94,141** | 22/02/2004 – 22/02/2011 |
| P.C. Badcock | 2001 | 512 | – | 74,141 | – | **74,141** | 22/02/2004 – 22/02/2011 |
| D.A. Fischel | 1999 | 475 | 21,000 | – | – | **21,000** | 11/08/2002 – 11/08/2009 |
| | 2000 | 406 | 120,000 | – | – | **120,000** | 03/03/2003 – 03/03/2010 |
| | 2001 | 512 | Nil | 100,000 | – | **100,000** | 22/02/2004 – 22/02/2011 |
| J.I. Saggers | 1999 | 475 | 17,500 | – | – | **17,500** | 11/08/2002 – 11/08/2009 |
| | 2000 | 406 | 50,000 | – | – | **50,000** | 03/03/2003 – 03/03/2010 |
| | 2001 | 512 | Nil | 60,000 | – | **60,000** | 22/02/2004 – 22/02/2011 |
| F.B. Sher | 1999 | 475 | 56,000 | – | – | **56,000** | 11/08/2002 – 11/08/2009 |
| | 2000 | 406 | 60,000 | – | – | **60,000** | 03/03/2003 – 03/03/2010 |
| | 2001 | 512 | – | 44,141 | – | **44,141** | 22/02/2004 – 22/02/2011 |
| A.C. Smith | 1999 | 475 | 17,500 | – | – | **17,500** | 11/08/2002 – 11/08/2009 |
| | 2000 | 406 | 60,000 | – | – | **60,000** | 03/03/2003 – 03/03/2010 |
| | 2001 | 512 | Nil | 60,000 | – | **60,000** | 22/02/2004 – 22/02/2011 |
| *The Liberty International PLC Executive Share Option Scheme 1999* | | | | | | | |
| J.G. Abel | 2001 | 512 | Nil | 5,859 | – | **5,859** | 22/02/2004 – 22/02/2011 |
| P.C. Badcock | 2001 | 512 | Nil | 5,859 | – | **5,859** | 22/02/2004 – 22/02/2011 |
| F.B. Sher | 2001 | 512 | Nil | 5,859 | – | **5,859** | 22/02/2004 – 22/02/2011 |

Mr A.C. Smith exercised options in the year on 7 March 2001, at a market price of 535p per share, at which time the difference between the exercise price and market price was in aggregate £8,404, and on 6 April 2001, at a market price of 520p per share, at which time the difference between the exercise price and market price was in aggregate £140,400.

The market value of Liberty International ordinary shares at 31 December 2001 was 483.5p and during the year the price varied between 462.5p and 558.5p.

*30 Directors' interests* continued

*(c)* No Director had any dealings in the shares of any group company between 31 December 2001 and 25 January 2002, 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 2001.

*31 Employees' information*

| | **2001 £000** | 2000 £000 |
|---|---|---|
| Wages and salaries | **22,167** | 24,967 |
| Social security costs | **2,205** | 2,522 |
| Other pension costs | **1,162** | 1,509 |
| | **25,534** | 28,998 |

At 31 December 2001 the number of persons employed was 835 (2000 – 935). The average number of persons employed during the year was:

| | **2001 Number** | 2000 Number |
|---|---|---|
| Liberty International PLC | **46** | 45 |
| Capital Shopping Centres PLC | **722** | 752 |
| Capital & Counties plc | **97** | 87 |
| Liberty International Financial Services group | **25** | 87 |
| | **890** | 971 |

Options to subscribe for ordinary shares under the Liberty International Holdings PLC Executive Share Option Scheme 1987, the Liberty International Holdings PLC Incentive Share Option Scheme 1990, the Liberty International PLC Incentive Share Option Scheme 1999, the Liberty International PLC Executive Share Option Scheme 1999, and the Capital Shopping Centres PLC Executive Share Option Scheme 1995, were outstanding as set out below.

| Date of grant | Scheme | Price per share | Ordinary shares Number | Exercisable between |
|---|---|---|---|---|
| 22.09.92 | 1987 | 169p | 15,000 | 1995 and 2002 |
| 19.08.93 | 1987 | 322p | 75,000 | 1996 and 2003 |
| 19.08.93 | 1990 | 322p | 15,000 | 1996 and 2003 |
| 06.09.94 | 1987 | 366p | 20,000 | 1997 and 2004 |
| 06.09.94 | 1990 | 366p | 50,000 | 1997 and 2004 |
| 22.05.95 | 1995 | 279.5p | 13,068 | 1998 and 2005 |
| 10.08.95 | 1987 | 322p | 130,000 | 1998 and 2005 |
| 10.08.95 | 1990 | 322p | 45,000 | 1998 and 2005 |
| 12.03.96 | 1995 | 331.5p | 38,226 | 1999 and 2006 |
| 12.03.96 | 1995 | 337p | 36,452 | 1999 and 2006 |
| 18.03.96 | 1987 | 331p | 147,500 | 1999 and 2006 |
| 18.03.96 | 1990 | 331p | 80,000 | 1999 and 2006 |
| 12.03.99 | 1990 | 419p | 664,780 | 2002 and 2009 |
| 11.08.99 | ISOS 1999 | 475p | 202,405 | 2002 and 2009 |
| 03.03.00 | ISOS 1999 | 406p | 707,500 | 2003 and 2010 |
| 22.01.01 | ESOS1999 | 512p | 288,618 | 2004 and 2011 |
| 22.01.01 | ISOS 1999 | 512p | 1,503,382 | 2004 and 2011 |
| *Total* | | | **4,031,931** | |

*31 Employees' information* continued

Conditional awards of Additional and Restricted shares under the companies' share incentive plans outstanding at 31 December 2001 are as shown below. Awards made under the CSC Share Incentive Plan were originally in respect of ordinary shares in CSC. These awards were rolled over in accordance with the terms of the acquisition of CSC and now relate to ordinary shares in Liberty International.

| | Share Incentive Plan | Restricted | Additional |
|---|---|---|---|
| 1998 | Liberty International | – | 23,298 |
| 1998 | CSC | – | 15,244 |
| 1999 | Liberty International | 48,386 | 23,606 |
| 1999 | CSC | 34,939 | 16,808 |
| 2000 | Liberty International | 88,059 | 42,832 |
| 2000 | CSC | 43,463 | 21,483 |
| 2001 | Liberty International | 137,184 | 67,183 |
| *Total* | | **352,031** | **210,454** |

A total of 4,639,625 ordinary shares were held by LI Share Plan (Jersey) Limited at 31 December 2001 for the purposes of satisfying the future exercise of options and provision of shares on maturity of conditional awards under the Share Incentive Plans.

*32 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 a number of group personal pensions were established in 1997/98 for new and some existing employees, and previous schemes closed and benefits preserved.

One of these older arrangements, the Liberty International Group Retirement Benefit Scheme ("the RBS"), 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 UK State Earnings Related Pension Scheme (SERPS). RBS assets account for approximately 91 per cent of the aggregate assets of all defined benefit schemes.

Of the other closed schemes, one is a defined contribution scheme and the other is a small funded defined benefit scheme, which is closed to new joiners, and is in the course of being wound up. No pension charge is provided in respect of this defined benefit scheme, as it is not material. The members of these two closed schemes now acquire future service benefits through group personal pensions.

*32 Pensions* continued

*(b) Pension costs*

All pension costs of group schemes are charged to the profit and loss account so as to spread the costs of pensions evenly over the normal expected service lives of employees. The basis of charge is as follows:

*(i) The RBS – a defined benefit scheme:* The pension cost relating to the RBS is assessed in accordance with the advice of Buck Consultants Limited, an independent firm of qualified actuaries. The pension costs and balance sheet items for the year ended 31 December 2001 have been based on the same valuation method and assumptions used at the last formal RBS valuation as at 6 April 2001.

This valuation used the "Attained Age" valuation method and a market led set of assumptions. As at 6 April 2001, the market value of the RBS assets was £30.7 million, and the value of the assets was sufficient to cover 122 per cent of the benefits that had accrued to RBS members after allowing for expected future increases in earnings where applicable. The main economic assumptions used in the valuation were:

| | April 2001 Basis % per annum compound |
|---|---|
| Investment return before retirement | 7.10% |
| Investment return after retirement | 4.85% |
| Price inflation | 2.50% |
| Salary increases | 4.50% |
| Pension increases | 2.50% |

The group has for a number of years paid contributions on the basis recommended by the independent scheme actuary at a level appropriate to reduce the overfunding of the RBS. The company contribution rate in 2001 was 2.5 per cent of members' pensionable salaries, amounting to £0.1 million (2000 – 2.5 per cent, £0.1 million) and will continue at 2.5 per cent pending the results of the next actuarial valuation due to be carried out no later than 6 April 2004. In recognition of this reduced level of contribution, the group makes additional provisions in the balance sheet.

The total pension charge to the profit and loss account in respect of the RBS as calculated in accordance with SSAP 24 for the year ended 31 December 2001 was £0.1 million (2000 – £0.3 million). The aggregate pension creditor at 31 December 2001 was £1.9 million (2000 – £1.9 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 (2000 – £1.3 million) in respect of the other UK pension schemes and £0.1 million (2000 – £0.1 million) for the US scheme.

*32 Pensions* continued

*(iii) FRS 17:* FRS 17 "Retirement benefits" becomes effective for accounting periods ending on or after 22 June 2003. The group has opted to follow the transitional arrangements of this standard, which require that the following additional disclosures be made.

The fair value of the RBS's assets at 31 December 2001 was £30.2 million, comprising:

| | Value £m | Proportion of assets | Expected rate of return |
|---|---|---|---|
| Equities | 15.3 | 51% | 7.8% |
| Index-linked bonds | 12.0 | 40% | 4.8% |
| Property | 2.2 | 7% | 7.8% |
| Other | 0.7 | 2% | 4.0% |
| *Total* | **30.2** | **100%** | **6.5%** |

The present value of the RBS's liabilities at 31 December 2001, calculated in accordance with FRS 17 by an independent actuary, was £24.5 million. The main economic assumptions were as follows:

| | |
|---|---|
| Discount rate | 5.85% |
| Earnings increases | 4.55% |
| General price inflation | 2.55% |
| Increases to pensions in payment | 2.55% |
| Increases to deferred pensions before payment: | |
| left before 1 January 1985 | 3.00% |
| left after 31 December 1984 | 2.55% |

If the group were to have adopted FRS 17, the following asset would be recognised in the balance sheet as at 31 December 2001:

| | £m |
|---|---|
| Total market value of scheme assets | 30.2 |
| Present value of scheme liabilities | (25.4) |
| Surplus in the scheme | 4.8 |
| Less irrecoverable surplus | – |
| Recognised pension asset | 4.8 |
| Related deferred tax liability | (1.4) |
| *Net pension asset* | **3.4** |

The resulting group net assets and profit and loss reserve would be amended as follows:

| | £m |
|---|---|
| Net assets excluding pension asset | 2,398.7 |
| Pension asset | 3.4 |
| Net assets including pension asset | 2,402.1 |
| Profit and loss reserve excluding pension asset | 44.7 |
| Pension asset | 3.4 |
| Profit and loss reserve including pension asset | **48.1** |

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

*33 Subordinated convertible debt*

The subordinated convertible bonds are stated net of issue costs, are unsecured and are subordinated to all other forms of debt.

*6.25 per cent Subordinated Convertible Bonds due 2006*

During 2001 £29,750,000 nominal of the Bonds were repurchased and cancelled and £3,570 nominal were converted into 791 ordinary shares. At 31 December 2001 there were £65.2 million Liberty International 6.25 per cent subordinated convertible bonds in issue. The holders of the 6.25 per cent subordinated convertible bonds have the option to convert the bonds into ordinary shares at any time up to 24 December 2006 at 450p per ordinary share, a conversion rate of approximately 22.2 ordinary shares for every £100 nominal of convertible bonds. Unless converted, the bonds may be redeemed at par at the company's option at any time after 31 December 2003. Unless otherwise converted or redeemed, the convertible bonds will be redeemed by Liberty International at par on 31 December 2006.

*5.5 per cent Liberty International Subordinated Convertible Bonds due 2009*

During 2001 £39,117,000 nominal of the Bonds were repurchased and cancelled and £32,852,928 nominal were converted into 6,916,326 ordinary shares at the conversion price of 475p nominal of Bond per share. On 31 December 2001 all the remaining £31,314,430 nominal of the Bonds outstanding were redeemed by the company at £1.03 per £1 nominal, as provided under the terms of the Bonds.

# Corporate Governance

The company is committed to high standards of corporate governance throughout the group. The company is required to comply with "The Combined Code – Principles of Good Governance and Code of Best Practice" ("the Code") which form part of the UK Listing Authority Listing Rules.

The Board is accountable to the company's shareholders for good governance and the information and statements below describe how the principles identified in the Code are applied by the company.

The company's corporate governance procedures, which were adopted by the Board and have subsequently been reviewed and updated, are designed to enable the company to comply with the Code. The procedures define the duties and constitution of the Board and the various Board Committees and, as appropriate, specify responsibilities and levels of responsibility.

*Statement of compliance*
Based on the information below (together with the statements and procedures referred to in the Report on Directors' Remuneration on pages 105 to 108) the Board believes that, other than as indicated below, the company has applied throughout the accounting period the principles and complied with the provisions set out in Section 1 of the Code.

The principal corporate governance procedures are summarised as follows:

*The Board*
At the year end, the Board comprised the Chairman, Mr D. Gordon, six Executives and eight non-Executive Directors. Four non-Executive Directors, Mr R.A.M. Baillie, Mr R.W.T. Buchanan, Mr M. Rapp and Mr P. Sober, are considered by the Board to be fully independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Mr D.R. Leslie was, within the last five years, an Executive Director of Liberty International. Mr D.P.H. Burgess is the Senior Partner of Gouldens, a firm of lawyers which has from time to time advised Liberty International. Mr D. Bramson recently retired as Senior Partner of Nabarro Nathanson and now acts as a consultant to that firm of lawyers which advises the Liberty International group. However, the Board believes that, in all three cases, the relationships do not interfere with the exercise of their independent judgement.

Biographies of the Board members appear on pages 52 and 53 of the Annual Review and Summary Financial Report. The differing roles of the Chairman and the Chief Executive are recognised by the Board.

In accordance with the Articles of Association, Directors are subject to retirement and re-election by shareholders at least every three years. This is in compliance with the Code requirements.

The Executive Directors have service contracts which have a notice period of 12 months. Non-Executive Directors are appointed for three year periods and their continuous service thereafter is subject to review by the Board. Mr Robin Baillie was appointed as Senior Independent Director in 1999.

The Board is responsible to all shareholders for the effective control and proper management of the Liberty International group; there is a schedule of matters reserved for the Board as a whole which includes group strategy and policy, acquisitions and disposals, the approval of major capital expenditure projects and consideration of significant financial matters.

The Board meets quarterly to consider information requested from management which is supplied on a timely basis to enable the Board to discharge its duties. Additional meetings are arranged when necessary.

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

Membership of the main Committees of the Board is shown on pages 52 and 53 of the Annual Review and Summary Financial Report.

*The Chairman's Committee*
This Committee comprises the Chairman, Chief Executive and six non-Executive Directors. It is responsible for the development of strategy and policy proposals for consideration by the Board and the implementation of the Board's directives thereon, and deals with delegated matters between Board meetings.

*Audit Committee*
This Committee comprises five non-Executive Directors, chaired by Mr P. Sober. The Audit Committee is responsible for monitoring the adequacy of the group's financial and internal controls, risk management, accounting policies and financial reporting, for providing a forum through which the auditors report to the non-Executive Directors and ensuring the provision of information to enable the Board to present a balanced and understandable assessment of the company's position and prospects.

*Nomination Committee*
This Committee comprises five non-Executive Directors and is responsible for making recommendations to the Board on any appointment to the Board. The Committee is chaired by Mr D. Gordon.

*Remuneration Committee*
This Committee comprises five non-Executive Directors. The Committee is chaired by Mr R.A.M. Baillie.

The Committee's primary responsibilities are to determine the remuneration packages and other terms and conditions for the Directors and Senior Executives of the group and the provision of incentivisation and performance related benefits to any Executive Director or employee. The Report on Directors' Remuneration is set out on pages 105 to 108.

*Internal control*
The Board is responsible for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the group's significant risks, which has been in place throughout the year ended 31 December 2001 and up to the date of approval of the annual report and accounts. It is regularly reviewed by the Board and it accords with internal control guidance for directors issued by the Turnbull Committee.

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

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

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

*Major investments* All major investments of the group are authorised by the Chairman's Committee, which is a properly constituted committee of the Board, or the Board.

*Group treasury* The group has a centralised treasury function that reports to the Board on a regular basis. The reports provide details of counterparty, interest and foreign exchange risks. Additional information on this topic is given in note 18 on pages 86 to 88.

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

The Board has conducted a review of the effectiveness of systems of internal financial control for the year ended 31 December 2001 and has taken into account material developments which have taken place since the year end. The review was performed on the basis of criteria set out in the Guidance for Directors "Internal Control and Financial Reporting" issued in December 1994.

# Report on Directors' Remuneration

The Remuneration Committee comprises Mr R.A.M. Baillie, Mr R.W.T. Buchanan, Mr D. Gordon, Mr M. Rapp and Mr P. Sober and is constituted under terms of reference and procedures laid down by the Board which are designed to enable the company to comply with the requirements relating to remuneration policy contained in "The Combined Code – Principles of Good Governance and Code of Best Practice" ("the Code") which form part of the UK Listing Authority Listing Rules.

Mr D. Gordon became a member of the Remuneration Committee at the end of the first quarter of 2001.

The Remuneration Committee acts under terms of reference established by the Board. Its principal responsibility is to determine remuneration for the Directors and Senior Executives of the group. In determining that policy, the Remuneration Committee has given full consideration to the best practice provisions of the Code and has complied with the principles and provisions of the Code in developing remuneration policies which provide the benefits referred to below and which directly align the interests of Executive Directors and senior staff with the performance of the company and the interests of shareholders.

*Remuneration policy for Executive Directors*
The group aims to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages which are linked to both individual and business performance. The components of the remuneration package are:

*Basic annual salary and benefits*
Executive Directors and other staff salaries are reviewed annually in the light of individual performance, competitive market practice and comparable data of other companies in similar sectors. The main elements of the basic benefits are pension benefits, private health care and the provision of a company car or cash alternative.

*Incentive performance related benefits:*
*Annual Bonus Scheme and Bonus Share Scheme*
The company provides discretionary annual bonus arrangements for selected executives and staff which enable an element of any annual bonus awarded to an individual to be taken in the form of an award of shares in the company, conditional on the individual remaining in employment. The conditional awards comprise "Restricted" shares and "Additional" shares, the latter equal to 50 per cent of the Restricted and Share Incentive Plan (see below) shares combined. The Restricted and Additional shares are released respectively two and four years after the date of the award.

The company has introduced a new Share Incentive Plan ("SIP") for all eligible employees who will receive up to £3,000 worth of shares as part of their annual bonus arrangements. The SIP arrangements offer significant tax advantages to employees and to the company. The SIP will operate using shares purchased in the market and will not subscribe for any new shares.

The cost of any annual bonus which may be provided under the annual bonus scheme, including the cost of shares acquired to meet share awards, is a maximum of 25 per cent of the aggregate emoluments of eligible employees. The level of any annual bonus is determined by the Remuneration Committee and is dependent upon the achievement in the prior year of corporate results and objectives against predetermined budgets and targets.

Details of the Executive Directors' individual bonus awards in cash and in shares under the Bonus Share Scheme for the year ended 31 December 2001 are set out on pages 107 and 108. Details of bonus awards in shares made in previous years are set out on page 94. It is the company's policy to fund the company's Employee Share Ownership Plan ("ESOP") to enable it to purchase the shares which will be required under the Bonus Share Scheme.

*Share options* Under the company's Incentive Share Option Scheme, executives, including Executive Directors, may be granted options to acquire shares in the company, subject to achievement of a performance condition, at an option price which does not exceed market price at the time of the grant. The performance condition has recently been amended to reflect growth in earnings rather than dividends. The revised condition, which is considered challenging and reflects the group's objectives, 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 growth excludes exceptional and trading profits above a certain level. Inclusion of criteria comparing earnings performance with a comparator group of companies was considered by the Remuneration Committee but deemed less appropriate than an absolute measure of performance. The performance condition does not apply to options granted under the Inland Revenue approved share option scheme, as it is expected that a minimal number of options will be granted under that scheme.

The performance condition may be amended or waived in exceptional circumstances at the discretion of the Committee.

Options held by Executive Directors over ordinary shares are set out in note 30 on pages 95 and 96.

*Pension* Executive Directors and staff who joined the company prior to April 1998 are eligible to participate in the group pension scheme which provides a pension of up to two-thirds of salary on retirement dependent on service and Inland Revenue approved limits. Pension benefits for Executive Directors are based on basic salary. From April 1998 Executive Directors and staff who join the company receive defined contribution pension benefits. Details of the pension benefits provided to Executive Directors for the year ended 31 December 2001 are set out on page 108.

*Service contracts* Executive Directors of the company have rolling service contracts. All current service contracts are terminable on 12 months' notice on either side.

*Remuneration policy for non-Executive Directors* Non-Executive Directors are appointed for fixed terms of three years, subject to renewal thereafter. Non-Executive Directors each received a fee of £20,000 pa in 2001. Non-Executive Directors who assume additional specific responsibilities receive supplementary fees. The Chairman of the Audit Committee receives £10,000 pa and the Chairman of the Remuneration Committee receives £7,500 pa. Other non-Executive Directors who are members of the Audit Committee, the Chairman's Committee or the Remuneration Committee receive additional fees. Other than fees, non-Executive Directors receive no benefits from their office and are not eligible to participate in group pension arrangements.

*Directors' emoluments*

Details of individual Directors' emoluments are set out in the table below:

| Name | Salary and service contract remuneration £ | Benefits in kind (including car allowance) £ | Annual bonus £ | Directors' fees £ | Other fees £ | Directors' fees and other remuneration paid by subsidiaries £ | **Aggregate emoluments excluding pensions 2001 £** | Aggregate emoluments excluding pensions 2000 £ |
|---|---|---|---|---|---|---|---|---|
| *Chairman* | | | | | | | | |
| D. Gordon | 315,000 | 24,684 | | 80,000 | | 50,000 | **469,684** | 450,710 |
| *Executive* | | | | | | | | |
| D.A. Fischel | 339,937 | 14,903 | 167,500 | | | | **522,340** | 484,194 |
| J.G. Abel (*11.12.00) | 182,500 | 14,772 | 29,000 | | | | **226,272** | 10,846 |
| P.C. Badcock (*11.12.00) | 145,000 | 15,799 | 9,375 | | | | **170,174** | 8,947 |
| J.I. Saggers | 197,500 | 11,293 | 32,500 | | | | **241,293** | 214,512 |
| F.B. Sher | 193,500 | 17,910 | 9,750 | | | | **221,160** | 278,165 |
| A.C. Smith | 181,750 | 14,903 | 69,250 | | | | **265,903** | 287,600 |
| *Non-Executive* | | | | | | | | |
| R.C. Andersen (**27.07.00) | | | | | | | **Nil** | 8,610 |
| R.A.M. Baillie | | | | 20,000 | 22,500 | | **42,500** | 35,000 |
| D. Bramson (*01.01.01) | | | | 20,000 | 15,000 | | **35,000** | Nil |
| R.W.T. Buchanan | | | | 20,000 | 20,000 | | **40,000** | 35,000 |
| D.P.H. Burgess (*01.01.01) | | | | 20,000 | 15,000 | | **35,000** | Nil |
| G.J. Gordon | | | | 20,000 | | | **20,000** | 21,000 |
| D.R. Leslie (*Executive 11.12.00) (*Non-Executive 27.03.01) | 50,000 | 3,000 | | 15,000 | 3,750 | | **71,750** | 15,104 |
| Lord Newall (#27.03.01) | | | | 5,000 | | | **5,000** | 15,000 |
| M. Rapp | | | | 20,000 | 20,000 | 45,000 | **85,000** | 106,250 |
| Lord Renwick (**06.07.00) | | | | | | | **Nil** | 7,731 |
| P. Sober | | | | 20,000 | 25,000 | | **45,000** | 56,250 |
| C.B. Strauss (**14.08.00) | | | | | | | **Nil** | 9,327 |
| *Alternate* | | | | | | | | |
| R.M. Gordon (*09.01.01) | | | | | | 18,000 | **18,000** | Nil |
| | 1,605,187 | 117,264 | 317,375 | 240,000 | 121,250 | 113,000 | **2,514,076** | 2,044,246 |

*appointed, **resigned, # retired.

In aggregate, £86,667 of the emoluments shown above were paid to third parties for the provision of Directors' services.

Full details relating to the exercise of share options by Directors are given in note 30 on page 96.

Executive Directors were awarded a bonus in February 2002 under the annual bonus scheme for the year ended 31 December 2001. Part of the bonus entitlement was taken in cash, part in the form of shares under the newly introduced SIP, and a further part as 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, the latter 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 individual Director has remained in service.

The awards to the Executive Directors were as follows:

| | *SIP | *Restricted | *Additional |
|---|---|---|---|
| D.A. Fischel | 600 | 13,400 | 7,000 |
| J.G. Abel | 600 | 5,100 | 2,850 |
| P.C. Badcock | 600 | 1,275 | 938 |
| J.I. Saggers | 600 | 4,600 | 2,600 |
| F.B. Sher | 600 | 5,250 | 2,925 |
| A.C. Smith | 600 | 6,800 | 3,700 |

*The numbers of shares shown above are indicative only; the precise number of shares awarded will depend on the market price of ordinary shares on the relevant day preceding the awards and may differ from the estimated number.

The interests of Directors in previous conditional awards of ordinary shares under the annual bonus scheme are detailed in note 30 on page 94.

*Directors' pensions*

Seven Directors were members of a defined benefit arrangement, benefits earned being as follows:

| Name | Increase in accrued pension during the year† | Transfer value of increaseø | Accumulated total accrued pension at year end* |
|---|---|---|---|
| D.A. Fischel | £9,854 pa | £66,364 | £92,332 pa |
| J.G. Abel | £12,272 pa | £179,768 | £103,047 pa |
| P.C. Badcock | £1,473 pa | £19,887 | £11,432 pa |
| D.R. Leslie § | £105 pa | £297 | £9,861 pa |
| J.I. Saggers | £8,046 pa | £109,868 | £111,398 pa |
| F.B. Sher | £2,792 pa | £34,451 | £23,664 pa |
| A.C. Smith | £4,504 pa | £27,052 | £43,615 pa |

*Notes to Pension Benefits:*

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

†The increase in accrued pension during the year excludes any increase for inflation.

øThe transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less Directors' contributions.

§ Mr Leslie acquired a pension benefit up to 27 March 2001, being the date on which he ceased to be an Executive, and became a non-Executive Director.

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

**R.A.M. Baillie**
Chairman of the Remuneration Committee

12 February 2002

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