Liberty International PLC
Annual Report 2004

MetroCentre, Gateshead – new Red Mall

Contents

This Report includes statements that are forward-looking in nature. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Liberty International PLC to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Introduction

Liberty International is a major UK FTSE 100 listed property company, with shareholders' funds of £3.25 billion and property investments of over £5.3 billion, of which regional shopping centres amount to over 80 per cent.

The company is engaged in three principal activities:

- Capital Shopping Centres ("CSC"), the leading company in the UK regional shopping centre industry, owning Lakeside, Thurrock; MetroCentre, Gateshead; Braehead, Renfrew, Glasgow; and six major in-town regional centres. CSC has a substantial development programme, involving both new centres, in Norwich, Cardiff and Oxford, and extensions to existing centres
- Capital & Counties, a successful retail and commercial property business, increasingly concentrated in Central London, the south-east of England and California, USA
- Investment activities, where Liberty International looks to use the substantial capital resources at its disposal to access profitable real estate-related financial market opportunities

Liberty International aims to produce outstanding long-term returns for shareholders, through capital and income growth, with a relatively full dividend distribution policy from recurring income

The group focusses on premier property assets, particularly shopping centres and other retail, which have high potential, scarcity value and require active management and creativity

Highlights

"2004 ranks as one of Liberty International's most active and successful years since its incorporation 25 years ago in 1980, with strong financial results and the completion of a record number of important projects and transactions which have considerably enhanced the positive momentum of the business. We have developed a powerful market position in the UK regional shopping centre industry and are determined to extend our excellent track record of growth.

I am highly confident in Liberty International's exceptional long-term prospects given the quality of its people, its ongoing leadership, its irreplaceable physical assets and the exciting prospects and challenges of our chosen industry in which Liberty International is the prime player in the UK. It is also extremely gratifying that both the London and Johannesburg stock markets have reacted positively to the company's momentum by recording the highest overall yearly improvement of our share price since our incorporation in 1980."

Donald Gordon
Chairman

	Increase	2004	2003
Investment properties (including share of joint ventures) at market values	12.0%	**£5,341m**	£4,768m
Shareholders' funds	13.5%	**£3,244m**	†£2,859m
Net debt (including share of joint ventures)	0.3%	**£1,923m**	£1,917m
Net assets per share (diluted, adjusted*)	12.3%	**1017p**	906p
Diluted number of shares (for NAV)		**352.1m**	351.8m
Operating profit (including share of joint ventures)	3.9%	**£245.2m**	£235.9m
Profit before tax including exceptional items	43.9%	**£158.3m**	£110.0m
Net exceptional profits		**£42.6m**	£5.8m
Profit before tax and exceptionals	11.0%	**£115.7m**	£104.2m
Earnings per share before exceptionals (adjusted*)	5.7%	**29.02p**	27.45p
Earnings per share (unadjusted)	49.8%	**39.32p**	26.25p
Dividends per ordinary share	6.0%	**26.5p**	25.0p
Weighted average number of shares (for EPS)		**317.0m**	306.9m

*Adjusted for deferred tax relating to capital allowances (see notes 8 and 27). Unless otherwise stated, references to earnings per share are to earnings per share before exceptional items (adjusted); and to net assets per share are to net assets per share (diluted, adjusted).

†Restated for the effect of change of accounting policy in respect of shares held by an Employee Share Ownership Plan Trust.

Notional acquisition costs including stamp duty deducted by the valuers in arriving at the market values of investment properties amount in aggregate to £170 million (2003 – £156 million), equivalent to 48p per Liberty International share (2003 – 44p). These notional costs assume assets are sold individually on the open market and take no account of the structures through which the assets are held. In the case of a going concern and listed company such as Liberty International, the purchase and sale of shares is the predominant mode of exchange of value for shareholders rather than the sale of each underlying individual property.
If these notional acquisition costs were added back, shareholders' funds would increase to £3,414 million (2003 – £3,015 million) and net assets per share (diluted, adjusted) would increase from 1017p (2003 – 906p) to 1065p (2003 – 950p).

Highlights

Revaluation surplus for the year on completed investment properties

	Market value 31 December 2004 £m	Revaluation surplus Year ended 31 December 2004 £m	Revaluation surplus Year ended 31 December 2004 %
UK regional shopping centres	**4,310**	**247**	**6.1**
US regional shopping centres and other retail	**195**	**18**	**10.3**
Central London retail and offices	**355**	**30**	**9.1**
Retail outside London	**185**	**31**	**19.9**
Business space outside London	**170**	**15**	**9.7**
US other commercial	**47**	**2**	**5.4**
Completed investment properties	**5,262**	**343**	**7.0**

- Regional shopping centres amount to 82 per cent of aggregate investment properties and retail overall amounts to 92 per cent (2003 – 90 per cent)

Development programme

- £30 million Lakeside, Thurrock, refurbishment and enhancement completed in July 2004 on time and to budget with beneficial impact on trading
- £85 million MetroCentre, Gateshead, Red Mall extension opened fully let in October 2004, restoring MetroCentre as Europe's largest covered shopping centre at 1.8 million sq. ft.
- 510,000 sq. ft. Chapelfield, Norwich, development scheduled for Autumn 2005 opening with lettings agreed or solicitors instructed for 82 per cent of anticipated income. Project cost to CSC excluding residential element estimated at £260 million (of which £219 million remains to be paid)
- Aggregate development programme of £1.3 billion, of which £350 million is committed, divided between regional shopping centres (£1,150 million) and other retail and commercial (£150 million)
- The programme includes major new regional shopping centre developments in Norwich, Cardiff and Oxford, together with Braehead (Phase 2) and substantial extensions to and additional investment in Eldon Square, Newcastle; The Harlequin, Watford, and other existing centres
- Other retail and commercial development programme includes King's Reach, Southwark, and 190 Strand, London

Acquisitions and additions

- £221 million of investment property acquisitions:

	£m
Eldon Square, Newcastle (interest increased from 30% to 45%)	45
The Potteries, Stoke-on-Trent (interest increased from 50% to 100%)	128
Plaza Escuela and others, USA	48
	221

- Aggregate investment property additions, including development expenditure, amounted to £321 million in 2004

Disposals

- £285 million disposals of non-core assets:

	Disposal proceeds £m	Exceptional profits £m
Investment in Great Portland Estates	148.4	26.8
UK investment properties	71.0	11.5
USA – Ghirardelli Square	23.5	5.5
Other investments	41.7	2.2
	284.6	**46.0**

Financial strength

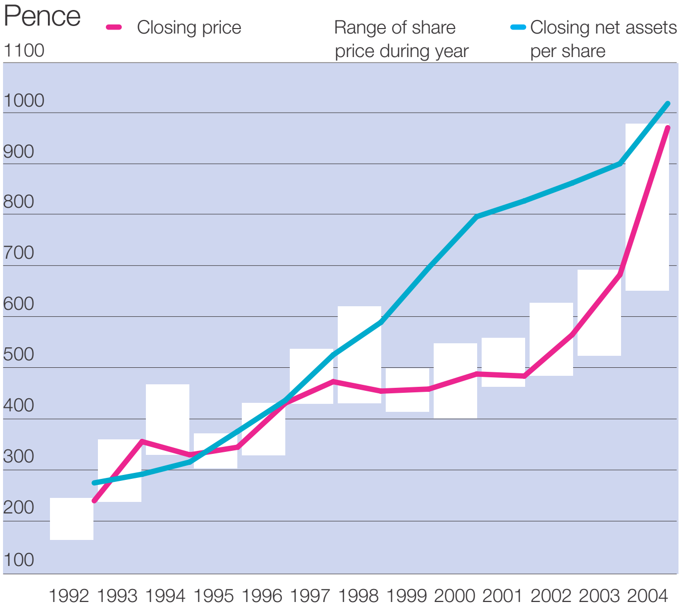
- Debt to assets ratio reduced from 39 per cent to 36 per cent with aggregate net borrowings virtually unchanged at £1.92 billion
- Cash balances of £438 million and committed facilities of £675 million, representing over £1.1 billion of available financial resources

Financial record

- Total return (increase in net asset value plus dividends) of 15.2 per cent in 2004
- Compound total return over past decade of 15.9 per cent per annum
- The annual dividend has increased by a multiple of almost six times over 20 years from 4.55p per share in 1984 to 26.5p per share in 2004, with an unbroken growth record each year for the past decade

Share price history and dividend information

Share price history since listing in London 30 July 1992



Share price history

Pence

Year ended 31 December	Closing net assets per share	Closing share price	Year's high	Year's low
1992	274	239.0	244.0	162.0
1993	291	355.0	359.0	237.0
1994	315	329.0	467.0	329.0
1995	375	344.0	371.0	303.0
1996	436	430.5	431.0	328.0
1997	525	472.5	536.5	429.5
1998	589	454.0	620.0	430.0
1999	696	458.0	499.0	414.0
2000	796	487.5	547.0	400.5
2001	827	483.5	558.5	462.5
2002	862	564.5	626.5	484.0
2003	906	682.5	691.6	523.5
2004	**1017**	**970.5**	**978.0**	**650.5**

Dividends

The Directors of Liberty International PLC have proposed a final ordinary dividend per share of 14.1p (2003 – 13.25p) to bring the total ordinary dividend per share for the year to 26.5p (2003 – 25.0p).

The following are the salient dates for the payment of the final dividend:

22 March 2005	Sterling/Rand exchange rate struck.
4 April 2005	Ordinary shares listed ex-dividend on the JSE Securities Exchange South Africa.
6 April 2005	Ordinary shares listed ex-dividend on the London Stock Exchange.
8 April 2005	Record date for final dividend in London and Johannesburg.
21 April 2005	Dividend payment day for shareholders. (Note: Payment to ADR holders will be made on 2 May 2005.)

South African shareholders should note that, in accordance with the requirements of STRATE, the last day to trade cum-dividend will be 1 April 2005. No dematerialisation or rematerialisation of shares will be possible from 4 April to 8 April inclusive.

No transfers between the UK and South African registers may take place from 19 March to 10 April inclusive.

Chairman's statement and review of operations

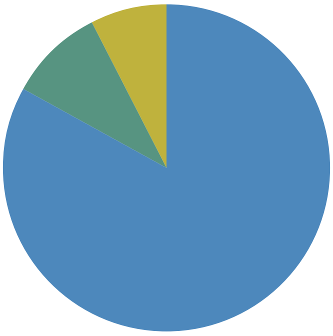
1 Donald Gordon, Chairman
2 David Fischel, Chief Executive


1


2

Investment property assets 31 December 2004
£5.3 billion

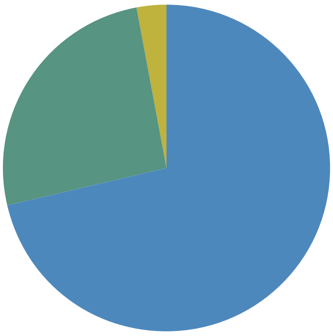
- Capital Shopping Centres (£4.4bn)
- Other retail (£0.5bn)
- Commercial (£0.4bn)



Operating income 2004
£272 million*

- Capital Shopping Centres (£194m)
- Other retail and commercial (£70m)
- Other (£8m)

*Includes group share of operating income of joint ventures



Introduction

2004 ranks as one of Liberty International's most active and successful years since its incorporation 25 years ago in 1980, with strong financial results and the completion of a record number of important projects and transactions which have considerably enhanced the positive momentum of the business.

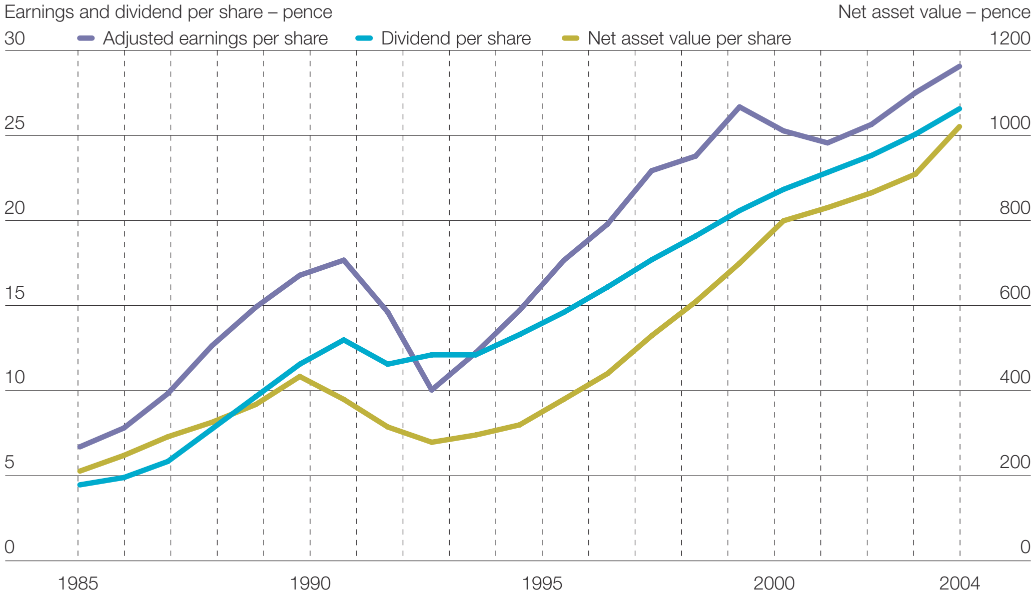
In terms of underlying revenue performance, we have reported a further year of consistent growth with an 11 per cent increase in profit before tax and exceptionals to £115.7 million and an improvement in adjusted earnings per share of 6 per cent to 29p per share.

In terms of business activity, we invested over £220 million in strategic acquisitions, particularly by way of increasing our percentage interests in Eldon Square, Newcastle, and The Potteries, Stoke-on-Trent, two of our existing centres, each with considerable expansion potential. We also completed significant development and upgrading projects at our two largest shopping centres, Lakeside, Thurrock, and MetroCentre, Gateshead. Overall, we made considerable headway with our promising development programme, now amounting to around £1.3 billion, focussed primarily on new and existing regional shopping centres.

Furthermore, we took advantage of favourable property market conditions to raise £285 million from disposals of non-core assets, realising a substantial £46 million aggregate surplus over book value. Overall profit for the year before tax, including these surpluses as exceptional profits, amounted to £158.3 million.

Our financial position strengthened considerably, with the debt to assets ratio now reduced to 36 per cent, a level giving ample scope for business expansion, while our debt structure was improved by several favourable refinancing transactions. We ended the year with cash balances of £438 million and committed long-term facilities of £675 million, representing over £1.1 billion of available financial resources.

Earnings, dividends and net asset value per share 1985 to 2004



Finally, we have reported an overall revaluation surplus on our completed investment properties of £343 million (7.0 per cent) increasing our adjusted net asset value by 12.3 per cent from 906p to 1017p per share, giving a total return for the year of 15.2 per cent.

To the above adjusted net asset value per share of 1017p should be added a further 48p per share, reversing the deduction made by the valuers of notional purchasers' costs of £170 million. This deduction is not in our view valid for a going concern structure such as Liberty International, a listed property company, where purchase and sale of shares is the predominant mode of exchange of value for shareholders rather than sale of each underlying individual property incurring transfer costs.

Dividends

The Directors are recommending a final ordinary dividend of 14.1p per share payable on 21 April 2005, bringing the full year's dividend to 26.5p per share, an increase of 6 per cent on 2004, continuing our unbroken track record over the last decade of annual dividend improvement. The Board of Directors remains committed to a progressive and relatively full dividend policy which it believes represents a major attraction to long-term investors. Our annual dividend has increased by a multiple of almost six times over 20 years from 4.55p per share in 1984 to 26.5p per share in 2004.

Strategy

We concentrate through Capital Shopping Centres ("CSC") on premier regional shopping centres, where we have a unique market position in the UK with nine completed centres in total, six of which rank in the UK's top 18. We also have a further three centres at the development stage with a number of other projects under consideration. This business, which represented over 80 per cent of investment properties at 31 December 2004, is complemented by the other retail and commercial activities of Capital & Counties in the UK and USA, and, from time to time when suitable opportunities emerge, by related investment activities. Retail overall represented 92 per cent of investment properties at 31 December 2004 compared with 90 per cent a year ago.

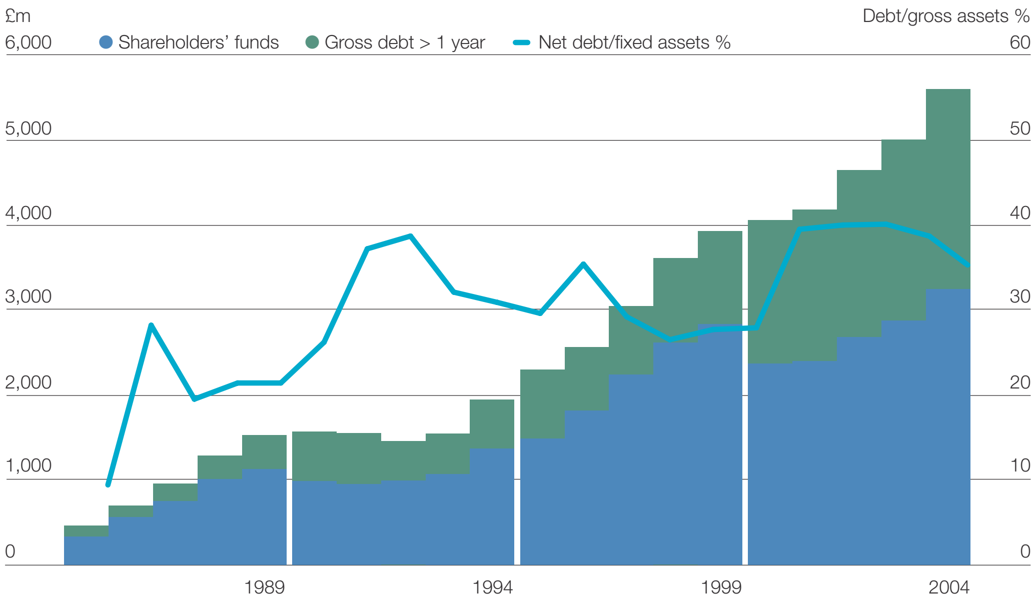
Our regional shopping centre business continued to deliver the stable and consistent investment performance which makes the asset class attractive to long-term investors, while our non-shopping centre activities, with investment and trading properties passing the £1 billion mark, had a particularly successful year.

Our chosen strategy has proven its merit over the last decade by delivering a compound total return in terms of increase in net asset value plus dividend of around 16 per cent per annum, with capital appreciation providing the substantial part of the overall return.

Liberty International has a number of unique strengths:

- prime regional shopping centres seldom change hands in transparent open market situations and it is our belief that the valuation approach, as described under Property valuations overleaf, has resulted in market valuations which, when compared with other retail asset classes, would imply an unduly conservative net asset value per share
- an increasingly difficult UK planning environment increasing the scarcity value and investment attraction of our regional shopping centres
- a portfolio value substantially above the market value of the constituent individual assets, given the virtual impossibility of assembling such irreplaceable assets individually on the open market
- a balance between out-of-town centres (Lakeside, MetroCentre and Braehead) and city centre projects, all in major regional destinations

Gross assets, shareholders' funds and debt ratios 1984 to 2004



- a wide geographic spread across the UK including major UK cities such as Glasgow, Newcastle and Nottingham as well as locations in London and the South East of England
- an absolute commitment to quality which in our view underpins superior rental income growth prospects from long-term lease structures, typically with 10 or 15 year leases containing rent reviews every five years. The attractiveness of the assets to retailers and shoppers, enhanced by our active management approach and capital investment programme, ensures they are very defensive and resilient in more difficult market conditions
- regional shopping centres with very limited fragmentation in ownership, enabling effective management control to be exercised. Following a number of transactions in recent years to acquire partners' interests, including two such transactions in 2004, we own 90 per cent or more of seven of our nine completed centres. Of our developments, Chapelfield, Norwich will be 100 per cent owned, while St Davids 2, Cardiff, and Westgate, Oxford, are 50:50 joint ventures, a pragmatic structure with which we are entirely familiar
- assets of an individual size sufficient to access substantial scale advantages in debt markets. As evidenced by the Lakeside transaction in 2004 and the MetroCentre transaction in early 2005, we can obtain overall borrowing terms which are considerably superior to those available to owners of smaller commercial assets or assets with fragmented ownership
- strong and extensive relationships with key retailers, aided by our extensive use of turnover-related leases which create a common interest in the success of our centres. These relationships give us access to development opportunities, enhance our understanding of the business and provide insights which enable us to better judge investment and development opportunities and effectively manage their risks
- a business of a size where we can create economies of scale in procurement and greater expertise in centre management, leading to lower levels of service charge to our tenants and better service overall
- a substantial development programme of £1.3 billion predominantly focussed on regional shopping centres which should bring meaningful benefits to shareholders as projects are completed. This programme largely concentrates on extensions of existing prime retail locations and therefore has an attractive risk profile and is of a size appropriate to maintain Liberty International's measured growth approach
- a financial position which enables the company to pursue acquisition opportunities, particularly where these fit in with our strategic ambitions to strengthen our market leadership in the UK regional shopping centre industry
- a successful but often under-recognised retail and commercial business in Capital & Counties, including a predominantly regional shopping centre and retail business in California, which is complementary to our UK shopping centre business and has produced excellent returns for shareholders
- a level of intellectual capital, experience and management skills within the organisation which ensures that the business as a whole is worth more than the market value of its individual assets

1 MetroCentre, Gateshead – new Red Mall department store.

2 Chapelfield, Norwich.

1

2

Property valuations

Of the overall £343 million (7.0 per cent) property revaluation surplus, CSC's completed regional shopping centres contributed £247 million (6.1 per cent), increasing in market value to an aggregate £4.3 billion, while the completed investment properties of Capital & Counties appreciated this year by an exceptional £96 million (11.2 per cent) to £952 million.

CSC's valuation increase was some two-thirds the result of a downward shift in equivalent yields applied by our valuers from 5.83 per cent to 5.62 per cent. Prime regional shopping centres such as ours now represent demonstrably better value than other retail asset classes which surprisingly benefited from a more pronounced yield shift in 2004. The balance of one-third of CSC's valuation surplus for the year, some £86 million, was attributable to an increase in rental values, mostly in the second half year.

The table set out below, based on figures supplied by one of our valuers, CB Richard Ellis, illustrates representative yields for the different retail asset classes at the beginning and end of 2004, showing the yield reductions in the year and the illustrative capital appreciation in 2004 due to shift in yield:

	Nominal equivalent yield			
	31 December 2003 %	31 December 2004 %	Yield reduction in 2004 %	Illustrative capital appreciation in 2004 due to yield shift %
Prime high street shops	5.0	**4.5**	**(0.5)**	**11.1**
Prime retail warehouses	5.75	**5.0**	**(0.75)**	**15.0**
Prime shopping centres	5.75	**5.5**	**(0.25)**	**4.5**
Secondary shopping centres	7.0	**6.25**	**(0.75)**	**12.0**

(Source: CB Richard Ellis)

Prime shopping centres, which in our view have superior rental income growth prospects, anomalously yield more than prime high street shops and retail warehouses according to the above table as at the end of 2004. Secondary shopping centres, which carry much greater risks and volatility, yield only 0.75 per cent more than prime shopping centres at the end of 2004, a margin which has narrowed significantly in recent years.

In fact, if Liberty International's shopping centres were valued in line with prime high street shops at a nominal equivalent yield of 4.5 per cent, our net asset value would increase by some £970 million (approximately 275p per Liberty International share).

Capital & Counties' UK investment properties increased in value by £75 million (11.9 per cent overall) to £709 million. The retail properties outside London increased by nearly 20 per cent, while Central London investments and Business Space outside London both showed strong gains of over 9 per cent. Overall true equivalent yield for Capital & Counties' UK properties fell from 7.97 per cent at December 2003 to a still attractive 6.94 per cent at December 2004.

The US investments of Capital & Counties performed similarly well with an overall increase of £21 million to £243 million, amounting to 9.2 per cent for the year or 11.5 per cent if assets purchased close to the year end are excluded. As in 2003, the Serramonte shopping centre was an outstanding performer, increasing in value by 14 per cent.

"We have always regarded the maintenance of financial strength as a prerequisite for success in the property business and our financial ratios at 31 December 2004 are exceptionally robust.

We are favourably placed to pursue our substantial £1.3 billion development programme which represents an important source of future growth."

Net asset value per share

As we have previously advised shareholders of Liberty International, they should appreciate that, because they are holding their investment indirectly through shares in a listed property company, their shares would on disposal be acquired by a purchaser who would only pay 0.5 per cent stamp duty plus brokerage on the share transaction, rather than the full purchasers' costs of acquiring the assets individually in the property market (primarily 4 per cent stamp duty land tax where applicable and normal transfer costs including professional fees averaging around a further 1.2 per cent). These notional purchasers' costs were some £170 million in aggregate at 31 December 2004 and, if added back, would increase the net asset value by that amount, equivalent to 48p per Liberty International share, and would increase overall net asset value per share to 1065p.

The market values reported at 31 December 2004, as was the case with those reported at 31 December 2003, subtracted these notional purchasers' costs, in line with the RICS Appraisal and Valuation Standards which became mandatory from 1 May 2003. These Standards need urgent review as, in our view, these notional costs should not be relevant or taken into account as Liberty International is a going concern and has not earmarked its investment properties for disposal. Furthermore, the Standards give no recognition to the structures through which the assets are held which would substantially reduce the notional costs on a genuine disposal.

Financial position

We have always regarded the maintenance of financial strength as a prerequisite for success in the property business and our financial ratios at 31 December 2004 are exceptionally robust.

We are favourably placed to pursue our substantial £1.3 billion development programme which represents an important source of future growth and brings the prospect of delivering superior performance for shareholders from the extra returns which well-judged development should bring.

Opportunistic acquisitions also represent an important source of added value and sustain the momentum of the business. Experience has demonstrated to us that a strong financial position with substantial liquidity often enables us to take advantage of investment opportunities on attractive terms as vendors prefer to deal with parties who have a track record of delivery and who can undertake transactions swiftly without needing any financing condition.

Notwithstanding the scale of our development programme, our financial position is such that we do not feel constrained from pursuing other opportunities where these fit our strategy of measured expansion in our chosen property market sectors.

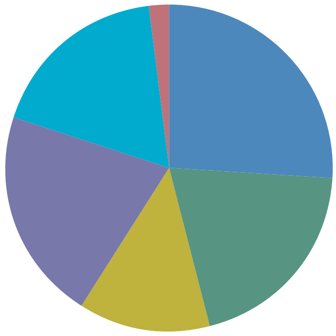
Financing transactions

The Financial Review sets out in detail some of the major financing exercises which the group has undertaken recently, particularly the £650 million refinancing of Lakeside in 2004 and the £600 million refinancing of MetroCentre which has been launched and completed since the year end.

The substantial expansion of the commercial mortgage-backed securities (CMBS) market in the UK is proving a major benefit to Liberty International. Given the size and quality of our major assets, we can now access large sums of debt finance on extremely favourable margins from bond markets by creating asset-specific structures with debt instruments rated by external rating agencies. We estimate that the Lakeside and MetroCentre refinancing transactions will reduce our annual interest expense by some £6 million, confirming the decision we took some years ago to focus primarily on asset-specific non-recourse debt finance rather than corporate unsecured debt which now plays only a small part in our debt structure.

1

Capital Shopping Centres valuations
£4,310 million*



- Lakeside, Thurrock (£1,075m – 26%)
- MetroCentre, Gateshead (£875m – 20%)
- Braehead, Glasgow (£581m – 13%)
- Other M25 Centres (£899m – 21%)
- Other Centres (£775m – 18%)
- Other properties (£105m – 2%)

*Includes group share of properties owned through joint ventures

In essence, the increasing liquidity in structured debt markets and consequential spread compression has created an additional source of value for owners of large and high quality assets such as Liberty International.

Capital Shopping Centres

2004 has proved to be another active year for Capital Shopping Centres ("CSC"). We completed the refurbishment at Lakeside in July and the Red Mall extension of MetroCentre opened for trading in October. Towards the end of the year, we took advantage of opportunities to increase our interest in Eldon Square, Newcastle, from 30 per cent to 45 per cent and in The Potteries, Stoke-on-Trent from 50 per cent to a full 100 per cent ownership.

During 2004, our major shopping centres have continued to demonstrate their undoubted quality by the high levels of interest from retailers and support from shoppers. Through our active approach to management, we constantly refine the tenant mix in our centres to maintain their appeal to shoppers by providing the most attractive retail offer in a vibrant environment. During the year we have made 87 tenancy changes, producing additional annual rental income of some £3.3 million. The success of our management approach is demonstrated by the very low levels of voids, 11 shop units out of an aggregate of 1,443 shops at the year end, an occupancy level of over 99 per cent.

The like-for-like growth in rental income in our centres in 2004 was £4.1 million, 2.3 per cent, in line with expectations in a year when a relatively small proportion of CSC's income benefited from rent reviews. However, income over the next few years is expected to benefit strongly from major rent review cycles. The first reviews since Braehead, Renfrew, Glasgow opened in 1999 are now being settled and further cycles commence in 2005 at Lakeside, Thurrock and, for the first time since opening, at The Chimes, Uxbridge. In 2006, rent reviews will focus on MetroCentre.

The trading climate for retailing during the first half of 2004 was generally favourable. Rising interest rates and the correction in the UK housing market inevitably had an effect on consumer spending which resulted in a lower increase in retail sales for the second six months. Our centres have maintained their market position with both Lakeside and MetroCentre benefiting from the capital investment referred to below while the more recently opened centres, Braehead and The Chimes, Uxbridge, continued to trade strongly.

Development activities in respect of completed shopping centres

A major focus for management is to strengthen our existing prime regional shopping centres by implementing refreshment, remodelling and expansion schemes to meet the ever-changing needs of retailers.

At Lakeside, Thurrock, we completed the remodelling, refurbishment and modernisation works on programme and on budget at the beginning of July 2004, with a highly favourable response from shoppers and retailers. These improvements have encouraged many retailers to refit their shops, with an increase in demand from retailers who do not have a presence in the centre and from existing retailers wishing to expand. As an example, an 18,600 sq. ft. extension to increase the size of the Next store to 63,000 sq. ft., has commenced and is due to be completed in time for the enlarged store to be trading before Christmas 2005. Importantly, this increase in retailer demand is being reflected in higher levels of rental value being obtained on new lettings. Also, Thurrock Council have resolved to grant planning consent to remodel and extend the Pavilion building to improve the catering in Lakeside by providing 42,000 sq. ft. of new restaurants, of which 72 per cent is under offer.

1 St. David's 2, Cardiff (artist's impression).

2 Refurbished malls at Lakeside.

3 Eldon Square, Newcastle upon Tyne – artist's impression of new shop units.

2

3

We opened the major extension to MetroCentre, Gateshead, providing a new department store for Debenhams, 28 new shop units, an 1,100 space car park and a new bus station, on time, on budget and fully let at the beginning of October 2004. The project restored MetroCentre's position as Europe's largest covered shopping centre at 1.8 million sq. ft., adding significantly to the retail offer on both trading levels. The space has attracted an excellent selection of retailers including Debenhams, Zara, Hennes, River Island, French Connection, New Look and the first Bershka store in the UK. Generally retailers are reporting sales in excess of their initial budgets.

At Braehead, Renfrew, Glasgow, the Phase 2 development, comprising some 165 acres of land, is now gathering pace. We sold 11 acres for residential development in the first half year recording a substantial trading profit of £6 million. In October, the 460,000 sq. ft. construction of the Xscape Leisure scheme, a joint venture with Capital & Regional Plc, which will include an indoor ski-slope, cinema, bowling, restaurants, cafés and speciality retail, commenced on site. We are continuing to pursue other sales of land for more residential and business space.

At Eldon Square, Newcastle, planning consent has been granted for three separate projects to expand and renovate the centre, in total amounting to 468,000 sq. ft. of retail space including a new 175,000 sq. ft. department store, creating net additional retail space of 318,000 sq. ft. When all three projects have been implemented, Eldon Square will provide 1.25 million sq. ft. of space, ranking it amongst the UK's largest city-centre regional shopping centres.

In Watford, we have completed a preliminary agreement with Watford Borough Council with the intention that CSC will in due course develop a mixed-use scheme of up to 600,000 sq. ft. including the redevelopment of Charter Place, an older style 1970's shopping centre owned by the Council which adjoins our major regional shopping centre, The Harlequin, and other high street properties we already own. The Council continues to work on a planning brief for the area which is expected to be completed during the first half of 2005. The proposals when implemented will substantially enhance Watford as a destination in the regional retail hierarchy.

At The Victoria Centre, Nottingham, we have commenced construction of a 40,000 sq. ft. remodelling project creating an additional 31,600 sq. ft. of prime retail space from available indoor market space. Terms have been agreed to pre-let the whole of the new space of 40,000 sq. ft. In addition, further opportunities are being explored to add additional retail space subject to planning consent.

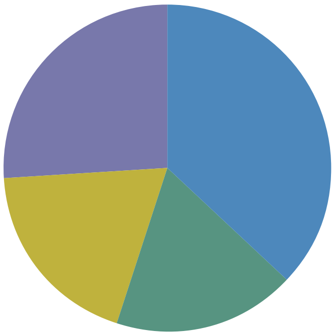
At The Glades, Bromley, where we recently purchased properties in the high street adjoining the main entrance to the shopping centre, plans to incorporate these properties to provide some 38,000 sq. ft. of new retail space have been finalised and a planning application has been submitted.

During 2004, we made two strategic acquisitions of sites adjoining The Potteries, Stoke-on-Trent, which will provide an opportunity for a proposed major extension to meet unsatisfied retailer demand in this 561,000 sq. ft. regional centre, where we have now obtained full 100 per cent ownership.

Capital & Counties completed investment properties by location*
£952 million
(retail 56% – offices 44%)

- Central London (£355m – 37%)
- Business space outside London (£170m – 18%)
- Retail outside London (£184m – 19%)
- USA (£243m – 26%)

*Includes group share of properties owned through joint ventures



1

2

Progress on new projects

The development of the 510,000 sq. ft. Chapelfield shopping centre, Norwich, where CSC will become the owner on completion, continues to be progressed by Lend Lease Europe for completion in the Autumn of 2005. Anchored by House of Fraser, an excellent line up of retailers has been secured with Lend Lease reporting that they have let or instructed solicitors on 89 per cent of the space, representing 82 per cent of anticipated income. CSC's estimated cost for the centre, excluding the residential element, is around £260 million of which £219 million remains to be paid.

In Cardiff, the St David's Partnership, our joint venture with Land Securities Group PLC, continues to progress the detailed design of the proposed 850,000 sq. ft. retail-led mixed-use extension to the existing St David's shopping centre in the heart of the City. We have agreed terms with The John Lewis Partnership to occupy a new department store in the extended scheme which will rank on completion as one of the largest UK regional shopping centres.

Our joint venture with LaSalle Investment Management to expand and upgrade the Westgate shopping centre, Oxford continues to make progress. A master planning exercise has been finalised following an extensive period of consultation and this has been well received by the public, third parties and both the City and County Councils. The next step is to finalise discussions with interested parties on transport issues, which are being considered in the context of a wider joint initiative to regenerate a larger area, encompassing the entire western part of the City of Oxford. Our proposals for Oxford also include a department store for The John Lewis Partnership.

Capital & Counties

2004 has been a year of excellent performance for Capital & Counties, both in the UK and the USA. Buoyant investment market conditions coupled with active asset management have combined to deliver a very attractive total return on capital employed within Capital & Counties and the revaluation surplus this year of £96 million increased property assets including development and trading properties to over £1 billion.

UK

Tenant interest in our Central London office properties, primarily located in the West End and Mid-Town, has markedly improved over the last 12 months and rental levels are showing signs of returning to a growth pattern. The performance of retail properties outside London, which rose in value by nearly 20 per cent, was substantially helped by active management, particularly of our retail parks. The valuers estimate the rental value of Capital & Counties' investment properties to be £6 million in excess of passing rents.

We took advantage of the strong investment market conditions in 2004 to sell four non-core office properties, in particular Imperial Place, Borehamwood, Hertfordshire, realising a total of £68 million, £11.5 million in excess of the market values at 31 December 2003.

Central London offices and retail (£355 million market value)

Activity returned to the West End office letting market in 2004 with a noticeable improvement in demand and take-up. We have as a consequence been successful in letting vacant space in Kensington High Street, Regent Street and Piccadilly. In our core West End and Mid-Town office properties, space available to let currently represents 1.9 per cent by area of the total accommodation. A further 2.9 per cent is undergoing refurbishment. We continue the policy of upgrading common areas to reflect the increasing expectations of occupiers and to maximise achievable rents. Retail space remains fully occupied.

The scheme for the refurbishment and redevelopment of the King's Reach complex was finalised in 2004 and a planning application will be made in February 2005.

1 67/75 Kingsway, London WC2.

2 52 Jermyn Street, London W1, refurbishment.

3 Plaza Escuela, Walnut Creek, California, USA.

4 CPC1, Capital Park, Cambridge.

3

4

If consented the new scheme will provide 350,000 sq. ft. of new offices (a 40 per cent increase over the existing building) and 30,000 sq. ft. of new retail space. A start on site could be made in 2007 and a pre-letting campaign is likely to commence during 2005.

Retail outside London (£184 million market value)

The retail investments have performed outstandingly well in 2004. The benefits of our active approach were particularly evident at the retail warehouse parks at Stafford and Braintree where lease buy-backs have enabled strategic reletting to higher quality retailers together with evidence for increased rental value. Further opportunities continue to be realised to improve these assets in both physical and tenant-mix terms.

At Swansea, an extension of part of our holding on the prime pitch of Oxford Street was completed in order to provide larger retail units, all of which have been successfully let to a quality range of new tenants. We are now exploring other opportunities to increase the retail offer in Swansea's City Centre.

At Ilford in Essex we continue to work with the London Borough of Redbridge and Countryside Properties in progressing the 400,000 sq. ft. town centre regeneration scheme.

Business space outside London (£170 million market value, including Capital Enterprise Centres)

As the group's retail focus has increased, offices outside London have become progressively non-core and we were pleased to make the substantial disposals referred to above in 2004.

Significant marketing effort at Capital Park, Cambridge during 2004 has resulted in the letting of all the remaining vacant office space. This 160,000 sq. ft. office park is now fully occupied and we are contemplating the development of a further 40,000 sq. ft. on the remaining undeveloped land. Encouragingly, in the case of our other recent development, Capital Court, Uxbridge, further lettings of 10,000 sq. ft. have been achieved, with interest in the majority of the 14,000 sq. ft. of offices remaining to be let.

Four Capital Enterprise Centres' locations with a total of 175,000 sq. ft. of business space are now open and trading successfully with construction of the fifth, in Milton Keynes, expected to commence in the first quarter of 2005. Occupier demand at Chelmsford has been exceptionally strong and terms are agreed for the purchase of additional land to extend the centre by 50 per cent to 55,000 sq. ft.

United States

2004 was also an excellent year for our US company, focussed on California. The Serramonte Center, our flagship regional shopping centre in Daly City, San Francisco, continues to trade strongly, with tenants turnover increased in dollar terms by 7 per cent in 2004. For the first time, total property assets in the US exceed $500 million.

The sale of Ghirardelli Square in San Francisco raised $45 million in the first half year and produced an exceptional profit of $10 million. The $95 million refinancing of the Serramonte Center (reducing the interest rate from 6.9 to 4.8 per cent) raised $31 million of further funds. These transactions enabled the company to make acquisitions with a potentially attractive return profile. Plaza Escuela, a 154,000 sq. ft. open shopping centre in the affluent community of Walnut Creek, Contra Costa County, and a 75,000 sq. ft. medical office complex at Danville were acquired for $72.5 million and $20 million respectively. In addition, a 42 acre retail development site has been acquired at a nearby East Bay location, Antioch.

“24 June 2005 marks Liberty International’s 25th anniversary and I am gratified to have been involved from the very formation of the company on my 50th birthday in 1980. The company has advanced from small beginnings into a major UK FTSE 100 company. Over this period, we have found that increasing size, far from representing a barrier, has generated a steady flow of attractive new opportunities to maintain the company’s momentum.”

Economic and financial background and the UK property market

2004 was a year of relative stability in financial markets, with the exception of some commodity sectors such as oil where sizeable price rises generated some inflationary concerns. In equity markets, the FTSE 100 Index and the US Standard & Poor’s 500 Index rose by 7.5 per cent and 9 per cent respectively. While short term interest rates rose, with UK base rate increasing from 3.75 to 4.75 per cent and the US Fed Funds rate increasing from 1.0 to 2.25 per cent (increasing in 2005 to 2.5 per cent), longer term fixed interest markets were little affected, with the yield on the UK 10 year gilt declining from 4.8 to 4.5 per cent and the 10 year US treasury remaining virtually unchanged at 4.2 per cent. The US dollar declined against sterling from $1.78 to $1.92, reflecting financial market concerns about the size of the US trade and budget deficits.

Although UK GDP growth in 2004 has been estimated at around 3 per cent, very much in line with its long run average of some 40 years or more, the immediate outlook for consumer spending looks more challenging than over the last few years. We are reassured by the fact that prime regional shopping centres have historically demonstrated their resilience and stability when market conditions are more difficult.

2004 was another strong year for property returns in the UK with the IPD UK Monthly Index, the widely recognised benchmark for UK property performance, showing a total return of 19 per cent for the year, substantially outperforming UK equities and gilts. Over the last decade, according to the same index, UK property has produced a compound total return of 11.2 per cent, compared with equities which have produced 8.1 per cent.

Not surprisingly, the continued strong relative performance of property, its yield advantage and lower volatility have attracted increasing investor interest, resulting in valuation yields dropping sharply in 2004, as referred to above under Property valuations. The All Property equivalent yield reduced from 7.65 per cent to 6.86 per cent, a substantial move for a single year and a major factor in the exceptional 2004 total return. Retail property continued to be the strongest performer of the property asset classes measured by IPD producing a total return of 21.6 per cent in 2004 compared with offices producing 13.9 per cent.

While direct property performed strongly in 2004, property shares performed even better with a 41 per cent rise in the FTSE 350 Real Estate Index, slightly exceeded by Liberty International as we recorded a 42 per cent increase with our share price rising from 683p to 971p.

Real Estate Investment Trusts (“REITS”)

The relentless migration by participants in the UK property industry to offshore tax jurisdictions and indirect vehicles, not least in the face of the penal and counterproductive 4 per cent stamp duty levy on UK property transactions, is clearly concentrating the mind of the UK Treasury on the need for a UK onshore tax-transparent property vehicle in line with other developed economies. Following last year’s Treasury consultation paper, which received an unprecedented level of submissions, the indications are that a further Treasury pronouncement is likely in Spring 2005 which could lead to legislation in time for the 2006 tax year.

REIT investors worldwide have generally shown a strong preference for specialist companies rather than generalists. Regional shopping centres have been one of the asset classes which they have particularly favoured, with major REITS in the sector in several territories now trading at a significant premium to underlying net asset value. Liberty International would represent an attractive REIT. We therefore hope that the next round of Treasury proposals does not look to impose unnecessary regulations or tax barriers which would impede the successful evolution of an onshore REIT sector in the UK.

Chairmanship, directorate and management
During 2004, following the two retirements at the Annual General Meeting referred to in my statement last year, we were pleased to appoint as non-executive Directors Lesley James, CBE, former human resources director of Tesco who now holds a number of non-executive appointments, and Rob Rowley, former finance director of Reuters and currently, amongst other appointments, senior independent non-executive director of Prudential PLC.

In 2005, we have made a further round of appointments. Kay Chaldecott and Richard Cable, respectively asset management director and development director of Capital Shopping Centres with 20 and 17 years' experience with the group, have been appointed as Executive Directors of Liberty International.

As non-Executive Directors, we have appointed Sir Robert Finch, immediate past Lord Mayor of London and former head of the property department at leading City law firm, Linklaters, and Ian Henderson, CBE, former chief executive of the UK's largest property company, Land Securities Group PLC.

We look forward to all of the above making a substantial and valuable contribution to our affairs.

My intention remains to retire as Chairman at the end of June 2005 when I reach my 75th birthday but I look forward to continuing my association with the company, in which my family has a substantial 22 per cent shareholding, as the Board has invited me to accept the appointment of President for Life on my retirement and to act in an advisory capacity. We anticipate announcing my successor as Chairman in the second quarter of 2005, sufficiently far in advance of my retirement to ensure an orderly handover.

I would like to extend my thanks to the management team, my non-Executive Board colleagues and the entire staff of Liberty International for their exceptional efforts and commitment in such an active year when so much has been achieved to enhance the company's long-term prospects. Furthermore, I would like to thank our shareholders, advisers, bankers and other consultants for their continuing support.

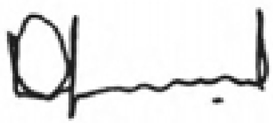
Prospects
24 June 2005 marks Liberty International's 25th anniversary and I am gratified to have been involved from the very formation of the company on my 50th birthday in 1980.

The company has advanced from small beginnings into a major UK FTSE 100 company, with our ranking now in the top 75 companies. Over this period, we have developed a powerful market position in the UK regional shopping centre industry and have found that increasing size, far from representing a barrier, has generated a steady flow of attractive new opportunities to maintain the company's momentum.

We are determined to extend our track record of growth, by relentlessly pursuing, in our chosen property market sectors and within sound financial parameters, an expansion strategy which has three main elements:

- to increase net property income and thereby profits through appropriate rent reviews, lettings and active management
- to take advantage of market opportunities for acquisitions where these fit our overall strategy
- to successfully pursue our development programme to ensure the long-term growth profile of the business

While my impending retirement at the end of June on my 75th birthday means this represents my last annual Chairman's statement, I can however assure shareholders that I am highly confident in Liberty International's exceptional long-term prospects, given the quality of its people, its ongoing leadership, its irreplaceable physical assets and the exciting prospects and challenges of our chosen industry in which Liberty International is the prime player in the UK. It is also extremely gratifying that both the London and Johannesburg stock markets have reacted positively to the company's momentum by recording the highest overall yearly improvement of our share price since our incorporation in 1980.



Donald Gordon
Chairman
9 February 2005

Financial review

Measurement of performance

The key performance measure used by Liberty International is total return, being the growth in net assets per share plus the annual dividend. Growth in net assets per share is primarily driven by investment property revaluations and the dividend derives from the revenue results for the year.

Revenue results

Profit on ordinary activities before taxation increased by 44 per cent to £158.3 million from £110.0 million. Removing the effect of exceptional items, **profit on ordinary activities before tax and exceptional items** increased by 11 per cent to £115.7 million from £104.2 million.

Operating profit including joint ventures, a key measure of underlying performance, increased by over 3.9 per cent to £245.2 million from £235.9 million. The growth in operating profit reflected both like-for-like rental growth of £7.0 million (2.9 per cent) and £1.8 million of rental income from net additions to investment properties. The contribution within operating profit from **property trading** was £9.9 million compared to £4.5 million for 2003, comprising both rental income from the trading properties and, in 2004, the profit from the sale of land at Braehead.

The group's **share of operating profit of joint ventures** reduced from £8.1 million to £7.7 million. These amounts principally comprise net rental income derived from the underlying property investments. The reduction is primarily due to the largest joint venture, at The Potteries, Stoke-on-Trent, ceasing to be accounted for as a joint venture during December 2004 following the acquisition of our partner's 50 per cent interest.

Investment and other income decreased to £8.9 million from £10.8 million. This item largely comprises the dividends received from the investments in Great Portland Estates, and from the New Star Property Unit Trust, both of which were disposed of during the period.

Exceptional items, material items which need to be disclosed by virtue of their size or incidence but are nevertheless included in the results for the period, have had a significant impact on the presentation and interpretation of the revenue results in recent years. Exceptional items are, by their nature, likely to be erratic and changes in the size and nature of exceptional items can complicate the direct comparison of one period with another.

In the year ended 31 December 2004 the group recorded exceptional profits before tax of £42.6 million, compared to net exceptional profits of £5.8 million for 2003. Exceptional profits in 2004 arose primarily from the disposal of the group's investments in Great Portland Estates and the New Star Property Unit Trust, and from the sale of investment properties; Ghirardelli Square, San Francisco in the USA and Imperial Place, Borehamwood and other assets in the UK.

In 2003, the net exceptional profits arose primarily from financing and treasury activities and in 2004 we incurred exceptional costs of £3.4 million primarily relating to the repayment of the £550 million Lakeside loan.

Administrative expenses rose to £26.5 million from £24.8 million with a strong rise in Liberty International's share price in the year resulting in an abnormally large provision for national insurance in respect of unexercised share options of £1.2 million (2003 – £0.4 million).

Net interest payable decreased marginally to £129.5 million from £131.7 million, due to the relatively small change in net debt during the period and the protection provided, in a rising interest rate environment, from predominantly fixed rate finance. The reduction was largely the result of lower rate financings, both from the convertible debt issued in the second half of 2003 and the new loan secured on Lakeside during 2004 (see Debt finance below).

Tax on profit on ordinary activities includes deferred tax of £8.6 million (2003 – £7.9 million) in respect of timing differences arising from capital allowances. FRS 19 "Deferred Taxation" requires a provision because there is a remote possibility that these allowances could become repayable if the properties are sold. Providing for this deferred tax obscures the benefit from capital allowances that reduce actual tax paid without any real risk of a subsequent reversal, as this is entirely within the control of the seller. As a result, it has become common practice in the property industry to disclose both earnings per share and net assets per share after adjustment to eliminate the effect of deferred tax in respect of capital allowances.

The **tax charge** before exceptional items and before deferred tax on capital allowances amounted to 20.5 per cent (2003 – 19.1 per cent). This represents the underlying tax payable on recurring revenue profits. The low tax charge reflects untaxed dividend income, capital allowances and the favourable impact of prior year items. The group's reported tax charge, which includes deferred tax in respect of capital allowances, reduced to 21.3 per cent overall (2003 – 26.7 per cent) with the reduction attributable to the low level of tax on exceptional items.

The annual **dividend per share** increased by 6 per cent to 26.5p per share in line with our policy of distributing substantially all of the group's recurring net income.

Earnings per share before exceptional items (adjusted), sometimes referred to as "headline earnings", increased by 5.7 per cent to 29.02p.

Analysis of 2004 net property investment income

	Total £m	Shopping Centres £m	Other Commercial UK £m	Other Commercial USA £m
Like-for-like growth	**7.0**	**4.1**	**2.5**	**0.4**
Like-for-like growth %	**2.9%**	**2.3%**	**5.8%**	**3.0%**
Year ended 31 December 2003	237.3	175.9	47.2	14.2
Joint ventures	8.1	6.5	–	1.6
Group net property investment income 2003	245.4	182.4	47.2	15.8
Foreign Exchange	(1.3)	–	–	(1.3)
Sold properties, including to joint ventures	(5.6)	(0.3)	(4.0)	(1.3)
Adjusted to 31 December 2003	238.5	182.1	43.2	13.2
Like-for-like growth	**7.0**	**4.1**	**2.5**	**0.4**
Adjusted to 31 December 2004	245.5	186.2	45.7	13.6
Sold properties	4.5	–	3.9	0.6
Developments, major capex and acquisitions	2.9	1.8	0.4	0.7
Year ended 31 December 2004	252.9	188.0	50.0	14.9
Less: held through joint ventures	(7.7)	(6.8)	–	(0.9)
Group net property investment income 2004	**245.2**	**181.2**	**50.0**	**14.0**

Basic earnings per share increased 49.8 per cent to 39.32p, reflecting the exceptional profits discussed above.

Balance sheet

Investment properties, including holdings through joint ventures, increased to £5,341 million from £4,768 million in 2003. Notional acquisition costs amounting to £170 million (2003 – £156 million) were deducted by our valuers in arriving at the valuations of completed investment properties. Further costs of £92 million (2003 – £70 million) were not deducted due to relief from stamp duty land tax dependent on the location of certain properties. The table below summarises the movements during the period:

	£m
Investment properties at 31 December 2003	4,768
Additions	321
Disposals	(78)
Foreign exchange and other movements	(13)
Valuation surplus	343
Investment properties at 31 December 2004	5,341

Additions amounted to £321 million and were largely financed by sales of investment properties and the disposal of the investment in Great Portland Estates and the holding in the New Star Property Unit Trust raising approximately £285 million. The details of the additions and disposals are discussed in the Chairman's statement.

Investments at 31 December 2004 reduced to zero as a result of the above sales.

Cash and near cash investments increased to £438 million from £197 million largely as a result of increased drawings under long-term bank facilities arranged during the period, reflected in an increase in total debt (including the group's share of joint ventures' debt) from £2,118 million to £2,362 million at 31 December 2004. Aggregate net debt (including the group's share of joint ventures' net debt), only increased marginally to £1,923 million (2003 – £1,917 million).

Shareholders' funds increased to £3,244 million from £2,859 million (restated for the revised treatment of Investment in Own Shares – see note 1), reflecting the valuation surplus of £343 million on investment properties and joint ventures and the £40.6 million of retained profits which include the profits realised during the period from disposals of investment properties and investments.

Net assets per share (diluted, adjusted) increased to 1017p from 906p, driven by the valuation surplus on investment properties arising during the year.

Financial management

Debt finance

The group's predominant source of debt finance in recent years has been long-term non-recourse asset-specific bank financings. Initially these took the form of secured bank loans as, compared to bond market securitisation, this simple structure retained the degree of flexibility required for the active management of the properties. In recent years, innovative structures have been developed to access the commercial mortgage-backed securities (CMBS) market such that Liberty International has been able to gain the advantage of capital markets pricing while retaining the flexibility of a bank loan.

In August 2004 the group put in place a new £650 million seven year term and revolving credit facility to replace the £550 million facility secured on Lakeside. The £550 million term element was refinanced by the lender through the issue of floating-rate mortgage-backed securities for an equivalent term. The benefits to the group from accessing the strong demand for highly rated paper in this manner translate into an interest saving of around £2 million per annum.

Since the year end, a similar financing structure has been utilised in order to refinance the £536 million term loan secured on MetroCentre and Braehead, with a new £600 million term loan secured on MetroCentre alone. While the rearrangement entailed the cancellation of a £180 million undrawn revolving credit facility under the original facility, Braehead has now been released from charge and is therefore available to support suitable replacement finance when required. The new loan was refinanced through the CMBS market with Liberty International investing in £68 million of the highest coupon bonds reducing the overall cost of finance at a time when the group has substantial surplus cash. These bonds may be sold to raise additional finance if required. The MetroCentre refinancing will generate a further saving of around £4 million per annum.

In addition, during 2004, the acquisition of our partner's 50 per cent interest in The Potteries, Stoke-on-Trent, joint venture entailed the assumption of their £67 million share of the debt secured on the property and this loan was increased by a further £46 million just before the year end. In the USA a $95 million seven year non-recourse facility secured on the Serramonte Shopping Center replaced the existing $64 million loan and achieved a reduction in interest rate from 6.9 per cent to 4.8 per cent.

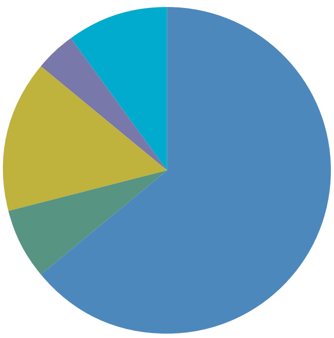
Financial ratios

The group's main internal constraints are that, at currently prevailing property yields and interest rates, interest cover should be maintained at a level in excess of 1.6 times and debt to assets at less than 50 per cent. At 31 December 2004, interest cover had increased to 1.9 times from 1.8 times and the ratio of net debt to assets reduced to 36 per cent from 39 per cent.

Analysis of debt by type and maturity

£2,362 million total debt

- Long-term secured non-recourse bank debt (£1,507.7m – 64%)
- Long-term secured bank debt (£172.5m – 7%)
- Debentures and other fixed rate loans (£350.2m – 15%)
- Unsecured loan stock (£95.8m – 4%)
- 3.95% convertible bonds 2010 (£235.4m – 10%)



Maturity and interest rate profile of debt

The group's policy is to eliminate substantially all exposure to interest rate fluctuations in order to reduce the variability of long-term cash flows. Additional interest rate swaps were entered into during the period in order to ensure that the exposure to expenditure on the committed development programme is sufficiently covered. Over the next five years substantially all interest payments are at fixed rates reducing to around 50 per cent after 10 years. The weighted average maturity of debt is nine years and the weighted average lease maturity 10 years.

The weighted average interest rate payable on group debt at 31 December 2004 was 6.5 per cent (6.1 per cent excluding the £230 million first mortgage debenture stocks issued in a different interest rate environment between 1987 and 1991).

Contingent taxation

In accordance with FRS 19 "Deferred Tax", the group only provides for deferred taxation on timing differences other than those arising in respect of valuation surpluses on investment properties held for the long term. The potential amount of taxation which would have been payable if all valuation surpluses had been realised at the balance sheet date amounted to £505 million, equivalent to 143p per share (2003 – £439 million, 125p per share). This amount represents the maximum potential tax payable, being undiscounted and taking no account of savings that may be available depending on how sales are structured. In addition, if the group retained all the capital allowances on sales, which is within the control of the seller, the deferred taxation provision in respect of capital allowances of £76 million would be released, and further capital allowances of £13 million would be available to reduce the amount of tax payable on sale.

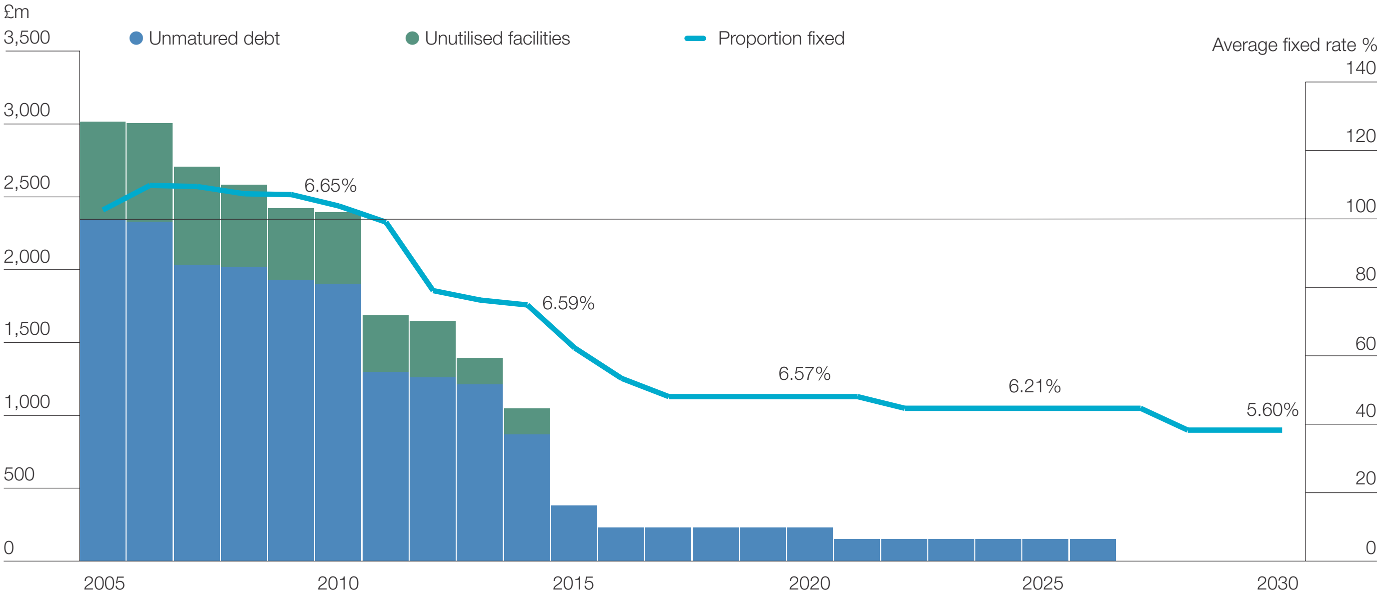
Fair value of debt and financial instruments

The fair value of debt and financial instruments, excluding convertible debt, exceeded the balance sheet value by £246 million at 31 December 2004, equivalent to 49p after credit for tax relief (2003 – £191 million, 38p per share after credit for tax relief). While short-term interest rates rose over the period with UK base rate rising from 3.75 per cent to 4.75 per cent, longer term interest rates initially rose in the first half of the year and then fell in the second half. The 10 year interest rate swap, which represents a suitable benchmark, initially increased from 5.05 per cent to 5.45 per cent at the half year but fell to 4.86 per cent by the year end.

Foreign exchange

The group's net exposure to US dollars of approximately $50 million at the start of the year was fully hedged during the first quarter of 2004 approximately at the preceding year's closing rate. The exceptional performance of the US assets has contributed to an increase in US dollar net assets and, despite having hedged the half year valuation surplus during

Maturity and interest rate profile of debt as at 31 December 2004



the period at a level of $1.80, around $20 million of net investment was unhedged at 31 December 2004 when the closing rate was $1.92. Hedging transactions since the year end, at rates below the year end rate, have eliminated this exposure.

Accounting issues

International Financial Reporting Standards ("IFRS") have become mandatory for future reports for all listed companies within the European Union. The group will prepare the financial statements for 2005 in compliance with IFRS. The process of evaluating the impact of the changes and preparing for the new regime is continuing.

Implementation may have a significant impact on the presentation of the group's results. However the changes in accounting standards will have no impact on cash flows or the commercial operation of the business. The principal differences between IFRS and current UK standards which affect the group are:

Profit and loss

- Under current UK GAAP the profit and loss account generally contains only items which have either been realised in cash or are expected to be realised in cash within a short period. Under IFRS, market value adjustments and other estimates which bear less of a direct relationship to the underlying cash flow are included in the profit and loss account
- Movements in fair value of investment properties are recognised in the profit and loss account, and not in the revaluation reserve, together with full provision for deferred tax on the valuation movements
- Movements in fair value of derivative instruments which are not accounted for as hedging instruments are recognised in the profit and loss account and not by way of a note. (The group does not intend to apply hedge accounting for interest rate swaps)
- Lease incentives are spread over the life of the lease rather than the period to the first rent review
- Some rentals will be reclassified as finance income or expense where a lease is categorised as a finance lease with a corresponding adjustment to the presentation of property assets and loans
- Additional finance charge in respect of convertible debt to reflect "true" cost of bond element

Balance sheet and net assets

- Provision for tax on all differences between tax and accounting values, including revaluation surpluses
- Derivative financial instruments carried on balance sheet at fair value. Fair value of other financial instruments only disclosed in notes
- Equity element of convertible debt reclassified to reserves
- No provision made for proposed dividends

The group will report under IFRS for the first time when we announce the interim results for the period to 30 June 2005. We expect to publish a restated 2004 profit and loss account and balance sheet at some point prior to the 2005 interim results so that all interested parties will have time to absorb and interpret the scope of the changes brought about by the transition to IFRS.

Aidan Smith
Finance Director
9 February 2005

Summary of investment property valuations

	31 December 2004 True equivalent yield* %	%	Market Value £m	Revaluation surplus £m	%	31 December 2003 Market Value £m	True equivalent yield* %	%
Lakeside, Thurrock	**5.37**	**(5.40)**	**1,075.2**	**76.1**	**7.6**	990.5	5.58	(5.61)
MetroCentre, Gateshead	**5.43**	**(5.74)**	**875.0**	**17.8**	**2.1**	763.0	5.59	(5.90)
Braehead, Renfrew, Glasgow	**5.68**	**(5.75)**	**580.6**	**42.5**	**7.9**	533.5	6.01	(6.07)
Other M25 centres	**5.57**	**(5.88)**	**899.3**	**55.1**	**6.5**	842.0	5.78	(6.09)
Other centres	**6.03**	**(6.26)**	**774.9**	**49.8**	**6.9**	550.8	6.34	(6.62)
Other properties	**6.95**	**(7.35)**	**105.2**	**6.0**	**6.0**	98.7	7.39	(7.77)
UK regional shopping centres	**5.62**	**(5.82)**	**4,310.2**	**247.3**	**6.1**	3,778.5	5.83	(6.03)
US regional shopping centres and other retail			**194.9**	**18.1**	**10.3**	164.8		
UK other commercial properties:								
– Central London retail and offices	**6.94**	**(7.23)**	**354.8**	**29.7**	**9.1**	327.1	7.88	(8.33)
– Retail outside London	**6.60**	**(6.84)**	**184.4**	**30.6**	**19.9**	131.6	7.64	(7.90)
– Business space outside London	**7.40**	**(7.79)**	**169.9**	**15.0**	**9.7**	204.6	8.35	(8.85)
US other commercial properties			**47.6**	**2.5**	**5.4**	36.4		
			5,261.8	**343.2**	**7.0**	4,643.0		
UK regional shopping centre developments			**58.5**			104.6		
Other developments			**21.0**			20.3		
Total investment properties			**5,341.3**			4,767.9		
Held through joint ventures†			**(28.4)**			(142.7)		
Group investment properties			**5,312.9**			4,625.2		

* Yield to purchaser of the assets individually at Market Value after taking account of notional acquisition costs. The figure in brackets represents the yield earned by Liberty International on the asset at Market Value.

† Includes £5.8 million regional shopping centres and £22.6 million other commercial properties (31 December 2003 – £122.8 million and £19.9 million respectively).

Summary of Capital & Counties completed investment property valuations

	Number of properties	Net property income £m	Market Value £m	Revaluation surplus £m	Revaluation surplus %	Net property income £m	Market Value £m
	Year ended 31 December 2004					Year ended 31 December 2003	
Central London retail and offices	**21**	**26.5**	**354.8**	**29.7**	**9.1**	24.6	327.1
Retail outside London	**7**	**10.4**	**184.4**	**30.6**	**19.9**	8.5	131.6
Business space outside London	**15**	**13.1**	**169.9**	**15.0**	**9.7**	14.1	204.6
Total United Kingdom investment properties	**43**	**50.0**	**709.1**	**75.3**	**11.9**	47.2	663.3
United States*	**10**	**14.9**	**242.5**	**20.6**	**9.3**	15.8	201.2
Total completed investment properties	**53**	**64.9**	**951.6**	**95.9**	**11.2**	63.0	864.5

* Includes £0.9 million net property income and £9.1 million Market Value (2003 – £1.6 million and £9.8 million respectively) in respect of properties owned through joint ventures.

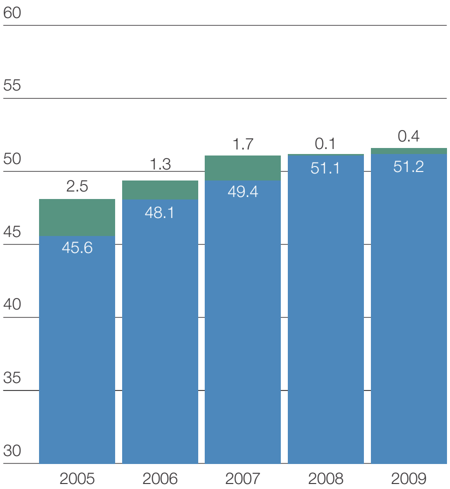
Properties by use

	Retail £m	Offices £m	Total £m	Retail £m	Offices £m	Total £m
	31 December 2004			31 December 2003		
Central London retail and offices	**152.9**	**201.9**	**354.8**	128.0	199.1	327.1
Retail outside London	**184.4**	**–**	**184.4**	131.6	–	131.6
Business space outside London	**–**	**169.9**	**169.9**	21.1	183.5	204.6
Total United Kingdom investment properties	**337.3**	**371.8**	**709.1**	280.7	382.6	663.3
United States	**194.9**	**47.6**	**242.5**	164.8	36.4	201.2
Total completed investment properties	**532.2**	**419.4**	**951.6**	445.5	419.0	864.5
Developments	**5.4**	**15.6**	**21.0**	–	20.3	20.3
Total investment properties	**537.6**	**435.0**	**972.6**	445.5	439.3	884.8
Held through joint ventures	**–**	**(22.6)**	**(22.6)**	–	(19.9)	(19.9)
Group investment properties	**537.6**	**412.4**	**950.0**	445.5	419.4	864.9

UK reversions to estimated rental value from passing rent

£m

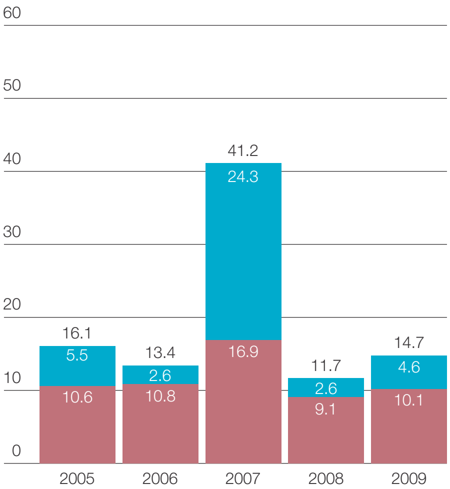
- Year end reversion
- Total passing rent (start of year)



UK lease expiries and reviews as a percentage of passing rent

%

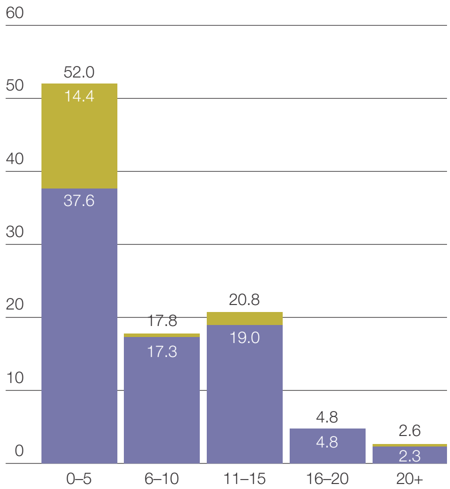
- Lease expiries
- Rent reviews



UK lease expiries as a percentage of passing rent

%

- Tenants' options to break
- Lease expiries



Further information on Capital Shopping Centres investment properties

Rent review pattern

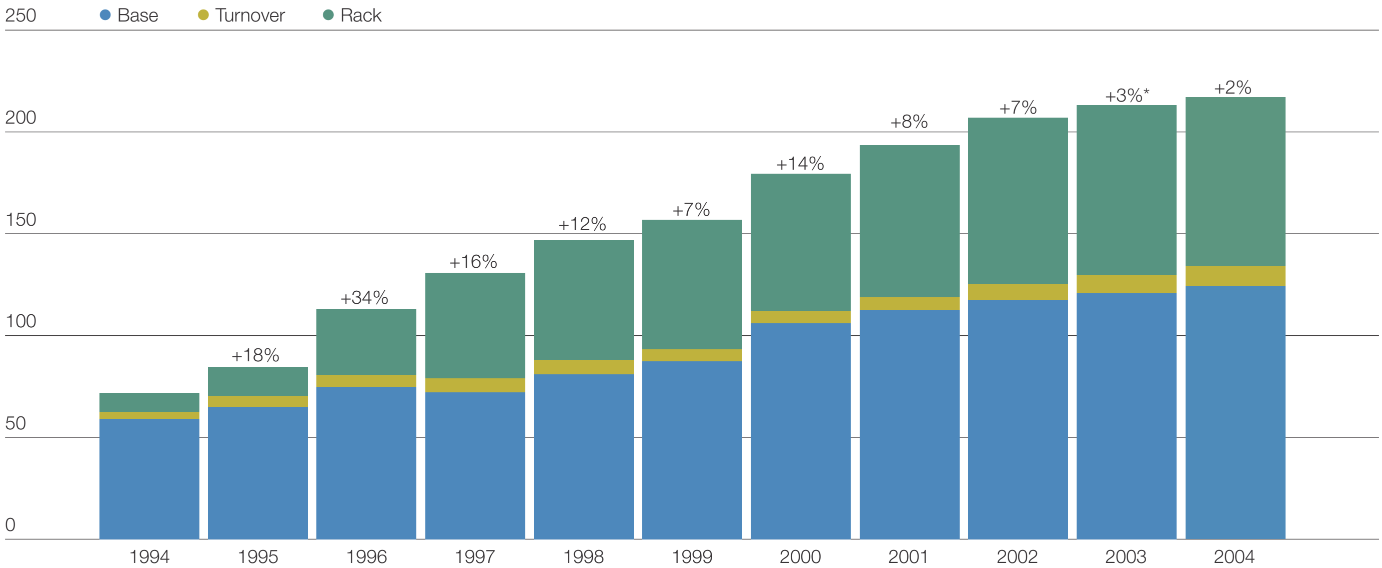
	Units 2004	Units 2005	Units 2006	Units 2007	Units 2008	Units 2009
Lakeside, Thurrock	22	85	35	36	41	25
MetroCentre, Gateshead	35	34	68	56	31	57
Braehead, Glasgow	94	14	1	7	6	97
Other M25 Centres	26	26	101	71	48	41
Other Centres	34	81	59	63	77	34
	211	240	264	233	203	254
Percentage of total retail units	15%	17%	18%	16%	14%	18%
Percentage of CSC rental income	17%	21%	21%	15%	12%	20%

Lease maturities by unit

	0-5 years	6-10 years	11-15 years	Over 15 years	Total
Lakeside, Thurrock	81	47	145	14	287
MetroCentre, Gateshead	85	214	24	7	330
Braehead, Glasgow	9	78	18	15	120
Other M25 Centres	76	81	162	34	353
Other Centres	111	147	66	29	353
	362	567	415	99	1,443
Percentage of total retail units	25%	39%	29%	7%	100%
Percentage of CSC retail income	8%	42%	39%	11%	100%

Capital Shopping Centres growth in rental income

£m Includes partners' share in partly owned assets



*5% excluding disposal of The Ridings, Wakefield.

Chairman and Executive Directors

01 Donald Gordon
02 David Fischel
03 Aidan Smith
04 John Abel
05 Richard Cable
06 Kay Chaldecott
07 John Saggers


01


02


03


04


05


06


07

Donald Gordon†‡ø D Econ Sc(hc)(Wits)
Chairman Age 74
Appointed a Director in 1981 and Chairman in 1986. He is Chairman of CSC and Capital & Counties. Former Chairman of Liberty Group Limited in South Africa, which he founded in 1957. Former Chairman, Deputy Chairman or a director of a number of major financial institutions and public companies in both South Africa and the United Kingdom, including Standard Bank of South Africa; Guardian Royal Exchange PLC in the UK (both for around 25 years); Sun Life Assurance Society plc and South African Breweries (now known as SAB Miller PLC).

David Fischelø
Chief Executive Age 46
Joined Liberty International in 1985, appointed Finance Director in 1988, Managing Director in 1992 and Chief Executive in March 2001.

Aidan Smith
Finance Director Age 45
Joined Liberty International in 1986. Appointed Financial Controller in 1990 and Finance Director in 1998.

John Abel
Managing Director of Capital Shopping Centres Age 60
Appointed a Director in December 2000. Joined the group in 1972, appointed as a Director of CSC in 1994 and Managing Director of CSC in March 2001.

Richard Cable
Director of Capital Shopping Centres Age 45
Appointed a Director on 7 February 2005. Joined the Liberty International group in 1988, appointed a Director of Capital Shopping Centres in 2000. Responsible for the development of the shopping centre portfolio.

Kay Chaldecott
Director of Capital Shopping Centres Age 42
Appointed a Director on 7 February 2005. Joined the Liberty International group in 1984, appointed a Director of Capital Shopping Centres in 2000. Responsible for the investment management of the shopping centre portfolio.

John Saggers
Managing Director of Capital & Counties Age 58
Joined the group in 1973. Appointed a Director of Capital & Counties in 1985 and Managing Director in 1994. Appointed a Director of Liberty International in 1999.

†Member of the Remuneration Committee
‡Member of the Nomination and Review Committee
øChairman's Committee

Executive management and Non-executive Directors

Executive management


01


02


03


04


05


06

01 Peter Barton
02 Bill Black
03 Gary Marcuccilli
04 Turner Newton
05 Susan Folger
06 Hugh Ford

Non-executive Directors


01


02


03


04


05


06


07


08


09

01 David Bramson
02 Robin Buchanan
03 Patrick Burgess
04 Sir Robert Finch
05 Graeme Gordon
06 Ian Henderson
07 Lesley James
08 Michael Rapp
09 Rob Rowley

Peter Barton
Operations Director of Capital Shopping Centres. Age 44
Appointed a Director of Capital Shopping Centres in June 2004. Previously Trading Director at Safeway and prior to that nearly 20 years within Marks & Spencer plc, latterly as Buying Group Director.

Bill Black
Director of Capital & Counties. Age 54
Appointed a Director of Capital & Counties in 1994. Joined the group in 1984. Responsible for Capital & Counties' UK properties.

Gary Marcuccilli
Director of Capital & Counties. Age 45
Appointed a Director of Capital & Counties in 1999, having joined the group in 1987. Responsible for new business and development of Capital & Counties in the UK.

Turner Newton
President of Capital & Counties U.S.A. Inc. Age 51
Joined the group as Senior Vice President and Director of Capital & Counties U.S.A. in 1986. Appointed Chief Executive of Capital & Counties U.S.A. in 1994.

Susan Folger
Group Company Secretary. Age 45
Joined Liberty International as Group Company Secretary in 2000.

Hugh Ford
General Corporate Counsel. Age 37
Appointed General Corporate Counsel to the Liberty International Group in June 2003.

David Bramson ø Age 63
Appointed a non-executive Director in 2001. Senior Partner of Nabarro Nathanson from 1995 until his retirement in April 2001, he is now a consultant to the firm.

Robin Buchanan *†‡ø Age 52
Appointed a non-executive Director in 1997. Chairman of the Remuneration Committee. UK Senior Partner and Director of Bain & Company Inc., the global business consultants. A non-executive Director of Shire Pharmaceuticals Group plc.

Patrick Burgess MBE *†‡ø Age 60
Appointed a non-executive Director in 2001. Chairman of the Audit Committee. A Partner of law firm Jones Day until 31 December 2004 and now a consultant to that firm. Non-executive Director of First Technology PLC and some large private companies. He also sits on the CBI SME council.

Sir Robert Finch ø*
Non-executive director. Age 60
Appointed a non-executive Director on 7 February 2005. Qualified as a solicitor in 1969 when he joined Linklaters and was elected a partner in 1974 and head of Real Estate in 1997 until he stepped down to assume a civic appointment (ending in November 2004). He was elected Alderman of the City of London in 1992, Sheriff in 1999 and served as Lord Mayor of London in 2003/4. Amongst other positions, he was appointed a Church Commissioner in 2000.

Graeme Gordon Age 41
Appointed a non-executive Director in 1996. A non-executive Director of Capital & Counties.

Ian Henderson CBE ø†
Non-executive director. Age 61
Appointed a non-executive Director on 7 February 2005. Formerly Chief Executive of Land Securities PLC. He has been widely involved in industry matters, including being a Past President of British Property Federation.

Lesley James CBE †‡ Age 55
Appointed a non-executive Director on 17 May 2004. Formerly Human Resources Director of Tesco plc. Non-executive Director of Alpha Airports Group plc, West Bromwich Building Society and Care UK plc.

Michael Rapp *†‡ø Age 69
Appointed a non-executive Director in 1986. Chairman of CSC Capital Projects Committee. Many years of experience both in the UK and internationally in the shopping centre and commercial property industry.

Rob Rowley ø Age 55
Appointed a non-executive Director on 17 May 2004. Executive Deputy Chairman of Cable & Wireless plc and a non-executive Director of Prudential plc and of Taylor Nelson Sofres. Chairs the Audit Committee at Prudential plc. Early career was at Reuters Group plc from 1978 to 2001, a Director from 1990 to 2001.

* Member of the Audit Committee
† Member of the Remuneration Committee
‡ Member of the Nomination and Review Committee
ø Chairman's Committee

Directors' report

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2004.

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 operating businesses: Capital Shopping Centres ("CSC"), which specialises in the ownership, management and development of regional shopping centres and 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 and review of operations on pages 5 to 15 and the Financial review on pages 16 to 19 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 2004.

Future prospects

Future prospects are dealt with in the Chairman's statement and review of operations.

Dividends

The Directors declared an interim ordinary dividend of 12.4p (2003 – 11.75p) per share on 21 July 2004, which was paid on 7 September 2004, and have recommended a final ordinary dividend of 14.1p per share (2003 – 13.25p) which will be paid on 21 April 2005 to shareholders on the register on the Record Date, 8 April 2005. The sterling/rand conversion rate on which payment of the dividend in South Africa will be calculated will be fixed on 22 March 2005. The Directors will not be offering a share dividend alternative to the 2004 final cash dividend.

The dividends absorbed £84 million.

Share capital

Details of the changes during the year in the issued share capital are set out in note 24 on page 43.

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 56 to 59 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 and Wales.

Directors

Mr P.C. Badcock stepped down as an Executive Director at the Annual General Meeting held on 31 March 2004. Mr Badcock has continued as a Director of Capital Shopping Centres PLC.

Mr R.A.M. Baillie and Mr D.R. Leslie retired as non-executive Directors at the Annual General Meeting held on 31 March 2004.

Mrs K.E. Chaldecott and Mr R.M. Cable were appointed as Executive Directors on 7 February 2005 and will offer themselves for election at the forthcoming Annual General Meeting of the company.

Mrs L. James and Mr R.O. Rowley were appointed as non-executive Directors on 17 May 2004. Sir Robert Finch and Mr I.J. Henderson were appointed as non-executive Directors on 7 February 2005. All four non-executive Directors will offer themselves for election at the forthcoming Annual General Meeting of the company.

Mr Rapp, having served as a non-executive Director for more than nine years, is now required to retire annually in accordance with the Combined Code on Corporate Governance which forms part of the UK Listing Authority's Listing Rules. Mr Rapp, being eligible, offers himself for re-election at the forthcoming Annual General Meeting of the company.

No other Directors fall to retire by rotation in accordance with the company's Articles of Association.

Biographies of the Directors of Liberty International are set out on pages 23 and 24.

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 35 to the accounts on pages 47 to 48.

Substantial shareholdings

At 1 February 2005 Liberty International had 13,284 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 38,303,196 (11.91 per cent) ordinary shares of Liberty International. Mrs W.D. Appelbaum has notified a beneficial interest in 20,350,000 (6.33 per cent) ordinary shares of Liberty International. Mr R.M. Gordon has notified a beneficial interest in 10,710,526 (3.33 per cent) ordinary shares of Liberty International.

The above interests of Mr D. Gordon, Mrs Appelbaum and Mr R.M. Gordon 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 70,850,613 (22.02 per cent) ordinary shares of Liberty International.

Other substantial interests in the ordinary shares of Liberty International have been notified by Old Mutual plc, who held 18,634,790 shares (5.79 per cent), Liberty Group Limited who held a beneficial interest in 14,802,688 shares (4.60 per cent), The Capital Group of Companies, Inc, who held 11,579,441 shares (3.60 per cent), Stichting Pensioenfonds ABP, who held 10,305,989 shares (3.20 per cent) and Legal & General Investment Management Limited, who held 11,533,906 shares (3.59 per cent).

Employees

The majority of employees are 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, share incentive plan and share option arrangements help develop employees' interest in the company's performance; full details of these arrangements are given in the Directors' remuneration report on pages 60 to 63. Note 36 on pages 49 and 50 contains details of options and conditional awards of shares under the annual bonus scheme and share incentive plan 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.

Directors' report

The Liberty International group provides retirement benefits for the majority of its employees. Details of the group pension arrangements are set out in note 37 on pages 50 to 52.

The environment

The group has adopted a Corporate Social Responsibility ("CSR") strategy and copies of the booklet which describes the policy and the group's aims are available on request, either via the company's website or by contacting the Company Secretary's office. A summary of the group's CSR activity is printed on page 64.

The company recognises the importance of minimising the adverse impact on the environment of its operations – particularly through its two operating businesses, 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 system is regularly reviewed to ensure that the company maintains its commitment to environmental matters.

Donations

During the year, the group made charitable donations amounting to £111, 750. No political donations were made in 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 2004 and the amounts owed to its creditors as at 31 December 2004 was nil days (2003 – 12 days), as calculated in accordance with the requirements of the Companies Act.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The notice convening the 2005 Annual General Meeting of the company is distributed separately with the Annual Report to shareholders.

By Order of the Board

S. Folger
Secretary
9 February 2005

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 or loss 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 group 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
9 February 2005

Independent auditors' report

To the members of Liberty International PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the group and company balance sheets, the consolidated statement of group cash flows, the statement of group total recognised gains and losses, the note of group historical cost profits and losses, the reconciliation of movement in group shareholders' funds, the principal accounting policies, and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ("the auditable part").

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. The Directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' remuneration report have been 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 regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement and review of operations, the corporate governance statement and the other items included in the contents section.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 Financial Reporting Council Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's or group's corporate governance procedures or it's 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 and the auditable part of the Directors' remuneration report. 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 and the auditable part of the Directors' remuneration report 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 2004 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
9 February 2005

Consolidated profit and loss account for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Turnover, including share of joint ventures		**393.0**	371.2
Less: share of joint ventures	10	**(8.0)**	(9.1)
Group turnover	1	**385.0**	362.1
Property investment income:			
Rents receivable		**297.0**	290.3
Service charge and other income		**59.1**	55.6
		356.1	345.9
Rents payable		**(30.3)**	(30.3)
Property outgoings		**(80.6)**	(78.3)
Net property investment income		**245.2**	237.3
Property trading		**9.9**	4.5
Investment and other income		**8.9**	10.8
Administrative expenses		**(26.5)**	(24.8)
Group operating profit	1	**237.5**	227.8
Share of operating profit of joint ventures	10	**7.7**	8.1
Operating profit including joint ventures		**245.2**	235.9
Exceptional profit on disposal of fixed assets and subsidiaries	2	**46.0**	1.0
Profit before interest and taxation		**291.2**	236.9
Net interest – recurring	3	**(129.5)**	(131.7)
Net interest – exceptional	3	**(3.4)**	4.8
Profit on ordinary activities before taxation		**158.3**	110.0
Taxation on profit on ordinary activities	5	**(32.3)**	(27.8)
Taxation on profit on exceptional items	5	**(1.4)**	(1.6)
Profit on ordinary activities after taxation		**124.6**	80.6
Ordinary dividends – paid and proposed	7	**(84.0)**	(77.7)
Transfer to retained profit		**40.6**	2.9

Dividends per ordinary share	7	**26.50p**	25.00p
Earnings per share before exceptional items (adjusted)	8	**29.02p**	27.45p
Earnings per share (basic)	8	**39.32p**	26.25p
Earnings per share (diluted)	8	**37.96p**	25.79p
Weighted average number of shares	8	**317.0m**	306.9m

Balance sheets as at 31 December 2004

	Notes	Group 2004 £m	Group 2003 Restated* £m	Company 2004 £m	Company 2003 Restated* £m
Investment properties	9	**5,312.9**	4,625.2	**–**	–
Investment in joint ventures:					
Share of gross assets	10	**28.8**	148.0	**–**	–
Share of gross liabilities	10	**(8.5)**	(73.9)	**–**	–
		20.3	74.1	**–**	–
Other tangible assets	11	**1.0**	0.7	**–**	–
Investment in group companies	12	**–**	–	**3,034.0**	2,743.7
Other investments	13	**–**	161.2	**–**	161.2
		5,334.2	4,861.2	**3,034.0**	2,904.9
Current assets					
Trading properties	14	**91.7**	75.0	**–**	–
Debtors	15	**87.4**	68.2	**615.7**	602.4
Cash and near cash investments	17	**438.4**	197.3	**–**	–
		617.5	340.5	**615.7**	602.4
Creditors: amounts falling due within one year:	18	**(266.8)**	(220.8)	**(170.3)**	(414.0)
Net current assets		**350.7**	119.7	**445.4**	188.4
Total assets less current liabilities		**5,684.9**	4,980.9	**3,479.4**	3,093.3
Creditors: amounts falling due after more than one year:					
Loans		**(2,109.6)**	(1,803.2)	**–**	–
Convertible debt		**(235.4)**	(233.9)	**(235.4)**	(233.9)
Other creditors		**–**	(0.6)	**–**	–
	19	**(2,345.0)**	(2,037.7)	**(235.4)**	(233.9)
Provisions for liabilities and charges	23	**(95.9)**	(83.8)	**–**	–
Net assets		**3,244.0**	2,859.4	**3,244.0**	2,859.4
Capital and reserves:					
Called up ordinary share capital	24	**160.8**	160.9	**160.8**	160.9
Share premium account	24	**529.4**	529.3	**529.4**	529.3
Treasury shares	25	**(23.3)**	(26.8)	**(23.3)**	(26.8)
Revaluation reserve	26	**1,951.5**	1,610.0	**1,012.9**	972.6
Other reserves	26	**546.7**	546.6	**61.5**	61.4
Profit and loss account	26	**78.9**	39.4	**1,502.7**	1,162.0
Total shareholders' funds		**3,244.0**	2,859.4	**3,244.0**	2,859.4
Net assets per share (basic)	27	**1023p**	903p		
Net assets per share (diluted)	27	**996p**	887p		
Net assets per share (basic, adjusted)	27	**1047p**	924p		
Net assets per share (diluted, adjusted)	27	**1017p**	906p		

*Restated for the effect of change of accounting policy in respect of shares held by an ESOP trust (see note 25).

Approved by the Board on 9 February 2005

D. Gordon
Chairman

D.A. Fischel
Chief Executive

Statement of group total recognised gains and losses

	2004 £m	2003 £m
Profit for the financial year	**124.6**	80.6
Increase in valuation of investment properties	**337.6**	143.4
Group's share of increase in valuation of investment properties of joint ventures	**5.6**	5.2
Unrealised surplus on other fixed asset investments	**–**	9.0
Current tax relating to realisation of gains recognised in prior periods	**(0.7)**	(0.4)
Exchange adjustments offset in reserves and other movements	**(1.5)**	(0.6)
Total recognised gains and losses for the financial year	**465.6**	237.2

Reconciliation of movements in group shareholders' funds

	2004 £m	2003 Restated £m
Opening shareholders' funds as previously stated	**2,886.2**	2,683.5
Prior year adjustment (note 25)	**(26.8)**	(28.4)
Opening shareholders' funds (restated)	**2,859.4**	2,655.1
Total recognised gains and losses for the financial year	**465.6**	237.2
Dividends	**(84.0)**	(77.7)
Bond conversions	**0.1**	44.7
Issue of shares, including from ESOP	**4.1**	5.7
Purchase of shares, including by ESOP	**(1.2)**	(5.6)
Closing shareholders' funds	**3,244.0**	2,859.4

Note of group historical cost profits and losses

	2004 £m	2003 £m
Profit on ordinary activities before taxation	**158.3**	110.0
Prior year revaluation (deficit)/surplus realised	**(0.1)**	2.0
Historical cost profit on ordinary activities before taxation	**158.2**	112.0
Historical cost profit retained for the period after taxation, and dividends	**39.8**	4.9

Consolidated statement of group cash flows

	Notes	2004 £m	2003 £m
Net cash inflow from operating activities	28	**219.8**	242.9
Returns on investments and servicing of finance	28	**(123.7)**	(114.7)
Taxation paid		**(18.3)**	(24.2)
Capital expenditure and financial investment	28	**137.8**	(106.8)
Acquisitions and disposals	30	**(45.5)**	2.8
Equity dividends paid		**(81.1)**	(74.1)
Cash inflow/(outflow) before use of liquid resources and financing		**89.0**	(74.1)
Management of liquid resources	28	**(292.0)**	4.8
Financing	29	**152.6**	198.7
(Decrease)/increase in cash during the year		**(50.4)**	129.4

Reconciliation of net cash flow to movement in net debt

	Notes	2004 £m	2003 £m
(Decrease)/increase in cash during the year		**(50.4)**	129.4
Net cash (inflow) from increase in debt		**(150.7)**	(208.2)
Debt acquired with acquisitions		**(132.2)**	–
Debt acquired with property purchases		**(22.6)**	–
Non cash change in net debt in respect of bond conversions		**–**	44.7
Other non cash change in net debt		**(0.4)**	10.4
Cash outflow/(inflow) from increase/(decrease) in liquid resources		**291.5**	(4.0)
Movement in net debt during the year		**(64.8)**	(27.7)
Net debt at 1 January		**(1,851.0)**	(1,823.3)
Net debt at 31 December	21	**(1,915.8)**	(1,851.0)

Principal accounting policies

Accounting convention and basis of preparation
The financial statements are prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom under the historical cost convention as modified by the revaluation of properties, goodwill 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.

Joint ventures are accounted for under the gross equity method. The group's share of gross assets and gross liabilities of joint ventures is shown on the face of the consolidated balance sheet. The group's share of the operating profit of joint ventures is shown separately in the consolidated profit and loss account.

Change in accounting policy
In accordance with UITF38 which became effective for accounting periods ending on or after 22 June 2004, consideration paid by the ESOP trust for the company's own shares is deducted in arriving at shareholders' funds. Consideration paid or received for the purchase or sale of the company's own shares by the ESOP trust is shown as a separate movement in the reconciliation of movements in shareholders' funds. The shares held by the ESOP trust are treated as if they were cancelled for the purposes of calculating earnings and net assets per share. Previously all shares held by the ESOP trust were carried as an investment, at cost less amounts written off in respect of allocations to employees.

Where appropriate, previously reported figures have been restated to show the financial effect of this change in accounting policy.

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.

Completed investment properties
Completed investment properties are professionally valued on a market value 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
Investment properties under development and land are included in the balance sheet at cost. 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. Interest is capitalised, before tax relief, on the basis of the average rate of interest paid on the relevant debt outstanding during the period. Provision is made where necessary for any anticipated valuation deficiencies arising on completion.

Depreciation
In accordance with Statement of Standard Accounting Practice 19, no depreciation is provided in respect of freehold or long leasehold (more than 20 years unexpired) 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 accounting 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.

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 to the profit and loss account. This is not in accordance with Schedule 4 of 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 the 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. Rental income receivable in the period from lease commencement to the earlier of the first market rent review and the lease end date is spread evenly over that period. Any incentive for lessees to enter into a lease agreement is spread over the same period.

Turnover in respect of 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.

Principal accounting policies

Direct Costs
For property, direct costs consist 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, direct costs include costs relating to financial services business other than those attributable to administrative costs.

Taxation
Corporation tax is provided at the current rate on taxable profits. Tax payable upon realisation of revaluation gains recognised in prior periods is recorded as a movement in reserves and reported in the statement of total recognised gains and losses.

Deferred taxation is provided in full on timing differences other than valuation surpluses on investments held for the long-term where disposal is not contemplated in the foreseeable future. Deferred taxation is provided on the difference between the tax written down value and book value of all assets and on chargeable capital gains on those investments and investment properties subject to a sale contract at the date of the accounts. This liability is not discounted. The potential amount of taxation which would be payable if all valuation surpluses on investments held for the long-term were to be realised is disclosed in note 5b 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.

Debt instruments, derivatives and financial instruments
Debt instruments are stated at their net issue proceeds, adjusted for amortisation of issue costs. 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

	Group turnover 2004 £m	Group turnover 2003 £m	Group operating profit 2004 £m	Group operating profit 2003 £m	Attributable net assets 2004 £m	Attributable net assets 2003 £m
Property investment						
UK shopping centres	**267.6**	259.1	**181.2**	175.9	**4,362.9**	3,760.3
Commercial properties						
United Kingdom	**65.5**	62.8	**50.0**	47.2	**711.2**	672.8
United States	**23.0**	24.0	**14.0**	14.2	**238.8**	192.1
Property trading	**19.1**	5.4	**9.9**	4.5	**91.7**	75.0
Investment and other income	**9.8**	10.8	**8.9**	10.8	**–**	161.2
	385.0	362.1	**264.0**	252.6	**5,404.6**	4,861.4
Administrative expenses			**(26.5)**	(24.8)		
			237.5	227.8		
Non interest bearing assets and liabilities (as previously stated)					**(244.8)**	(124.2)
Prior year adjustment (note 25)					**–**	(26.8)
Non interest bearing assets and liabilities (restated)					**(244.8)**	(151.0)
Interest bearing assets and liabilities:						
Cash and near cash investments					**438.4**	197.3
Short-term borrowings					**(9.2)**	(11.2)
Long-term borrowings					**(2,345.0)**	(2,037.1)
					3,244.0	2,859.4
Geographical analysis:						
United Kingdom	**359.9**	335.3	**222.6**	213.3	**3,111.7**	2,746.0
United States	**25.1**	26.8	**14.9**	14.5	**132.3**	113.4
	385.0	362.1	**237.5**	227.8	**3,244.0**	2,859.4

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

All turnover derives from continuing operations.

2 Exceptional profit on disposal of fixed assets and subsidiaries

	2004 £m	2003 £m
Profits arising on disposal of investment properties	**17.0**	0.2
Profits arising on disposal of fixed asset investments	**29.0**	0.8
	46.0	1.0

3 Net interest

(a) Net interest – recurring

	2004 £m	2003 £m
Interest payable		
On bank loans, overdrafts and other loans wholly repayable within five years	**(14.0)**	(7.2)
On sums not wholly repayable within five years	**(116.0)**	(122.1)
On convertible debt	**(11.2)**	(5.0)
	(141.2)	(134.3)
Interest receivable	**10.3**	2.4
	(130.9)	(131.9)
Adjustment in respect of interest capitalised on investment properties under development	**4.4**	3.2
Group net interest payable	**(126.5)**	(128.7)
Share of interest payable by joint ventures (note 10)	**(3.0)**	(3.0)
	(129.5)	(131.7)

Notes to the accounts

3 Net interest – continued

(b) Net interest – exceptional

	2004 £m	2003 £m
Issue costs written off on redemption of loans	**(3.3)**	–
Repurchase of CSC unsecured bonds	**(0.1)**	0.2
Repurchase of Liberty International convertible bonds	**–**	(7.3)
Early termination of interest rate hedging contracts	**–**	11.9
	(3.4)	4.8

4 Profit on ordinary activities before taxation

	2004 £m	2003 £m
Profit on ordinary activities before taxation is arrived at after charging:		
Amortisation of short leaseholds	**–**	1.0
Depreciation	**0.5**	0.3
Auditors' remuneration	**0.4**	0.4
Remuneration paid to the company's auditors for non-audit work*	**0.1**	0.1
Staff costs (see note 36)	**28.6**	29.3

*In 2004 the auditors received an additional £40,000 in fees, which were included in the costs deducted from the proceeds of the new £650 million Lakeside facility (2003 – £50,000, 3.95 per cent bond issue – (see note 20)) (included in "Audit-related regulatory reporting" below).

	2004 £000	2003 £000
Remuneration to the principal auditor comprises:		
Statutory audit of the group (company £94,000 (2003 – £89,000))	**443**	414
Statutory audit of the pension funds	**2**	12
Audit-related regulatory reporting	**134**	82
Further assurance services	**1**	17
	580	525

5 Taxation on profit on ordinary activities

(a) Taxation charge for the financial year

	2004 £m	2003 £m
Current UK corporation tax at 30% (2003 – 30%) on profits excluding exceptional items	**(27.6)**	(20.1)
Prior year items – UK corporation tax	**6.2**	0.5
	(21.4)	(19.6)
Overseas taxation (including £1.1m (2003 – £nil) in respect of prior years)	**(2.7)**	(1.8)
Total group current taxation on profits excluding exceptional items	**(24.1)**	(21.4)
Deferred taxation	**(7.8)**	(6.1)
Attributable to joint ventures	**(0.4)**	(0.3)
Tax on ordinary items	**(32.3)**	(27.8)
Tax on exceptional items	**(1.4)**	(1.6)
Total tax charge	**(33.7)**	(29.4)
Exclude deferred tax charge		
– on ordinary items	**7.8**	6.1
– on exceptional items	**1.8**	–
Current tax charge	**(24.1)**	(23.3)

Notes to the accounts

5 Taxation on profit on ordinary activities continued

(a) Taxation charge for the financial year continued

Factors affecting the tax charge for the year
The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before taxation	**158.3**	110.0
Profit on ordinary activities multiplied by the standard rate in the UK (30%)	**47.5**	33.0
Utilisation of tax losses	**–**	(3.4)
Capital allowances	**(8.1)**	(6.1)
Deferred tax on exceptional items	**(1.8)**	–
Prior year items	**(5.1)**	(0.5)
Overseas taxation, including joint ventures	**0.7**	1.0
Disposal of properties and subsidiaries	**(10.5)**	0.1
Untaxed dividends	**(1.2)**	(2.7)
Expenses disallowed, net of capitalised interest	**2.6**	1.9
	24.1	23.3

Factors that may affect future tax charges
The tax charge is expected to remain less than the full rate in future years, primarily due to the group continuing to claim capital allowances in respect of eligible expenditure on investment properties.

(b) Contingent taxation
If deferred taxation were to be provided in respect of all revaluation surpluses including joint ventures, a provision of £505.0 million (2003 – £438.6 million) would be required, assuming investment properties were disposed of at 31 December 2004 at their carrying value. This amount represents the maximum potential tax payable, being undiscounted and taking no account of savings that may be available depending on how sales are structured. In addition, if the group retained all the capital allowances on sales, which is within the control of the seller, the deferred taxation provision in respect of capital allowances of £76 million would be released, and further capital allowances of £13 million would be available to reduce the amount of tax payable on sale.

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

Profits of £421.0 million are dealt with in the accounts of the holding company in respect of the year (2003 – £80.4 million). No profit and loss account is presented for the company as permitted by Section 230 Companies Act 1985.

7 Dividends

	2004 £m	2003 £m
Ordinary shares		
Interim dividend paid of 12.4p per share (2003 – 11.75p)	**(39.3)**	(35.9)
Final dividend proposed of 14.1p per share (2003 – 13.25p)	**(44.7)**	(41.8)
	(84.0)	(77.7)

Details of the shares in issue and dividends waived are given in notes 24 and 25.

8 Earnings per share

	2004 millions	2003 millions
Weighted average ordinary shares in issue	**321.7**	312.5
Less: weighted average ordinary shares held by ESOP	**(4.7)**	(5.6)
Weighted average ordinary shares in issue for calculation of basic earnings per share	**317.0**	306.9
Weighted average ordinary shares to be issued on conversion of bonds and under employee incentive arrangements	**31.9**	19.2
Weighted average ordinary shares in issue for calculation of diluted earnings per share	**348.9**	326.1

	2004 £m	2003 £m
Earnings used for calculation of basic earnings per share	**124.6**	80.6
Less exceptional items, net of tax	**(41.2)**	(4.2)
Add back deferred tax in respect of capital allowances	**8.6**	7.9
Earnings used for calculation of earnings per share before exceptional items (adjusted)	**92.0**	84.3
Earnings used for calculation of basic earnings per share	**124.6**	80.6
Reduction in interest charge from conversion of bonds, net of tax	**7.8**	3.5
Earnings used for calculation of diluted earnings per share	**132.4**	84.1

Notes to the accounts

9 Investment properties

	Freehold £m	Leasehold over 50 years £m	Total £m
Completed properties at external valuation:			
At 31 December 2003	2,663.8	1,846.6	**4,510.4**
Additions, including transfer from joint ventures	322.7	61.8	**384.5**
Disposals	(74.4)	(3.5)	**(77.9)**
Foreign exchange fluctuations	(13.0)	–	**(13.0)**
Reclassification – completed developments	16.8	91.6	**108.4**
Reclassification – trading properties	2.7	–	**2.7**
Surplus on valuation	242.8	94.8	**337.6**
At 31 December 2004	**3,161.4**	**2,091.3**	**5,252.7**
Properties under development at cost:			
At 31 December 2003 (including £3.9 million capitalised interest)	53.6	61.2	**114.8**
Additions	17.9	35.9	**53.8**
Reclassification – completed developments	(16.8)	(91.6)	**(108.4)**
At 31 December 2004 (including £nil capitalised interest)	**54.7**	**5.5**	**60.2**
Investment properties At 31 December 2004	**3,216.1**	**2,096.8**	**5,312.9**
At 31 December 2003	2,717.4	1,907.8	4,625.2

	UK £m	US £m	Total £m
Geographical analysis	**5,074.1**	**238.8**	**5,312.9**

The group's interests in completed investment properties, including those held through joint ventures, were valued as at 31 December 2004 by external valuers in accordance with the RICS Appraisal and Valuation Standards, on the basis of Market Value. Market Value represents the figure that would appear in a hypothetical contract of sale between a willing buyer and a willing seller.

Regional shopping centres in the UK were valued by either DTZ Debenham Tie Leung, Chartered Surveyors, or CB Richard Ellis Ltd. Other commercial properties in the UK were valued by either Knight Frank LLP, Chartered Surveyors or CB Richard Ellis Ltd (31 December 2003 – Matthews and Goodman, Chartered Surveyors or CB Richard Ellis Ltd). In the United States properties were valued by Cushman & Wakefield of California, Inc. (31 December 2003 – Jones Lang LaSalle).

The historic cost of completed investment properties was £3,021.5 million (2003 – £2,617.6 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.

Included in properties under development is £40 million, being the initial payment in respect of the development of the shopping centre at Chapelfield, Norwich (see note 31).

10 Joint ventures

(a) Reconciliation of group share of net assets of joint ventures

	£m
At 31 December 2003	74.1
Group share of total recognised gains and losses of joint ventures (see below)	8.8
Capital additions	3.9
Distributions received from joint ventures	(3.3)
Transfer on termination of Potteries joint venture	(63.2)
At 31 December 2004	**20.3**

Notes to the accounts

10 Joint ventures continued

(b) Summarised financial statements of joint ventures

	Liberty International share 2004 £m	Liberty International share 2003 £m
Summarised profit and loss accounts		
Gross rental income	**8.0**	9.1
Net property investment income	**7.7**	8.1
Net interest payable	**(3.0)**	(3.0)
Taxation	**(0.4)**	(0.3)
Profit after taxation	**4.3**	4.8
Summarised statements of total recognised gains and losses		
Profit for the year	**4.3**	4.8
Increase in valuation of investment properties	**5.6**	5.2
Foreign exchange and other movements	**(1.1)**	(1.8)
Total recognised gains and losses for the financial year	**8.8**	8.2
Summarised balance sheets		
Investment properties at valuation	**9.1**	132.6
Development properties	**19.3**	10.1
Trading properties	**–**	0.5
Total properties	**28.4**	143.2
Other current assets	**0.4**	4.8
Gross assets	**28.8**	148.0
Current liabilities	**(1.2)**	(4.6)
Debt falling due after more than one year	**(7.3)**	(69.3)
Gross liabilities	**(8.5)**	(73.9)
Net assets	**20.3**	74.1

All joint ventures are held equally on a 50:50 basis. The Potteries Shopping Centre Limited Partnership registered in England and Wales, ("The Potteries LP") was established in October 2002, for investment in The Potteries, Stoke-on-Trent. In December 2004 the group acquired the partner's 50 per cent share of the net assets as follows:

	Fair values £m
Investment properties at valuation	128.5
Cash	5.8
Net current liabilities	(5.0)
Secured bank loan 2014	(66.1)
	63.2
Cash consideration	63.2

The Xscape Braehead Partnership was established in September 2004, for investment in the Xscape Leisure Scheme at Braehead, Renfrew, Glasgow. It has a 31 December year end. All other joint ventures are registered in the United States and are in the business of property investment. Full details of all joint ventures will be attached to the company's Annual Return to be filed with the Registrar of Companies.

11 Other tangible assets

	Cost £m	Accumulated depreciation £m	Net £m
At 31 December 2003	5.4	(4.7)	0.7
Additions	0.8	–	0.8
Charge for the year	–	(0.5)	(0.5)
At 31 December 2004	**6.2**	**(5.2)**	**1.0**

Other tangible assets include vehicles, fixtures, fittings and other office equipment.

Notes to the accounts

12 Investment in group companies

	Company £m
At 31 December 2003	2,743.7
Additions	246.0
Revaluation	44.3
At 31 December 2004	**3,034.0**

Investment in group companies includes equity and debt instruments. The historical cost of company investments at 31 December 2004 was £2,113.2 million (2003 – £1,867.2 million).

13 Other investments

	Listed shares and units £m	Own shares £m	Group Total £m	Company Total £m
At 31 December 2003 (as previously stated)	161.2	24.6	185.8	185.8
Prior year adjustment (note 25)	–	(24.6)	(24.6)	(24.6)
At 31 December 2003 (restated)	161.2	–	161.2	161.2
Disposals	(161.2)	–	(161.2)	(161.2)
At 31 December 2004	**–**	**–**	**–**	**–**

During the year the group disposed of its entire holding of 25.5 per cent of the ordinary share capital of Great Portland Estates plc ("GPE"). This investment was not accounted for as an associate as Liberty International did not exercise significant influence over GPE's operating and financial policies and had no agreement for active involvement in GPE's decision making process.

14 Trading properties

	Group 2004 £m	Group 2003 £m
Undeveloped sites	**43.9**	37.6
Completed properties	**47.8**	37.4
	91.7	75.0

The estimated replacement cost of trading properties based on market value amounted to £93.7 million at 31 December 2004 (2003 – £79.1 million).

15 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year:				
Rents receivable	**15.0**	16.0	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**213.9**	503.2
Tax recoverable	**–**	–	**5.6**	7.5
Other debtors	**34.3**	23.8	**3.4**	4.2
Prepayments and accrued income	**26.6**	24.2	**0.7**	1.0
Dividends receivable from subsidiary undertakings	**–**	–	**392.1**	86.5
	75.9	64.0	**615.7**	602.4
Amounts falling due after more than one year:				
Other debtors	**11.5**	4.2	**–**	–
	87.4	68.2	**615.7**	602.4

16 Other short-term investments

The group has entered into equity-linked derivative "contracts for difference" which have a market value of nil as the differences are settled in cash each day. The market value of the equities underlying these contracts at 31 December 2004 was £4.1 million (31 December 2003 – £8.7 million).

Notes to the accounts

17 Cash and near cash investments

	Group 2004 £m	Group 2003 £m
Cash and deposits	**145.6**	196.0
Other near cash investments	**292.8**	1.3
	438.4	197.3

18 Creditors: amounts falling due within one year

	Group 2004 £m	Group 2003 Restated £m	Company 2004 £m	Company 2003 Restated £m
Bank loans and overdrafts (note 21)	**9.2**	11.2	**–**	0.5
Trade creditors	**–**	2.3	**–**	0.1
Amounts owed to subsidiary undertakings	**–**	–	**119.8**	363.2
Corporation tax	**23.8**	17.5	**–**	–
Other taxes and social security	**20.6**	8.4	**0.1**	0.2
Other creditors	**19.3**	11.9	**–**	–
Rents received in advance	**70.9**	66.0	**–**	–
Accruals and deferred income	**78.3**	61.7	**5.7**	8.2
Dividends payable	**44.7**	41.8	**44.7**	41.8
	266.8	220.8	**170.3**	414.0

19 Creditors: amounts falling due after more than one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Secured				
Bank loan due 2015 – non-recourse	**526.5**	531.5	**–**	–
Bank loans due 2014 – non-recourse	**386.0**	208.5	**–**	–
Bank loan due 2011 – non-recourse	**548.7**	440.8	**–**	–
Bank loan due 2007 – non-recourse	**40.0**	39.8	**–**	–
	1,501.2	1,220.6	**–**	–
Debentures 2021 and 2027	**230.0**	230.0	**–**	–
Bank loan due 2016	**172.5**	172.5	**–**	–
Other fixed rate loans	**110.1**	79.8	**–**	–
	2,013.8	1,702.9	**–**	–
Unsecured				
CSC bonds 2013	**31.7**	31.7	**–**	–
CSC bonds 2009	**64.1**	68.6	**–**	–
	2,109.6	1,803.2	**–**	–
3.95% convertible bonds due 2010 (see note 20)	**235.4**	233.9	**235.4**	233.9
Total debt: amounts falling due after more than one year (note 21)	**2,345.0**	2,037.1	**235.4**	233.9
Other creditors	**–**	0.6	**–**	–
	2,345.0	2,037.7	**235.4**	233.9

Since 31 December 2004 the non-recourse bank loan due 2015 secured on the MetroCentre and Braehead has been refinanced by a £600 million non-recourse loan secured on the MetroCentre and repayable 2015.

20 Convertible debt

3.95 per cent convertible bonds due 2010 ("the 3.95 per cent bonds")

On 16 October 2003, the company issued £240 million nominal 3.95 per cent bonds raising £233.4 million after costs. The holders of the 3.95 per cent bonds have the option to convert their bonds into ordinary shares at any time on or up to 23 September 2010 at 800p per ordinary share, a conversion rate of 12.5 ordinary shares for every £100 nominal of 3.95 per cent bonds. During the year ended 31 December 2004, £40,000 nominal of the 3.95 per cent bonds were converted into 5,000 ordinary shares. The convertible bonds may be redeemed at par on 30 September 2007 at the option of the bondholders.

The 3.95 per cent bonds may be redeemed at par at the company's option after 14 October 2008, subject to the Liberty International ordinary share price having traded at 120 per cent of the conversion price for a specified period, or at any time once 85 per cent by nominal value of the bonds originally issued have been converted or cancelled. Unless otherwise converted, cancelled or redeemed the 3.95 per cent bonds will be redeemed by Liberty International at par on 30 September 2010.

Notes to the accounts

21 Debt

(a) Analysis of net debt

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Debt due within one year (note 18)	**9.2**	11.2	**–**	–
Debt due after more than one year (note 19)	**2,345.0**	2,037.1	**235.4**	233.9
Gross debt	**2,354.2**	2,048.3	**235.4**	233.9
Cash and near cash investments (note 17)	**(438.4)**	(197.3)	**–**	(0.5)
Net debt	**1,915.8**	1,851.0	**235.4**	233.4

(b) Maturity of gross debt

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Wholly repayable within one year	**9.2**	11.2	**–**	–
Wholly repayable in more than one year but not more than two years	**17.0**	47.4	**–**	–
Wholly repayable in more than two years but not more than five years	**219.6**	101.0	**–**	–
Wholly repayable in more than five years	**2,108.4**	1,888.7	**235.4**	233.9
	2,354.2	2,048.3	**235.4**	233.9

(c) Security profile

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Secured	**2,023.0**	1,714.1	**–**	–
Unsecured	**331.2**	334.2	**235.4**	233.9
	2,354.2	2,048.3	**235.4**	233.9

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

22 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 are summarised below and the principal effects of these policies on the results for the year are set out in the financial review.

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 2004 the maturity profile of group debt showed an average maturity of nine years (2003 – 10 years). The group will often pre-fund capital expenditure by arranging 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 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.

Notes to the accounts

22 Financial instruments continued

Financial assets

Financial assets are disclosed in notes 16 and 17.

These are stated in the balance sheet at market value and interest bearing assets earn interest at interest rates which are fixed for periods of less than one year.

Financial liabilities

	Weighted average interest rate 2004 %	Balance sheet value at 31 December 2004 £m	Fair value at 31 December 2004 £m	Weighted average interest rate 2003 %	Balance sheet value at 31 December 2003 £m	Fair value at 31 December 2003 £m
Debentures and other fixed rate loans						
Sterling						
C&C 9.875% debenture 2027	**9.88%**	**150.0**	**217.0**	9.88%	150.0	206.7
C&C 11.25% debenture 2021	**11.25%**	**80.0**	**119.9**	11.25%	80.0	118.4
CSC 6.875% unsecured bonds 2013	**6.88%**	**31.7**	**33.0**	6.88%	31.7	33.3
CSC 5.75% unsecured bonds 2009	**5.75%**	**64.1**	**63.8**	5.75%	68.6	69.0
US dollars						
Fixed rate loans	**5.89%**	**111.8**	**117.4**	6.54%	81.1	85.7
	8.29%	**437.6**	**551.1**	8.55%	411.4	513.1
Bank loans (floating rate, before hedging)						
– group	**–**	**1,681.2**	**1,681.2**	–	1,403.0	1,403.0
– share of joint ventures	**–**	**7.3**	**7.3**	–	69.3	69.3
Hedging instruments (see below)	**5.42%**	**–**	**132.3**	5.71%	–	89.6
		2,126.1	**2,371.9**		1,883.7	2,075.0
Convertible bonds – fixed rate (note 20)	**3.95%**	**235.4**	**293.0**	3.95%	233.9	230.9

The adjustment in respect of the above, after credit for tax relief, to the diluted net assets per share would amount to 49p per share (2003 – 38p). The maturity profile of financial liabilities is disclosed in note 21.

An analysis of the unrecognised hedging gains and losses at 31 December 2004 is set out below.

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 31 December 2003	1.2	(90.8)	(89.6)
Gains and losses arising in prior periods that were recognised in the current period	(1.2)	20.5	19.3
Gains and losses arising in prior years that were not recognised in the current period	–	(70.3)	(70.3)
Net gains and losses arising in the current period that were not recognised in the current period	3.1	(65.1)	(62.0)
Unrecognised gains and losses on hedges at 31 December 2004	**3.1**	**(135.4)**	**(132.3)**
Gains and losses expected to be recognised in the next period	1.0	(13.9)	(12.9)

Hedging instruments

Interest rate swap agreements entered into in relation to floating rate bank loans outstanding during the period from 31 December 2004:

	Notional principal Average £m	Notional principal Maximum £m	Average contracted rate %
Sterling – pay fixed and receive floating			
In one year or less	1,704	1,844	5.68%
In more than one year but not more than two years	1,944	2,044	5.63%
In more than two years but not more than five years	2,105	2,213	5.48%
In more than five years but not more than ten years	1,716	2,211	5.04%
More than ten years	914	1,235	5.06%

In addition, the group has £170 million interest rate cap at 6.5 per cent which expires in June 2005.

US dollars: the group has US$215 million currency and interest rate swap agreements held to hedge the net investment in the US. Under these contracts which expire in 2006 and 2007 the group pays fixed rate US interest at 3.36 per cent (weighted average) and receives fixed rate sterling interest at 4.44 per cent (weighted average).

At 31 December 2004, the net exposure to foreign currencies was US$18 million (2003 – US$50 million). The opening exposure was reduced to nil during the first quarter of 2004 in line with the policy of substantially hedging exposure to foreign currencies.

Notes to the accounts

22 Financial instruments continued

Facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2004 in respect of which all conditions precedent had been met were as follows:

	2004 £m
Expiring in more than two years	**675.0**

23 Provisions for liabilities and charges

	Deferred taxation £m	Other £m	Group Total £m	Company £m
At 31 December 2003	70.9	12.9	83.8	–
Net charge for the year	9.6	–	9.6	–
Other movements	(1.2)	3.7	2.5	–
At 31 December 2004	**79.3**	**16.6**	**95.9**	**–**

Of the above provisions for liabilities and charges, £13.6 million falls due within one year and £82.3 million falls due after more than five years (2003 – £nil and £72.1 million respectively, £11.7 million between two and five years).

Of the deferred taxation liability, £76.2 million (2003 – £67.1 million) relates to capital allowances claimed on plant and machinery within investment properties and £3.1 million (2003 – £3.8 million) relates to other timing differences.

24 Share capital and share premium

	Company and Group	
	2004 £m	2003 £m
Authorised		
500,000,000 ordinary shares of 50p each	**250.0**	250.0

	Share capital £m	Share premium £m
Issued and fully paid equity interests:		
At 31 December 2003 – 321,778,298 ordinary shares of 50p each	160.9	529.3
Bond conversions	–	0.1
Cancellation of shares	(0.1)	–
At 31 December 2004 – 321,688,298 ordinary shares of 50p each	**160.8**	**529.4**

During the year, the company purchased in the market for cancellation 95,000 ordinary shares of 50p each (2003 – 271,450) with a total nominal value of £47,500 (2003 – £135,725). The cost of purchase amounted to £0.6 million (2003 – £1.5 million).

The company issued during the year a total of 5,000 (2003 – 9,471,178) shares with a nominal value of £2,500 (2003 – £4,735,589) on conversion of 3.95 per cent convertible bonds (2003 – 6.25 per cent subordinated convertible bonds) as described in note 20.

As at 2 February 2005, the company had an unexpired authority to repurchase shares up to a maximum of 32,168,329 shares with a nominal value of £16,084,165 million.

Included within the issued share capital as at 31 December 2004 are 4,429,864 ordinary shares (2003 – 5,230,928) held by the Trustee of the Employee Share Ownership Plan ("ESOP") which is operated by the company (note 25). The nominal value of these shares is £2.2 million (2003 – £2.6 million).

25 Employee Share Ownership Plan ("ESOP") and Treasury Shares

The company operates an ESOP trust 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 Directors' remuneration report on pages 60 to 63. Dividends of £1.2 million (2003 £1.3 million) payable on these shares have been waived by agreement. The costs of administering the ESOP are included in the administration costs of the company.

Following the introduction of UITF38 the accounting policy in respect of disclosure of own shares held by an ESOP trust has changed with the effect that the acquisition cost of such shares is deducted from shareholders' funds through the Treasury shares reserve. Previously all shares held by the ESOP trust were carried as an investment at cost less provisions. Provisions represented the cost of shares allocated to employees under the group's bonus scheme which had been charged as an expense in the profit and loss account. As a result, investments (note 13), creditors: amounts falling due within one year (note 18) and reserves have been restated in respect of prior years to reflect this change in accounting policy. Investments at 31 December 2003 decreased by £24.6 million and creditors: amounts falling due within one year increased by £2.2 million. The historic cost of the ESOP shares of £26.8 million, was debited to the new Treasury shares reserve.

Notes to the accounts

25 Employee Share Ownership Plan ("ESOP") and Treasury Shares continued

	Company and Group	
	Number (m)	£m
At 31 December 2003 (as previously stated)	–	–
Prior year adjustment	5.2	(26.8)
At 31 December 2003 (restated)	5.2	(26.8)
Acquired in the year	0.1	(0.6)
Disposed of on exercise of options and vesting of bonus shares	(0.9)	4.1
At 31 December 2004	**4.4**	**(23.3)**

The market value of the Liberty International shares held by the ESOP trust at 31 December 2004 was £43.0 million (2003 – £35.7 million).

26 Other reserves

	Revaluation reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 31 December 2003	1,610.0	61.4	485.2	39.4
Cancellation of shares	–	0.1	–	(0.6)
Retained profit	–	–	–	40.6
Increase in valuation of investment properties	337.6	–	–	–
Group's share of increase in valuation of investment properties of joint ventures	5.6	–	–	–
Current tax relating to realisation of gains recognised in prior periods	(0.7)	–	–	–
Prior year revaluations realised	0.1	–	–	(0.1)
Foreign exchange and other movements	(1.1)	–	–	(0.4)
At 31 December 2004	**1,951.5**	**61.5**	**485.2**	**78.9**
Company				
At 31 December 2003	972.6	61.4	–	1,162.0
Retained profit	–	–	–	337.0
Cancellation of shares	–	0.1	–	(0.6)
Current tax relating to realisation of gains recognised in prior periods	(0.3)	–	–	–
Revaluation of fixed asset investments	44.3	–	–	–
Prior year revaluations realised	(4.3)	–	–	4.3
Foreign exchange and other movements	0.6	–	–	–
At 31 December 2004	**1,012.9**	**61.5**	**–**	**1,502.7**

27 Net assets per share

	2004 Net assets £m	2004 Shares millions	2003 Net assets Restated £m	2003 Shares Restated millions
Basic (as previously stated)	**3,244.0**	**317.3**	2,886.2	321.8
Prior year adjustment – deduct ESOP shares (note 25)	**–**	**–**	(26.8)	(5.2)
Basic (restated)	**3,244.0**	**317.3**	2,859.4	316.6
Add back deferred tax in respect of capital allowances	**76.2**	**–**	67.1	–
Adjusted net assets	**3,320.2**	**317.3**	2,926.5	316.6
Effect of dilution:				
On conversion of bonds	**235.4**	**30.0**	233.9	30.0
On exercise of options	**26.9**	**4.8**	26.2	5.1
Diluted, adjusted net assets	**3,582.5**	**352.1**	3,186.6	351.7

Notes to the accounts

28 Cash flow

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

	2004 £m	2003 £m
Group operating profit	**237.5**	227.8
Depreciation and amortisation	**0.5**	1.3
Change in provision	**–**	(2.7)
Change in debtors	**(8.6)**	18.1
Change in trading properties	**(20.6)**	–
Change in creditors	**11.0**	(1.6)
	219.8	242.9

(b) Returns on investments and servicing of finance

	2004 £m	2003 £m
Interest received	**10.3**	11.2
Distributions received from joint ventures	**1.5**	4.2
Interest paid	**(135.5)**	(130.1)
	(123.7)	(114.7)

(c) Capital expenditure and financial investment

	2004 £m	2003 £m
Development expenditure and investment property additions	**(144.8)**	(112.8)
Sale of investment properties	**93.3**	12.6
Purchase of other fixed assets	**(0.8)**	(32.3)
Sale of other fixed assets	**190.1**	25.7
	137.8	(106.8)

(d) Liquid resources

	2004 £m	2003 £m
(Acquisition)/disposal of listed investments	**(0.5)**	0.9
(Investments)/withdrawals of other deposits	**(291.5)**	3.9
	(292.0)	4.8

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

29 Financing cash flows

	2004 £m	2003 £m
Borrowings drawn and bonds issued	**640.7**	349.5
Borrowings repaid and bonds cancelled	**(490.0)**	(149.3)
Payments to acquire own shares	**(0.6)**	(1.5)
Other financing cash flows	**2.5**	–
	152.6	198.7

Notes to the accounts

30 Acquisitions and disposals of subsidiary undertakings

During the year the group acquired the remaining 50% of one of its joint ventures (see note 10). Of the total consideration, £57.1 million was paid in the year and cash of £11.6 million held by the joint venture upon acquisition was transferred into the group balance sheet, generating a net cash effect of £45.5 million.

In 2003, £2.8 million was received as deferred consideration in respect of the sale in 2001 of Portfolio Fund Management Limited.

31 Capital commitments

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

	Group 2004 £m	Group 2003 £m
Under contracts	**329.2**	308.8
Authorised by the Directors but not contracted	**83.3**	36.4
	412.5	345.2

Included in capital commitments under contract is £219 million in respect of the development of Chapelfield, Norwich under an arrangement whereby Lend Lease Europe will develop the centre on behalf of CSC who will become the owner on completion. All preconditions to commencing the development were met in 2002, triggering a £40 million contribution (see note 9). The further commitment is estimated at £219 million, subject to the level of rental income achieved at completion, currently targeted for autumn 2005.

32 Contingent liabilities

At 31 December 2004, there were no contingent liabilities of which the Directors are aware (2003 – nil).

33 Principal subsidiary undertakings

Company and principal activity	Class of share capital	% held
Capital Shopping Centres PLC*(property) and its principal subsidiary undertakings:	Ordinary shares of 50p each	100
Braehead Glasgow Limited (property)	"A" Ordinary shares of £1 each	100
	"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 Properties Investments Limited (property)	Ordinary shares of £1 each	100
CSC Potteries Limited (property)	Ordinary shares of £1 each	100
CSC Property Management Limited (property services)	Ordinary shares of £1 each	100
CSC Bromley Limited (property)	Ordinary shares of £1 each	100
CSC Chapelfield Limited (property)	Ordinary shares of £1 each	100
Capital & Counties Limited (property) and its principal subsidiary undertakings:	Ordinary shares of 25p each	100
C&C Properties 2021 Limited (property)	Ordinary shares of £1 each	100
C&C Properties 2027 Limited (property)	Ordinary shares of £1 each	100
Capcount Kensington Limited (property)	Ordinary shares of £1 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 undertaking:	Ordinary shares of £1 each	100
Kestrel Properties Limited (property)	Ordinary shares of £1 each	100
Capvestco Limited (property and financing) (Jersey) and its principal subsidiary undertakings:	Ordinary shares of £1 each	100
C&C Properties Jersey Limited (property) (Jersey) and its principal subsidiary undertaking:	Ordinary shares of £1 each	100
Capcount Kingsreach (Jersey) Limited (property) (Jersey)	Ordinary shares of £1 each	100
CSC Uxbridge (Jersey) Limited (property) (Jersey)	Ordinary shares of £1 each	100
Capital Enterprise Centres (Jersey) Limited (property) (Jersey)	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
Liberty Retail Properties Limited (property)	Ordinary shares of £1 each	100
Capital & Counties U.S.A., Inc (USA)(property and financing)	Common stock of US$1 par value	100

*82.5 per cent held by Liberty International PLC and 17.5 per cent held by Liberty International Financial Services 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.

Notes to the accounts

34 Directors' emoluments

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Directors' remuneration report on pages 62 and 63 form part of these financial statements. Details of gains made on exercise of share options are contained in note 35.

35 Directors' interests

(a) In shares and bonds in Liberty International Group Companies

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

	2004	2003†
D. Gordon*	**12,398,847**	11,832,125
J.G. Abel	**104,046**	100,416
D. Bramson	**5,000**	5,000
R.W.T. Buchanan	**37,088**	37,088
D.P.H. Burgess	**19,250**	9,250
D.A. Fischel	**254,702**	202,529
G.J. Gordon	**1,486,891**	1,486,891
L. James	**6,500**	–
M. Rapp	**7,929**	7,929
R.O. Rowley	**–**	–
J.I. Saggers	**85,552**	77,294
A.C. Smith	**107,330**	76,830

†Or date of appointment if later
*Mr D. Gordon had a non-beneficial interest in 25,904,349 ordinary shares in Liberty International (2003 – 25,480,372)

Other interests in shares and bonds of the group as at 31 December 2004 and 2003, or date of appointment if later, were:

Liberty International PLC ordinary shares of 50p each

Conditional awards of shares have been made under the company's annual bonus scheme.

The awards comprise "restricted" shares and "additional" shares, the latter equal to 50 per cent of the restricted and Share Incentive Plan shares (see below) combined. These shares will be released 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 Director has remained in service. Awards to Executive Directors under the scheme to date have been as follows:

	Award date	Market price at award Pence	Vesting date	Market price at vesting Pence	At 31 December 2003	Vested	Awarded*	At 31 December 2004
J.G. Abel	01/03/03	565	01/03/07		2,655			**2,655**
	20/02/02	545	01/03/06		2,615			**2,615**
	06/02/01	500	10/02/05		2,400			**2,400**
	28/02/00	350	28/02/05		2,554			**2,554**
	01/02/99	334	12/02/04	687	1,476	1,476		**–**
	01/03/03	565	01/03/05		4,779			**4,779**
	20/02/02	545	01/03/04	737.8	4,679	4,679		**–**
D.A. Fischel	01/03/04	728	01/03/08		–		3,915	**3,915**
	01/03/03	565	01/03/07		4,779			**4,779**
	20/02/02	545	01/03/06		6,422			**6,422**
	06/02/01	500	10/02/05		6,195			**6,195**
	28/02/00	425	28/02/05		5,206			**5,206**
	22/02/99	450	23/02/04	722.7	3,056	3,056		**–**
	01/03/04	728	01/03/06		–		7,418	**7,418**
	01/03/03	565	01/03/05		9,027			**9,027**
	20/02/02	545	01/03/04	737.8	12,294	12,294		**–**
J.I. Saggers	01/03/04	728	01/03/08		–		1,500	**1,500**
	01/03/03	565	01/03/07		1,841			**1,841**
	20/02/02	545	01/03/06		2,385			**2,385**
	06/02/01	500	10/02/05		3,800			**3,800**
	28/02/00	425	28/02/05		3,250			**3,250**
	22/02/99	450	23/02/04	722.7	2,667	2,667		**–**
	01/03/04	728	01/03/06		–		2,588	**2,588**
	01/03/03	565	01/03/05		3,150			**3,150**
	20/02/02	545	01/03/04	737.8	4,220	4,220		**–**

Notes to the accounts

35 Directors' interests continued

	Award date	Market price at award Pence	Vesting date	Market price at vesting Pence	At 31 December 2003	Vested	Awarded*	At 31 December 2004
A.C. Smith	01/03/04	728	01/03/08		–		2,215	**2,215**
	01/03/03	565	01/03/07		2,549			**2,549**
	20/02/02	545	01/03/06		3,394			**3,394**
	06/02/01	500	10/02/05		3,440			**3,440**
	28/02/00	425	28/02/05		2,824			**2,824**
	22/02/99	450	23/02/04	722.7	2,500	2,500		**–**
	01/03/04	728	01/03/06		–		4,018	**4,018**
	01/03/03	565	01/03/05		4,566			**4,566**
	20/02/02	545	01/03/04	737.8	6,239	6,239		**–**
P.C. Badcock	01/03/03	565	01/03/07		2,124			**2,124**#
	20/02/02	545	20/02/06		860			**860**#
	06/02/01	500	10/02/05		1,950			**1,950**#
	28/02/00	350	28/02/05		2,044			**2,044**#
	01/02/99	334	12/02/04	687	1,191	1,191		**–**
	01/03/03	565	01/03/05		3,717			**3,717**
	20/02/02	545	01/03/04	737.8	1,170	1,170		**–**

Or date of cessation of directorship if earlier.
#Lapsed 07/06/04.
*Bonus shares in respect of the year ended 31 December 2003 awarded in February 2004. Details of Bonus shares awarded in respect of the year ended 31 December 2004 are given on page 63 of the Directors' remuneration report.

Awards have also been made under the company's Share Incentive Plan (SIP), and certain Directors participate in the company's partnership share scheme as detailed below. The SIP shares can be released three years after the date of the award provided the individual Director has remained in employment but the shares should continue to be held in trust for a further two years in order to qualify for tax advantages. The dividend payable in respect of the shares held in trust is used to purchase additional shares, known as Dividend Shares, which are also held in trust. The Dividend Shares are generally required to be held in trust for a minimum period of three years from the date of acquisition. Shares held in trust for Executive Directors under the SIP are as follows:

	At 31 December 2003	Awarded	Partnership and dividend shares	At 31 December 2004
J.G. Abel	1,122	–	365	**1,487**
P.C. Badcock	1,459	–	350	**1,809**
D.A. Fischel	1,459	412	392	**2,263**
J.I. Saggers	1,459	412	392	**2,263**
A.C. Smith	1,459	412	392	**2,263**

Or date of cessation of directorship if earlier.

3.95 per cent Liberty International convertible Bonds due 2010
Mr D. Gordon disposed of his beneficial interest during the year. (2003 – £5,000,000)

CSC 6.875 per cent bonds due 2013
A beneficial interest was held by Mr D. Gordon (£2,500,000) (2003 – £2,500,000).

Capital & Counties Limited ordinary shares of 25p each
A non-beneficial interest of 400 (2003 – 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 pence	Held at 31 December 2003	Granted in year	Exercised in year or lapsed	Held at 31 December 2004	Exercisable between
The Liberty International Holdings PLC Executive Share Option Scheme 1987							
A.C. Smith	1994	366	20,000	–	20,000	–	06/09/97-06/09/04
	1995	322	17,500	–	17,500	–	10/08/98-10/08/05
The Liberty International Holdings PLC Incentive Share Option Scheme 1990							
D.A. Fischel	1999	419	160,000	–	160,000	–	12/03/02-12/03/09
J.I. Saggers	1999	419	50,000	–	50,000	–	12/03/02-12/03/09
A.C. Smith	1995	322	12,500	–	12,500	–	10/08/98-10/08/05

Notes to the accounts

35 Directors' interests continued

Director	Year granted	Option price pence	Held at 31 December 2003	Granted in year	Exercised in year or lapsed	Held at 31 December 2004	Exercisable between
			Number of share options				
The Liberty International PLC Incentive Share Option Scheme 1999							
J.G. Abel	2001	512	94,141	–	–	94,141	22/02/04-22/02/11
	2002	545	60,000	–	–	60,000	20/02/05-20/02/12
P.C. Badcock	2001	512	74,141	–	–	74,141	22/02/04-22/02/11
	2002	545	40,000	–	–	40,000	20/02/05-20/02/12
D.A. Fischel	1999	475	21,000	–	–	21,000	11/08/02-11/08/09
	2000	406	120,000	–	–	120,000	03/03/03-03/03/10
	2001	512	100,000	–	–	100,000	22/02/04-22/02/11
	2002	545	69,496	–	–	69,496	20/02/05-20/02/12
	2003	565	50,000	–	–	50,000	21/02/06-21/02/13
J.I. Saggers	1999	475	17,500	–	–	17,500	11/08/02-11/08/09
	2000	406	50,000	–	50,000	–	03/03/03-03/03/10
	2001	512	60,000	–	–	60,000	22/02/04-22/02/11
	2002	545	50,000	–	–	50,000	20/02/05-20/02/12
	2003	565	34,691	–	–	34,691	21/02/06-21/02/13
A.C. Smith	2000	406	60,000	–	–	60,000	03/03/03-03/03/10
	2001	512	60,000	–	–	60,000	22/02/04-22/02/11
	2002	545	50,000	–	–	50,000	20/02/05-20/02/12
	2003	565	40,000	–	–	40,000	21/02/06-21/02/13
The Liberty International PLC Executive Share Option Scheme 1999							
J.G. Abel	2001	512	5,859	–	–	5,859	22/02/04-22/02/11
P.C. Badcock	2001	512	5,859	–	–	5,859	22/02/04-22/02/11
D.A. Fischel	2002	545	5,504	–	–	5,504	20/02/05-20/02/12
J.I. Saggers	2003	565	5,309	–	–	5,309	21/02/06-21/02/13

Or date of cessation of directorship if earlier.

Mr D.A. Fischel exercised options on 6 April 2004, at a market price of 762p per share, at which time the difference between the exercise price and market price was in aggregate £548,800. Mr A.C. Smith exercised options on 5 April 2004, at a market price of 772.5p per share, at which time the difference between the exercise price and market price was in aggregate £78,837. Mr A.C. Smith also exercised options on 6 April 2004, at a market price of 762p per share, at which time the difference between the exercise price and market price was in aggregate £134,200. Mr J.I. Saggers exercised options on 23 April 2004, at a market price of 749p per share, at which time the difference between the exercise price and market price was in aggregate £336,500. The market value of Liberty International ordinary shares at 31 December 2004 was 970.5p and during the year the price varied between 650.5p and 978p.

(c) No Director had any dealings in the shares of any group company between 31 December 2004 and 1 February 2005, 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 2004.

36 Employees' information

	2004 £m	2003 £m
Wages and salaries	**24.1**	24.7
Social security costs	**2.5**	2.6
Other pension costs	**2.0**	2.0
	28.6	29.3

At 31 December 2004 the number of persons employed was 787 (2003 – 802). The average number of persons employed during the year was as shown below:

	2004 Number	2003 Number
Liberty International PLC	**80**	55
Capital Shopping Centres	**612**	632
Capital & Counties	**97**	108
	789	795

Notes to the accounts

36 Employees' information continued

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 pence	Ordinary shares Number	Exercisable between
10/08/1995		1987	322	10,000	1998 and 2005
10/08/1995		1990	322	10,000	1998 and 2005
12/03/1996		1995	331.5	3,185	1999 and 2006
18/03/1996		1987	331	3,000	1999 and 2006
12/03/1999		1990	419	20,000	2002 and 2009
11/08/1999	ISOS	1999	475	45,500	2002 and 2009
03/03/2000	ISOS	1999	406	230,000	2003 and 2010
22/02/2001	ESOS	1999	512	31,590	2004 and 2011
22/02/2001	ISOS	1999	512	1,330,602	2004 and 2011
20/02/2002	ESOS	1999	545	111,117	2005 and 2012
20/02/2002	ISOS	1999	545	926,383	2005 and 2012
06/03/2002	ESOS	1999	567	10,582	2005 and 2012
06/03/2002	ISOS	1999	567	139,418	2005 and 2012
21/02/2003	ESOS	1999	565	57,858	2006 and 2013
21/02/2003	ISOS	1999	565	922,142	2006 and 2013
19/02/2004	ESOS	1999	698	42,651	2007 and 2014
19/02/2004	ISOS	1999	698	536,781	2007 and 2014
29/07/2004	ESOS	1999	785	3,821	2007 and 2014
29/07/2004	ISOS	1999	785	21,179	2007 and 2014
Total				4,455,809	

Conditional awards of Additional and Restricted shares under the companies' annual bonus schemes outstanding at 31 December 2004 are as shown below. Awards made under the CSC annual bonus scheme 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.

The company operates a Share Incentive Plan ("SIP") which is more fully described in the Directors' remuneration report on page 60. Awards under the SIP made as part of the annual bonus arrangements outstanding at 31 December 2004 are also as shown below. Additionally the SIP trustee is holding 59,394 shares in respect of the SIP Partnership scheme and SIP Dividend shares, which are shares purchased using the dividends paid on the shares held in the SIP trust.

	Annual bonus scheme	SIP	Restricted	Additional
2000	Liberty International			29,326
2000	CSC			15,034
2001	Liberty International			52,017
2002	Liberty International	44,360		53,716
2003	Liberty International	34,445	73,439	51,156
2004	Liberty International	41,225	59,049	49,886
Total		120,030	132,488	251,135

A total of 4,429,864 ordinary shares were held by LI Share Plan (Jersey) Limited at 31 December 2004 for the purposes of satisfying the future exercise of options and provision of shares on maturity of conditional awards under the annual bonus schemes. A total of 179,424 shares are held by Capita IRG Trustees Ltd, as trustee for the SIP.

37 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 policy is to generally provide future retirement benefits through defined contribution arrangements, but there is one defined benefit scheme, the Liberty International Group Retirement Benefit Scheme ("the Scheme"), which continues to accrue future service benefits. It is a funded defined benefit scheme and is not contracted out of the UK State Second Pension (S2P). The Scheme was closed to new members in 1997.

(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 Scheme – a defined benefit scheme The pension cost relating to the Scheme is assessed in accordance with the advice of Mercer Human Resource Consulting, an independent firm of qualified actuaries. The pension costs and balance sheet items for the year ended 31 December 2004 have been based on the same valuation method and assumptions used at the last formal Scheme valuation as at 6 April 2004.

This valuation used the "Attained Age" valuation method and a market led set of assumptions. As at 6 April 2004, the market value of the Scheme's assets was £34.6 million (2003 – £27.5 million), which equated to 101.0 per cent (2003 – 88.9 per cent) of the benefits that had accrued to Scheme members after allowing for expected future increases in earnings where applicable. The surplus in funding for past service benefits amounted to £0.4 million (2003 – deficit £3.4 million). The movement from deficit to surplus was due primarily to greater than anticipated equity investment returns and a special company contribution of £3 million.

Notes to the accounts

37 Pensions continued

The main economic assumptions used in the valuation were:

	April 2004 ongoing basis % per annum compound
Investment return before retirement	7.75
Investment return after retirement	5.00
Price inflation	3.00
Salary increases	5.00
Pension increases	3.00

The company has paid contributions of 24.5 per cent of members' pensionable salaries, resulting in employer contributions being paid of £0.8 million (2003 – 24.5 per cent, £0.7 million), and this rate will continue at 24.5 per cent pending a funding review as at April 2005.

The total pension charge to the profit and loss account in respect of the Scheme, calculated in accordance with SSAP 24, for the year ended 31 December 2004 was £0.9 million (2003 – £1.0 million).The amount carried in the balance sheet in respect of prepaid pension contributions as at 31 December 2004 was £0.6 million (2003 – £0.7 million), as calculated in accordance with SSAP 24.

(ii) Defined contribution arrangements The pension charge in respect of the other schemes are the actual contributions paid. These amount to £1.0 million (2003 – £1.0 million) in respect of the other UK pension schemes and £0.1 million (2003 – £0.1 million) for the US scheme.

(iii) Additional information required in respect of FRS 17 The company continues to account for pensions in accordance with the requirements of SSAP 24 and complies with the transitional arrangements required by FRS 17. The additional disclosures required by FRS 17 are shown below.

Balance sheet presentation

	At year end 31 December 2004 £m	At year end 31 December 2003 £m
Net assets excluding pension liability	**3,244.0**	2,886.2
Pension liability	**(0.3)**	(0.1)
Net assets including pension liability	**3,243.7**	2,886.1

Reserves note

	At year end 31 December 2004 £m	At year end 31 December 2003 £m
Profit and loss reserve excluding pension liability	**78.9**	39.4
Pension reserve	**(0.3)**	(0.1)
Profit and loss reserve	**78.6**	39.3

Pension cost note

Composition of the scheme

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 6 April 2004 and updated to 31 December 2004 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	At year end 31 December 2004 %	At year end 31 December 2003 %	At year end 31 December 2002 %
Rate of increase in salaries	**4.60**	4.75	4.30
Rate of increase of pensions in payment	**2.60**	2.75	2.30
Rate of increase of pensions in deferment	**2.60**	2.75	2.30
Discount rate	**5.30**	5.50	5.50
Inflation assumption	**2.60**	2.75	2.30

The assets in the scheme and the expected rate of return were:

	At year end 31 December 2004		At year end 31 December 2003		At year end 31 December 2002	
	%	£m	%	£m	%	£m
Equities	**7.70**	**15.0**	8.25	11.9	8.00	9.7
Hedge funds	**7.70**	**3.1**	8.25	2.4	8.00	2.2
Bonds	**4.30**	**13.5**	4.75	13.1	4.60	12.6
Other	**4.45**	**2.4**	3.75	4.0	4.00	0.6
Property	**7.70**	**2.4**	8.00	2.4	8.00	2.3
Total market value of assets		**36.4**		33.8		27.4
Actuarial value of liability		**(36.9)**		(34.0)		
Total (deficit) in the scheme		**(0.5)**		(0.2)		
Related deferred tax asset		**0.2**		0.1		
Net pension (liability)		**(0.3)**		(0.1)		

Notes to the accounts

37 Pensions continued

Analysis of the amount charged to operating profit

	At year end 31 December 2004 £m	At year end 31 December 2003 £m
Service cost	**0.9**	0.9
Past service cost	**–**	–
Total operating charge	**0.9**	0.9

Analysis of net return on pension scheme

	Year to 31 December 2004 £m	Year to 31 December 2003 £m
Expected return on pension scheme assets	**2.1**	1.7
Interest on pension liabilities	**(1.9)**	(1.5)
Other finance income	**0.2**	0.2

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	Year to 31 December 2004 £m	Year to 31 December 2003 £m
Actual return less expected return on assets	**0.9**	1.8
Experience gains and losses on liabilities	**(1.0)**	0.9
Changes in assumptions	**(0.3)**	(5.8)
Actuarial (loss) recognised in STRGL	**(0.4)**	(3.1)

Movement in deficit during the year

	Year to 31 December 2004 £m	Year to 31 December 2003 £m
Deficit in scheme at beginning of year	**(0.2)***	–
Movement in year:		
(Current service cost)	**(0.9)**	(0.9)
Contributions	**0.8**	3.7
Other finance income	**0.2**	0.2
Actuarial (loss)	**(0.4)**	(3.1)
Deficit in scheme at end of year	**(0.5)**	(0.1)

*For the year to 31 December 2004 the reconciliation has been carried out for the deficit in the Scheme before allowance of the deferred tax asset.

The actuarial valuation at 31 December 2004 showed an increase in the deficit from £0.2 million to £0.5 million. No improvements in benefits were made in the year. Contributions were paid by the company of £0.8 million (24.5 per cent of Pensionable Salary). As the Scheme is closed to new members, the service cost (as a percentage of pensionable salaries) will be expected to increase in the future.

History of experience gains and losses

	Financial year ending in		
	2004	2003	2002
Difference between expected and actual return on scheme assets:			
amount (£m)	**0.9**	1.8	(4.2)
percentage of scheme assets	**2.4%**	5.5%	(15.3)%
Experience gains and losses on scheme liabilities:			
amount (£m)	**(1.0)**	0.9	0.4
percentage of scheme liabilities	**(2.8)%**	2.6%	1.5%
Total amount recognised in statement of total recognised gains and losses:			
amount (£m)	**(0.4)**	(3.1)	(4.5)
percentage of scheme liabilities	**(1.1)%**	(9.1)%	(16.4)%

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

Five year record 2000 – 2004

Balance sheet

	2000 £m	2001 Restated† £m	2002 £m	2003 Restated‡ £m	2004 £m
Investment properties					
UK shopping centres	3,099.8	3,216.9	3,522.3	3,760.3	**4,362.9**
Other	831.1	838.1	874.0	864.9	**950.0**
	3,930.9	4,055.0	4,396.3	4,625.2	**5,312.9**
Other assets less current liabilities	143.1	139.5	257.2	366.3	**381.2**
Total assets less current liabilities	4,074.0	4,194.5	4,653.5	4,991.5	**5,694.1**
Long-term debt	(1,491.0)	(1,716.9)	(1,831.0)	(1,814.4)	**(2,118.8)**
Convertible bonds	(207.4)	(70.4)	(64.0)	(233.9)	**(235.4)**
Provisions for liabilities and charges	(9.0)	(65.3)	(75.0)	(83.8)	**(95.9)**
	2,366.6	2,341.9	2,683.5	2,859.4	**3,244.0**
Share capital and reserves	2,352.7	2,341.9	2,683.5	2,859.4	**3,244.0**
Minority interests	13.9	–	–	–	**–**
Total shareholders' funds including minority interests	2,366.6	2,341.9	2,683.5	2,859.4	**3,244.0**

Profit and loss account

	2000 £m	2001 Restated† £m	2002 £m	2003 £m	2004 £m
UK shopping centres	136.0	146.5	161.2	175.9	**181.2**
Commercial property	56.0	57.4	59.1	61.4	**64.0**
Realised gains on listed property shares	24.3	3.5	–	–	**–**
Property trading	11.4	6.3	5.1	4.5	**9.9**
Other	9.6	5.6	7.2	10.8	**8.9**
Administrative expenses	(21.1)	(19.9)	(20.5)	(24.8)	**(26.5)**
Group operating profit	216.2	199.4	212.1	227.8	**237.5**
Share of operating profit of joint ventures	–	–	3.8	8.1	**7.7**
Net interest payable	(83.4)	(119.9)	(129.3)	(131.7)	**(129.5)**
Profit before taxation and exceptional items	132.8	79.5	86.6	104.2	**115.7**
Exceptional items	20.2	11.4	17.2	5.8	**42.6**
Profit on ordinary activities before taxation	153.0	90.9	103.8	110.0	**158.3**
Profit for the financial year attributable to shareholders after taxation and minority interests	105.5	70.8	81.0	80.6	**124.6**
Ordinary dividends	(62.8)	(62.3)	(69.6)	(77.7)	**(84.0)**
Transfers to retained profit	42.7	8.5	11.4	2.9	**40.6**

Per share information

	2000	2001 Restated†	2002	2003 Restated‡	2004
Dividends per ordinary share	21.75p	22.75p	23.75p	25.00p	**26.50p**
Earnings per share before exceptional items (adjusted)*	32.05p	24.49p	25.58p	27.45p	**29.02p**
Earnings per share (basic) (includes exceptional items)	39.02p	25.89p	28.54p	26.25p	**39.32p**
Net assets per share (adjusted)*	843p	844p	878p	924p	**1047p**
Net assets per share (diluted, adjusted)*	796p	827p	862p	906p	**1017p**
Ordinary shares in issue	279.0m	284.2m	312.6m	316.6m	**317.3m**
Ordinary shares in issue (diluted)	321.8m	298.7m	325.9m	351.7m	**352.1m**

† Restated for the effect of FRS 19, Deferred Tax.

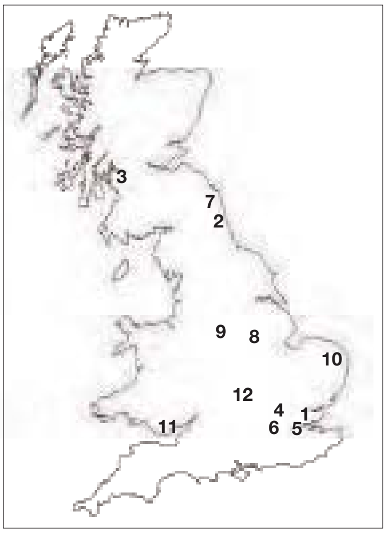
‡ Restated for the effect of UITF 38, Accounting for ESOP Trusts.

* Adjusted numbers exclude the deferred tax charge and provision in respect of capital allowances which are not expected to reverse.

Details of CSC Regional Shopping Centres

Completed	Sq. ft. (Sq. m.)	Number of shops	Anchor stores	Transport links	Car parking spaces	% owned
1 Lakeside (Thurrock)	1.38 million (128,295)	287	Marks & Spencer, House of Fraser, Debenhams	Rail and bus station, coach park, taxi rank	13,000	100
2 MetroCentre (Gateshead)	1.78 million (165,362)	330	Marks & Spencer, House of Fraser, Debenhams, Bhs	Rail station, transport interchange, coach park	9,250	90
3 Braehead (Renfrew, Glasgow)	1.06 million (98,474)	110+10 in retail park	Marks & Spencer, Sainsbury's, Bhs, Gap	Bus station, coach park, taxi rank, ferry link	6,500	100
4 The Harlequin (Watford)	724,000 (67,260)	146	John Lewis, Zara, Marks & Spencer, Virgin Megastore	Bus stops, railway station and taxi rank	2,050	93
5 The Glades (Bromley)	421,000 (39,111)	126	Marks & Spencer, Boots, Debenhams, Virgin Megastore	Bus stops, two railway stations and taxi rank	1,530	63
6 The Chimes (Uxbridge)	440,000 (40,876)	81	Debenhams, Bhs, Boots, Next	Bus and underground stations	1,600	100
7 Eldon Square (Newcastle upon Tyne)	961,000 (89,277)	150	John Lewis, Fenwick, Boots, Argos Superstore	Bus and Metro stations, taxi ranks	1,800	45
8 Victoria Centre (Nottingham)	956,000 (88,812)	116	John Lewis, House of Fraser, Next, Boots	Integrated bus station	2,750	100
9 The Potteries (Stoke-on-Trent)	561,000 (52,163)	87	Debenhams, Next, Littlewoods, Gap	Bus stops, coach park, taxi rank	1,240	100
Developments						
10 Chapelfield (Norwich) Opening Autumn 2005	510,000 (47,380)	90	House of Fraser, Zara, Borders, H&M, Boots	Bus stops	1,000	100% (on purchase)
11 St David's 2 (Cardiff) Estimated opening 2009	967,500 (89,891)	–	John Lewis	–	3,000	50
12 Westgate (Oxford) Estimated opening 2009	700,000 (65,030) on completion (existing centre 231,000 (21,460))	–	John Lewis	–	1,335	50

Shopping Centre Locations



Details of Capital & Counties Investment Properties

Central London offices and retail

King's Reach, SE1
251,000 sq. ft. office
24,000 sq. ft. retail

190 Strand, WC2
165,000 sq. ft. offices and 7,000 sq. ft. retail

Hammersmith, W6 Commonwealth House
110,000 sq. ft. offices

26/40 and 201/207 Kensington High Street, W8
106,000 sq. ft. retail and leisure
31,000 sq. ft. offices

Regent Street, W1; Victory House
Carrington House and Walmar House
63,000 sq. ft. offices
37,000 sq. ft. retail

Piccadilly, W1; Foxglove House, Dudley House, Egyptian House, Empire House and Piccadilly Arcade
64,000 sq. ft. offices
39,000 sq. ft. retail

24/25 Britton Street, EC1
50,000 sq. ft. offices

Long Acre, WC2 Floral Place
39,000 sq. ft. offices
19,000 sq. ft. retail

12/14 New Fetter Lane, EC4
26,000 sq. ft. offices

26/29 Sloane Street, SW1
10,000 sq. ft. retail

Business space outside London

Cambridge; Capital Park
160,000 sq. ft. and 67,000 sq. ft. to be developed.

Slough; St Martin's Place and Capital Point, Bath Road
107,000 sq. ft. offices in two buildings

Basingstoke; The Crescent
102,000 sq. ft. offices

Portsmouth; One Port Way, Port Solent
62,000 sq. ft. offices

Cheshunt; Turnford Place
60,000 sq. ft. offices

Uxbridge; Capital Court
55,000 sq. ft. offices
3,000 sq. ft. retail

Hayes; Capital Place, Bath Road
51,000 sq. ft. offices

Cambridge; Lockton House
28,000 sq. ft. offices

Birmingham; Somerset House
45,000 sq. ft. offices and 4,000 sq. ft. retail

Retail outside London

Manchester; Market Street
513,000 sq. ft. department store

Liverpool; Renshaw Street
510,000 sq. ft. department store

Leeds; Headrow
297,000 sq. ft. retail
39,000 sq. ft. offices

Stafford; Queens Retail Park
162,000 sq. ft. retail warehouse units

Rochester; Medway Valley Park
155,000 sq. ft. leisure units

Braintree
89,000 sq. ft. retail warehouse park

Swansea; Whitewalls, Oxford Street
and Union Street
108,000 sq. ft. retail

United States (California)

Serramonte Center, Daly City
850,000 sq. ft. shopping centre

The Willows Shopping Center, Concord
255,000 sq. ft. lifestyle shopping centre anchored by category dominant retailers

Pacific Financial Center, Los Angeles
213,000 sq. ft. offices (50 per cent interest)

The Senator, Sacramento
171,000 sq. ft. offices

The Marketplace, Davis
113,000 sq. ft. community shopping centre

595 Colorado, Pasadena
98,000 sq. ft. offices

Park Plaza, Sacramento
72,000 sq. ft. offices

Parnassus Heights Medical Center, San Francisco
146,000 sq. ft. offices (50 per cent interest)

Stacey's Bookstore, San Francisco
27,000 sq. ft. retail

Plaza Escuela, Walnut Creek
154,000 sq. ft. retail

Danville Medical Office Complex
75,000 sq. ft. offices

Corporate governance

The company is required to comply with the "Combined Code – Principles of Good Governance and Code of Best Practice" revisions of which were promulgated by the Financial Reporting Council in 2003 and became effective on 1 January 2004 ("the Code").

The framework of Corporate Governance
The Board's overriding objective is to ensure that the Group delivers long-term sustainable growth in returns for its shareholders.

Liberty International recognises that corporate governance is not an end in itself but an important means to an end. The Code contains no definition of corporate governance. The first supporting principle it contains, at provision A. 1, reads as follows:

> *"The Board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The Board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met."*

The Board believes that any system which is adopted must also be geared to meeting the necessary standards of accountability and probity and considers that the processes which it has adopted do so.

The company has also demonstrated a strong commitment to high standards of Corporate Social Responsibility, details of which are set out on page 64, and has been included in the FTSE4Good listing. The Board is accountable to the company's shareholders for the good conduct of the company's affairs and the information and statements set out below describe how the principles contained in the Code are applied by the company. The company's internal procedures are regularly reviewed and updated by the Board and the various relevant Board Committees. The policy papers which are the foundation of those procedures specify responsibilities and levels of responsibility. They cover all aspects of the company's activities including those relating to financial, operational and compliance controls and risk management.

Statement of compliance
The Board believes that, save as indicated on page 59, as demonstrated by the information set out in this section together with the statements and procedures referred to in the Directors' remuneration report on pages 60 to 63, the company has, throughout the accounting period under review, applied the principles and complied with the provisions set out in Section 1 of the Code.

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

The company has a strong investor relations programme. The Chief Executive and Finance Director aim to meet major shareholders and analysts at least twice a year to discuss the results of the group, to learn of any concerns that may have arisen and (within the appropriate constraints) to respond to any queries they may have. The non-executive Directors may attend such meetings. The Chief Executive reports to the Board on the views of, and feed back from, major shareholders and analysts, and analysts' and brokers' reports are circulated to all members of the Board on a frequent basis. The Chief Executive and Finance Director maintain file notes of all meetings with investors and provide a full briefing to the Board. Investor relations, and reports from the company's brokers on meetings with investors, are a regular agenda item at Liberty International Board meetings.

The Board
The Board is responsible not only to all shareholders but to its other stakeholders for the effective control and proper management of the Liberty International Group. A description of the company' activities over the last year is contained in the Chairman's statement and review of operations on pages 5 to 15. Certain matters have been reserved for decision by the whole Board and a schedule setting out a list of these is regularly reviewed. In other cases the Board has delegated its authority under clearly defined conditions to technical Committees of the Board. It has been the Board's custom over many years to ensure that major decisions are taken after a reiterative process which involves examination and review at several levels. In part, this examination and review process is dealt with by the Board Committees mentioned below, and in part by the Chairman's Committee which considers all significant business decisions prior to consideration by the full Board. In turn, the decisions of that Committee are reviewed by the Board even where the proposal under review is not thought likely to be taken further.

At the year end, the Board consisted of the Chairman, Mr D. Gordon, four executive and seven non-executive Directors. The Board's views on the independence of the non-executive Directors are set out below.

Biographies of all the Board Members appear on pages 23 and 24. The separate roles of the Chairman and of the Chief Executive, Mr D.A. Fischel, are recognised and prescribed by the Board.

The Executive Directors have service contracts which have a notice period of 12 months. Non-executive Directors are appointed for three year periods and their continuing service thereafter is subject to review by the Board. Mr D.P.H. Burgess was appointed as Senior Independent Director with effect from 1 April 2004, replacing Mr R.M. Baillie who retired from the Board on 31 March 2004.

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

The Board meets at least quarterly to consider all aspects of the company's affairs and any further information which it has requested from management. Additional meetings are arranged when necessary and Directors are kept regularly informed of developments.

In the context of the Board's overriding objective to deliver long-term sustainable growth in returns for its shareholders, the Board discusses and makes decisions relating to, but not limited to, strategy, top management performance, retention, remuneration and succession; financial measures and performance; acquisitions and disposals and other capital expenditure and control; corporate reputation including shareholder communication; and the Board's own effectiveness. It also receives reports on the proceedings of its Committees. Each Board Committee's established authority limits are reviewed on an annual basis by the Audit Committee and, subsequently, by the full Board.

The Chairman's role is to ensure that the Board's discussions go into any matter put before it in adequate depth and in an appropriately focused way, that the opinions of all the Directors are taken into account and accorded proper weight, and that all the Board's decisions are supported by adequate and timely information.

Matters relating to corporate governance and Corporate Social Responsibility are kept under review by the Audit Committee as well as by the full Board.

All matters which fall outside the normal course of business are carefully recorded and reviewed and monitored by the Chief Executive, the Company Secretary, and General Corporate Counsel and, in accordance with the amounts involved, referred to the relevant authorised Board Committee or to the Board itself. The company's position has always been that, in the event that a Director has a concern which cannot be resolved about the running of the company or a proposed action, such concern is recorded in the Minutes. The Board of Liberty International considers that it has clear and robust procedures for monitoring the signing of all documents within the group and the approval of all transactions, no matter what their size, through formal Board Committees and formally delegated authority limits.

The Directors have always had high levels of attendance at Board and Committee meetings. There are a number of important Committee meetings between Board meetings and these are normally fully attended. Meeting papers are distributed in a timely manner giving Directors sufficient time to consider matters for discussion. In addition, Directors are kept fully informed of progress on matters between formal meetings by way of ad hoc meetings and other communications on a regular basis. A table of attendance is set out at the top of page 57.

Corporate governance

	Board (4 meetings)	Chairman's Committee (6 meetings)	Audit Committee (3 meetings)	Remuneration Committee (3 meetings)	Nomination and Review Committee (3 meetings)
D. Gordon	4	6	–	3	3
D.A. Fischel	4	6	–	–	–
J.G. Abel	4	–	–	–	–
P. Badcock*	1	–	–	–	–
R.A.M. Baillie*	1	2	1	1	2
D. Bramson	4	6	–	–	–
R.W.T. Buchanan	3	6	3	3	3
D.P.H. Burgess	4	6	3	3	3
G.J. Gordon	4	–	–	–	–
L. James†#ø	2	–	–	–	–
D. Leslie*	1	–	–	–	–
M. Rapp	4	5	2	3	3
R. Rowley†§	3	–	–	–	–
J.I. Saggers	4	–	–	–	–
A.C. Smith	4	–	–	–	–

* Retired 31 March 2004
† Appointed 17 May 2004
# Appointed to Remuneration Committee 19 July 2004
ø Appointed to Nomination and Review Committee 15 November 2004
§ Appointed to Chairman's Committee 15 November 2004

Mr D. Gordon, the Chairman, has no significant business commitments other than his Chairmanship of Liberty International PLC. None of the Executive Directors of Liberty International PLC currently serves as a non-executive Director elsewhere.

The terms of reference for each of the Board Committees described below are available on written request from the Company Secretary at Liberty International, as are the terms of appointment for each of the non-executive Directors.

The Chairman's Committee

This Committee includes the Chairman, the Chief Executive, and seven non-Executive Directors, Mr Bramson, Mr Buchanan, Mr Burgess, Sir Robert Finch, Mr I.J. Henderson, Mr Rapp and Mr Rowley. Sir Robert Finch and Mr Henderson were both appointed to the Committee on 7 February 2005. It is responsible for the consideration of matters and issues brought to it for its consideration by the Chief Executive, for the development of strategy and policy proposals for consideration by the Board and, if approved in due course by the Board, for monitoring the implementation of the Board's directions on such matters. It has power to deal with delegated matters between Board meetings although it rarely does so since all members of the Board are generally circulated on any significant issues which occur between quarterly meetings.

The Board has established Capital Projects Committees in CSC and C&C to review all projects and project expenditure in detail. These Committees have the authority to approve capital expenditure of up to £10 million. Corporate transactions with a value of up to £40 million can be approved by the Chairman's Committee but transactions of a higher value must be approved by the full Board. The Board is informed of transactions below £10 million approved by the Capital Projects Committees and receives recommendations for projects in excess of £10 million which the Committees support.

Audit Committee

The members of the Audit Committee are Mr Burgess (Chairman), Mr Buchanan, Sir Robert Finch and Mr Rapp, all of whom are non-executive Directors. Sir Robert Finch was appointed to the Committee on 7 February 2005. Mr Baillie was a member of the Committee until his retirement in March 2004. All Committee members have significant financial experience and Mr Buchanan has a relevant professional qualification. All members are independent in the Board's opinion. However, Mr Rapp has served on the Board for more than nine years and is therefore subject to annual re-election by shareholders. Some external commentators have expressed the opinion that Mr Rapp is not independent because of the length of time he has spent as a Board member. However, the Board considers Mr Rapp is independent (see further explanation on page 58). The Board has asked Mr Rapp to remain as a member of the Audit Committee, where his contribution is significant and valuable. Mr Rapp will have attained the age of 70, the company's normal retirement date for non-executive Directors, by the 2006 Annual General Meeting.

The Audit Committee is responsible, among other matters, for monitoring the adequacy of the group's financial and internal controls, the efficiency and aptness of the company's risk management and insurance procedures and arrangements, accounting policies and financial reporting, for providing a forum through which the auditors can report to the Board and for ensuring the provision of information to enable the Board to present a balanced and understandable assessment of the company's position and prospects. The Audit Committee monitors and reviews the effectiveness of the internal audit activities.

The terms of reference of the Audit Committee were amended in 2003 to take account of the requirements of the Code and are reviewed annually. The Audit Committee also makes recommendations on the appointment, reappointment or removal of the company's external auditors and to date the Board has always accepted the Audit Committee's recommendation. In the event that the Board does not accept the Audit Committee's recommendation, a statement will be provided in the company's annual report and accounts.

Liberty International has developed a policy to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The term "non-audit services" does not include reference to any advice on tax. The Audit Committee has delegated to the Executive Directors the authority to contract for non-audit services with the external auditors subject to observing the following guidelines.

(a) Executive Directors have the authority to commission the external auditors to undertake non-audit work where this is in relation to a specific project with a cost not exceeding the lower of £50,000 or 15 per cent of the estimated annual level of the auditors' fees for the time being. This work has to be reported to the Audit Committee at its next meeting. If the cost is likely to exceed the limits mentioned above, the agreement of the Chairman of the Audit Committee is required before the work is commissioned.

(b) when external auditors are considered for the provision of non-audit work, the Executive Directors must consider whether proposed arrangements will maintain audit independence;

(c) the external auditors must certify to the company that they are acting independently and the Audit Committee or the commissioning Director (as applicable) must be satisfied that such is the case;

(d) in providing a non-audit service, external auditors should not:

  (i) audit their own work;

  (ii) make management decisions;

  (iii) create a mutuality of interest; or

  (iv) find they have placed themselves in the role of advocate for the company;

Liberty International's strong commitment to high standards of Corporate Social Responsibility is the responsibility of the Chief Executive and is managed through a CSR Committee, comprising senior executives from all sections of the business. The CSR Committee reports to the Audit Committee.

Nomination and Review Committee

The members of the Nomination and Review Committee are Mr D. Gordon, Mr Buchanan, Mr Burgess, Mrs James and Mr Rapp. The Committee is chaired by Mr D. Gordon. Mr Baillie was a member of the Committee until his retirement in March 2004. The terms of reference of the Nomination and Review Committee were amended in November 2003 to take account of the requirements of the Code and are reviewed annually.

The Committee is responsible for carrying out an annual performance evaluation of the Board, its Committees and individual Directors, as well as making recommendations to the Board on appointments to the Board and to subsidiary Boards and on succession planning. In 2004 a comprehensive performance evaluation of the Board, its Committees and individual Directors was carried out by way of detailed questionnaires followed by discussion, the results of which were considered by the Nomination and Review Committee, the Board, and the relevant Board Committees.

Corporate governance

There is a comprehensive induction programme for new Directors and the Committee considers the need for existing Directors to update and refresh their skills and knowledge as part of the annual performance evaluation exercise.

The Nomination and Review Committee regularly evaluates the skills available on the Board and determines when appointments and retirements are appropriate. The Committee also reviews a Key Persons Report presented to it annually by the Chief Executive. In 2003 the Nomination and Review Committee identified the need for a minimum of two new non-executive Directors to join the Board over a period of time, bearing in mind the need for succession planning. The Committee drew up job descriptions, appointed a specialist agency to assist with the search for suitable candidates and in May 2004, Mrs L. James and Mr R. Rowley were appointed as non-executive Directors of Liberty International PLC. Since the year end, four further appointments to the Board have been made – two additional Executive Directors, Mrs Chaldecott and Mr Cable, have been appointed, both having significant experience within the group as Asset Management Director and Development Director respectively of Capital Shopping Centres.

Two additional non-executive Directors have also been appointed, Sir Robert Finch, immediate past Lord Mayor of London and former head of the property department at law firm Linklaters, and Mr I. J. Henderson, former Chief Executive of the UK's largest property company, Land Securities Group PLC. Following these appointments, the Nomination and Review Committee has determined that the current balance of skills, knowledge and experience on the Board and on the Board Committees is satisfactory.

The Nomination and Review Committee has also considered the succession plans for appointing a new Chairman, as Mr D. Gordon announced in February 2004 his intention to step down as Chairman of Liberty International no later than the end of June 2005. The Committee drew up a specification for the post including an assessment of the time commitment expected while recognising the need for availability in the event of crisis. The Board of Liberty International, which has responsibility for the ultimate decision on the appointment of a Chairman of the company, is continuing to consider the appointment. The matter is now under consideration by the full Board because of a number of potential conflicts of interest that would have arisen if the matter were to be considered by the Nomination and Review Committee. Open advertising has not been used in connection with the appointment of a new Chairman but an external search agency has been approached to assist with the process. A decision of the Board (with those Directors who might otherwise have been conflicted recusing themselves from the relevant proceedings) will be made in due course.

Remuneration Committee
The Members of the Remuneration Committee are Mr Buchanan (Chairman), Mr Burgess, Mr D. Gordon, Mr I.J. Henderson, Mrs James and Mr Rapp. Mrs James was appointed to the Committee on 19 July 2004. Mr Henderson was appointed to the Committee on 7 February 2005. Mr Baillie was a Member of the Committee until his retirement in March 2004. The Committee's primary responsibilities are to determine the remuneration packages and other terms and conditions of service applying to Executive Directors and Senior Executives of the Group and the provision of incentivisation and performance related benefits to any Executive Director or employee. The Directors' remuneration report is set out on pages 60 to 63. As described in that report, Hewitt Associates were appointed by the Committee in 2004 to carry out a general review of the group's remuneration policies. Hewitt Associates has no other connection with the Liberty International Group. Monks Partnership has provided comparative salary data to the group although no formal appointment has been made. Monks Partnership is a wholly owned subsidiary of the Group's auditors, PricewaterhouseCoopers LLP.

Independence of non-executive Directors
The Code requires that the Board should identify each non-executive Director it considers to be independent. Accordingly, details for each Director are set out below:

Mr R.A.M. Baillie Mr Baillie served on the Board of Liberty International for more than nine years until his retirement on 31 March 2004. The Board considered that Mr Baillie was fully independent and free from any business or other relationship which could materially interfere with the exercise of his independent judgement, not withstanding his length of service.

Mr D. Bramson Mr Bramson was appointed to the Board in January 2001. He retired as Senior Partner of Nabarro Nathanson in 2001 and now acts as a consultant to that firm of lawyers which advises the Liberty International Group. However, the Board considers that the relationship does not interfere with the exercise of his independent judgement and Mr Bramson has confirmed in writing to the Board that he knows no reason of which the Board is unaware as to why he should not be considered independent.

Mr R.W.T. Buchanan Mr Buchanan was appointed to the Board in 1997 and has completed two three-year terms. The Board renewed Mr Buchanan's appointment for a further three-year term with effect from the 2004 Annual General Meeting. Mr Buchanan is regarded by the Board as independent and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

Mr D.P.H. Burgess Mr Burgess was appointed to the Board in January 2001. Mr Burgess was, until 31 December 2004, a Partner of Jones Day, a firm of lawyers which has from time to time (though not in any material respect in the last four years) advised Liberty International. Mr Burgess is now a consultant to Jones Day. The Board is confident that the relationship does not interfere with the exercise of his independent judgement. Mr Burgess has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

Sir Robert Finch Sir Robert Finch was appointed to the Board on 7 February 2005. Sir Robert is a Partner of law firm Linklaters, a firm which advises Liberty International, although Sir Robert has not been involved with the affairs of Liberty International in the last five years. The Board considers that the relationship does not interfere with the exercise of his independent judgement. Sir Robert has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

Mr G.J. Gordon Mr G. Gordon is the son of Mr D. Gordon, Chairman of Liberty International. Mr G. Gordon is not therefore considered by the Board to be fully independent.

Mr I.J. Henderson Mr Henderson was appointed to the Board on 7 February 2005. Mr Henderson is regarded by the Board as independent, and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

Mrs L. James Mrs James was appointed to the Board in May 2004. Mrs James is regarded by the Board as independent, and she has confirmed in writing to the Board that she knows no reason of which the Board might otherwise be unaware as to why she should not be considered independent.

Mr M. Rapp Mr Rapp has served on the Board of Liberty International for more than nine years. The Board considers that Mr Rapp is fully independent and is free from any business or other relationship which could materially interfere with the exercise of his independent judgement, notwithstanding his length of service. Mr Rapp has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent. The Board also considers that Mr Rapp's length of service has brought a distinctive and considerable benefit to its deliberations and to those of the Chairman's, Audit and Remuneration Committees, given his wealth of knowledge and experience of the complexities of the Liberty International Group and of the real estate and regional shopping centre industry.

Mr R. Rowley Mr Rowley was appointed to the Board in May 2004. Mr Rowley is regarded by the Board as independent, and he has confirmed in writing to the Board that he knows no reason of which the Board might otherwise be unaware as to why he should not be considered independent.

Corporate governance

Internal control

It is the Board's responsibility to oversee the group's system of internal control and to keep its effectiveness under review. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only a reasonable, rather than absolute, assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks of the group and this has been in place throughout the year ended 31 December 2004 and up to the date of approval of the Annual Report and Accounts. It is regularly reviewed by the Board and it complies with the Turnbull Committee's internal control guidance for Directors.

Liberty International PLC has an internal audit function. The internal auditor reports to the Audit Committee and, in addition, has regular meetings with the Chairman of that Committee.

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

The internal audit function carries out an annual review of internal controls, which includes a group-wide certification that effective internal controls are in place and are being operated effectively. The internal auditor carries out a programme of verification of the certification and reports his findings to the Audit Committee.

Internal financial reporting

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

Financial information

The group has a comprehensive system for reporting financial results to the Board; each business unit prepares regular financial reports with comparisons against budget. The Board reviews these for the group as a whole and takes action when appropriate.

Major investments

All major investments of the group, whether in the ordinary course of business or of an exceptional nature, are reviewed by at least one Committee of the Board (and usually two) and by the Board itself before being authorised and implemented.

Group treasury

The group has a centralised treasury function which reports to the Board on a regular basis. The reports provide details of counterparties, interest rate and foreign exchange risks and derivatives. Additional information on this subject is given in note 22 on pages 41 to 42.

Operating unit financial controls

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

The Board has conducted a review of the effectiveness, on the basis of criteria set out in the Turnbull Committee's Guidance for Directors – "Internal Control and Financial Reporting" issued in December 1994, of systems of internal financial control for the year ended 31 December 2004 and has taken into account material developments which have taken place since the year end.

Non-Compliance with Code

There is only one Code provision, B.2.1, with which Liberty International PLC did not comply for the year ended 31 December 2004:

The Code provides that the Board should establish a remuneration committee of at least three members, all of whom should be independent non-executive Directors. The composition of the Remuneration Committee is set out above and includes five non-executive Directors. However, Mr D. Gordon is also a member. Mr D. Gordon does not meet the Code's test of independence and therefore Liberty International has not complied with this Code provision in this respect. The Board believes that Mr D. Gordon makes a considerable contribution to the Remuneration Committee's deliberations, particularly as he is more familiar with the day-to-day performance of the Executive Directors and Senior Executives than are the non-executive members of the Committee. Mr D. Gordon is not involved in matters concerning his own remuneration.

In addition, Mr Rapp is a member of the Remuneration Committee and has served on the Board for more than nine years. However, the Board considers Mr Rapp to be fully independent, notwithstanding his length of service, as explained on page 58. The composition of the Remuneration Committee will be reviewed during 2005 following the appointment of the new Chairman.

In addition, there is one Code Provision, C.3.1, with which Liberty International considers it complied with but where in previous years certain external commentators have taken a different view.

The Code provides that the Board should establish an Audit Committee of at least three members, who should all be independent non-executive Directors.

The Audit Committee members are Mr Burgess (Chairman), Mr Buchanan, Sir Robert Finch and Mr Rapp. As noted above, some external commentators have expressed the opinion that Mr Rapp is not independent because of the length of time he has spent as a board member. As explained above, the Board considers that all non-executive directors who serve on the Audit Committee are independent.

Prior to his retirement on 31 March 2004, Mr Baillie was a member of the Audit and Remuneration Committees. As explained above, the Board considered that Mr Baillie was independent notswithstanding his length of service exceeding nine years.

D.P.H. Burgess
Senior Independent Director on behalf of the Board
9 February 2005

Directors' remuneration report

The members of the Remuneration Committee are Mr Buchanan (Chairman), Mr Burgess, Mr D. Gordon, Mr I.J. Henderson, Mrs James and Mr Rapp. Mr Buchanan was appointed Chairman in place of Mr Baillie who retired at the Annual General Meeting in March 2004. Mr Henderson was appointed to the Committee on 7 February 2005.

The Remuneration Committee's principal responsibility is to determine remuneration for the group's Executive Directors and Senior Executives. The Committee is constituted under terms of reference laid down by the Board designed to enable the company to comply with the requirements relating to remuneration policy contained in "The Combined Code on Corporate Governance" ("the Code"). The Code forms part of the UK Listing Authority Listing Rules.

This report covers matters required under the terms of The Directors' Remuneration Report Regulations 2002 ("the Regulations"). The Regulations require the auditors to report to the company's members on the information contained in paragraph (ii)(b) Share Options and Tables 2 and 3, and as otherwise indicated as subject to audit in this remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). Their report on these matters is included in the independent auditors' report.

In determining policy, the Remuneration Committee has given full consideration to the best practice provisions of the Code. The Remuneration Committee has complied with the principles and provisions of the Code in developing remuneration policies which provide the benefits referred to below. These policies directly align the interests of Executive Directors and senior staff with the performance of the company and the interests of shareholders. There is no formal requirement for Directors to hold shares in the company, although there is an expectation that Directors will want to own shares. The majority of Directors do own shares in the company.

During 2004 the Committee appointed Hewitt Associates to carry out a review of the group's incentive plans, including pension arrangements and long-term incentives, with a view to ensuring that the group remains competitive and has in place effective incentive plans. The review will be finalised later in 2005.

In addition, Mr Baillie was appointed as a Senior Adviser to the Committee on 1 April 2004 for a period of one year. He was previously the Chairman of the Committee until his retirement in March 2004. Mr Baillie attends Remuneration Committee meetings at the request of the Committee and provides advice to the Committee.

Remuneration policy for Executive Directors

The company's remuneration policy aims to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages. These packages are linked to both individual and business performance. This policy and the components of the remuneration package as described below were applied during the year under review. It is the present intention that this remuneration policy will continue to apply during 2005 and thereafter unless circumstances dictate change.
The components of the remuneration package are:

(i) Basic annual salary and benefits

Executive Directors and senior and other staff salaries are reviewed annually in the light of competitive market practice, including reference to comparable data of other companies in the real estate sector. The main elements of the basic benefits are pension benefits, private health care and the provision of company cars or cash alternative.

(ii) Incentive performance-related benefits

Performance-related components include the annual review of salaries in the light of individual and corporate performance, annual bonus arrangements and the grant and subsequent exercise of options.
The current policy is to place emphasis on the performance-related components of each Director's remuneration, whilst ensuring that the base salary remains competitive. The proportion of the Executive Directors' remuneration (including options) which is performance-related is, on average, around 50 per cent of their total remuneration.

(a) Annual Bonus Scheme and Share Incentive Plan

At its discretion the company awards annual bonuses to selected individuals including Executive Directors and other staff. Part of the bonus is awarded in the form of shares in the company, conditional on the individuals concerned remaining in employment for specified periods. The conditional awards comprise "Restricted" shares and "Additional" shares, the latter equal to 50 per cent of the Restricted shares and Share Incentive Plan shares (see below) combined. The Restricted and Additional shares are released two and four years respectively after the date of the award.

The company has in recent years operated and provided funds for an Employee Share Ownership Plan ("ESOP") which utilises the funds to purchase shares required under the annual bonus scheme.

The company operates a Share Incentive Plan ("SIP") for all eligible employees, including Executive Directors, who may receive up to £3,000 worth of shares as part of their annual bonus arrangements. The SIP arrangements offer worthwhile tax advantages to employees and to the company. Also, as part of the SIP arrangements, the company offers eligible employees the opportunity to participate in a "Partnership" share scheme, the terms of which are governed by Inland Revenue regulations.

The aggregate cost of annual bonuses which may be provided under the annual bonus scheme, excluding employer's National Insurance costs, is not expected to exceed 25 per cent of the aggregate base salaries of eligible employees. The total level of any annual bonus is determined by the Remuneration Committee. This sum is dependent upon the achievement in the prior year of corporate results and objectives against predetermined budgets and targets, such as the total return on shareholders' funds, asset performance compared with the IPD monthly index and profits for the year compared with budget and prior years. The Executive Directors and Senior Executives are eligible to receive, at the Remuneration Committee's discretion, an additional bonus linked to corporate and individual performance.

Details of the Executive Directors' individual bonus awards in cash and shares under the annual bonus scheme for the year ended 31 December 2004 and previous years are set out on pages 62 and 63 and in note 35.

(b) Share options

Under the company's share option schemes, executives (including Executive Directors) have been granted options to acquire shares in the company, subject to the achievement of a performance condition, at an option price which is not less than the market price at the time of the grant. The performance condition requires smoothed earnings growth equal to or greater than five 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. The maximum value of option grants which can be made to any individual is limited to eight times salary over the preceding ten year period. On completion of the three-year performance period, the Remuneration Committee determines whether or not the performance condition has been met by reference to the results for the relevant year. If the condition has not been met, this is communicated to the option holders concerned. All participants are subject to the above performance condition.

No options were granted to the Executive Directors in 2004.

Options held by Executive Directors over ordinary shares are set out in note 35 on pages 48 and 49.

Directors' remuneration report

(iii) Pensions
Executive Directors and staff who joined the company prior to April 1997 continue to participate in the group's defined benefit pension scheme. This scheme provides a pension of up to two-thirds of salary on retirement, dependent on length of service and Inland Revenue approved limits. Pension benefits for Executive Directors are based on basic salary.

Executive Directors and staff who joined or join the company after April 1997 are eligible to receive defined contribution pension benefits.

The company is considering its response to the new pensions legislation which will apply from April 2006. Individuals affected by the Government's new "single lifetime limit" are likely to receive an annual sum, in lieu of any contribution by the company to their pension arrangements. This sum would be equivalent to the amount of the company's normal pension contribution on their behalf. PAYE and NI would be deducted. The cost to the company would be no higher than the present cost of pension contributions.

Details of the pension benefits provided to Executive Directors for the year ended 31 December 2004 are set out on page 63.

(iv) Service contracts
The company's policy is to provide contracts terminable on 12 months' notice or less on either side. Executive Directors have rolling service contracts which are terminable on 12 months' notice on either side. None of the existing service contracts makes any provision for termination payments, other than for payment in lieu of notice. No termination payments were made during the year to any former Directors.

Table 1
The following service contracts in respect of Executive Directors who were in office during 2004 are rolling service contracts and therefore do not have an end date.

	Date of commencement of contract	Notice period
D.A. Fischel	24 June 1999	12 months
J.G. Abel	15 March 1994*	12 months
P.C. Badcock	12 December 1994*	12 months
J.I. Saggers	01 November 2000†	12 months
A.C. Smith	24 June 1999	12 months

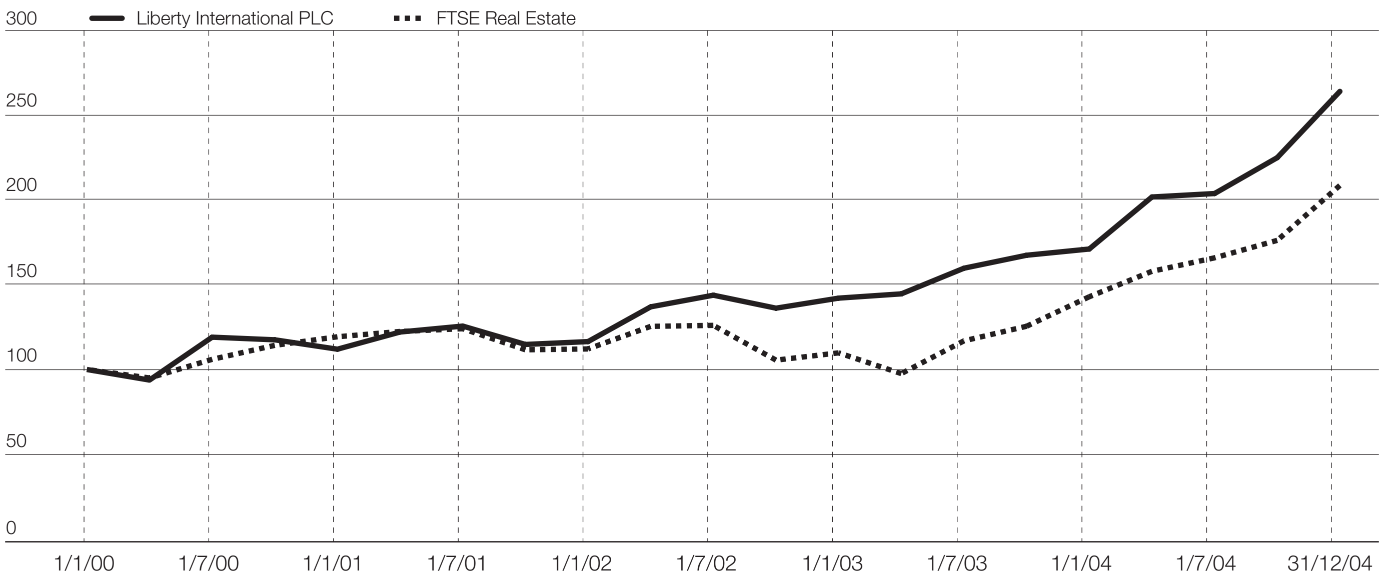
*Contract with Capital Shopping Centres PLC
†Contract with Capital & Counties Limited

(v) Remuneration policy for non-executive Directors
All non-executive Directors have been appointed on fixed terms of three years, subject to renewal thereafter. Non-executive Directors each received a fee of £20,000 per annum in 2004. Non-executive Directors who are members of the Chairman's Committee receive an additional £15,000 per annum; members of the Audit Committee receive an additional £5,000 per annum and members of the Remuneration Committee receive an additional £5,000 per annum. The Chairman of the Audit Committee receives a further £10,000 per annum and the Chairman of the Remuneration Committee receives a further £7,500 per annum. Non-executive Directors receive no benefits from their office other than fees and are not eligible to participate in group pension arrangements.

Mr D.P.H. Burgess's fees, totalling £50,000, were paid to a third party.
Mr M. Rapp's fees, totalling £75,000, were paid to a third party.

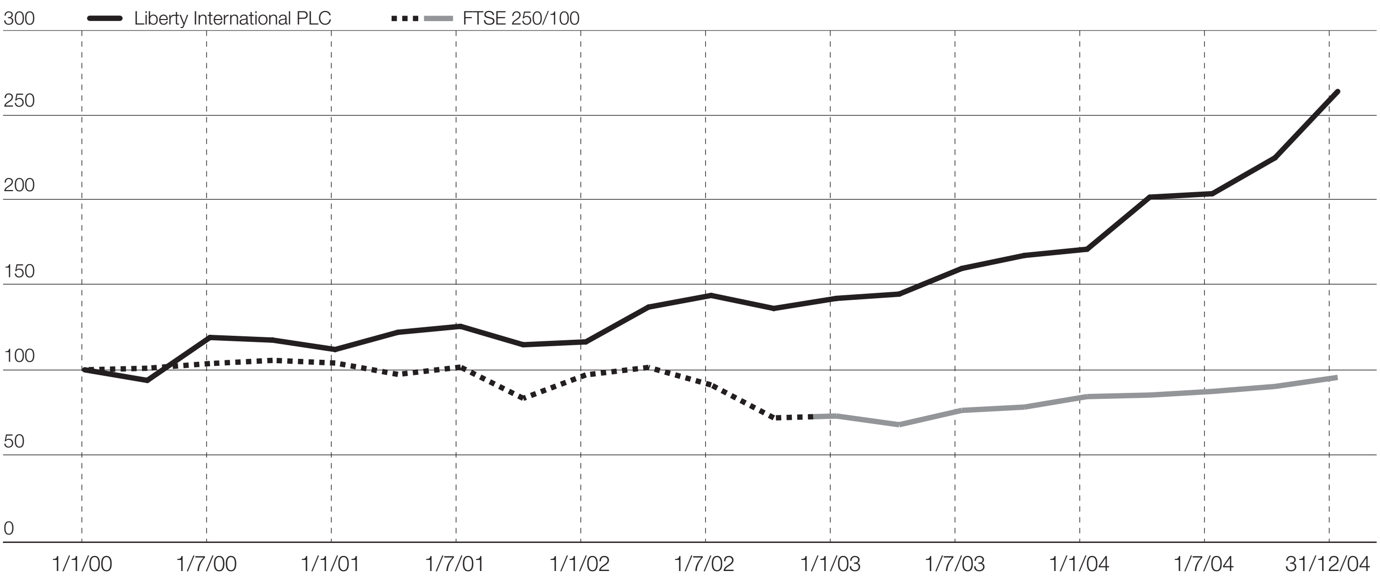
Performance graph
The following graph shows the Total Shareholder Return ("TSR") for Liberty International over the five-year period ended 31 December 2004, compared with our closest comparator group for this purpose, the FTSE Real Estate Index. TSR is defined as share price growth plus reinvested dividends. For additional information, a graph showing the TSR for Liberty International compared with the FTSE250 (for the period from 1 January 2000 to 22 December 2002) and FTSE100 (for the period 23 December 2002 to 31 December 2004) is provided. Liberty International became a constituent of the FTSE100 index on 23 December 2002.

Total Shareholder Return (TSR) for period 1 January 2000 to 31 December 2004



Directors' remuneration report

Total Shareholder Return (TSR) for period 1 January 2000 to 31 December 2004



Directors' emoluments Table 2

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 2004 £	Aggregate emoluments excluding pensions 2003 £
Chairman								
D. Gordon	412,037	27,761		85,000		50,000	574,798	546,880
Executive								
D.A. Fischel	388,550	16,026	229,140				633,716	584,838
J.G. Abel	220,793	15,820	87,750				324,363	305,671
J.I. Saggers	223,350	11,267	52,500				287,117	283,949
A.C. Smith	219,837	16,026	97,145				333,008	305,838
P.C. Badcock (retired 31.03.04)	43,750	3,887					47,637	240,671
F.B. Sher (retired 26.03.03)								51,458
Non-executive								
R.A.M. Baillie (retired 31.3.04)				5,000	6,875		11,875	47,500
D. Bramson				20,000	20,000		40,000	40,000
R.W.T. Buchanan				20,000	26,875		46,875	45,000
D.P.H. Burgess				20,000	30,000		50,000	46,250
G.J. Gordon				20,000	4,583		24,583	20,000
L. James (from 17.5.04)				12,564	2,276		14,840	
D.R. Leslie (retired 31.3.04)				5,000	1,250		6,250	25,000
M. Rapp				20,000	25,000	30,000	75,000	75,000
R. Rowley (from 17.5.04)				12,564	1,942		14,506	
Total	**1,508,317**	**90,787**	**466,535**	**220,128**	**118,801**	**80,000**	**2,484,568**	**2,618,055**

Benefits provided for the Chairman and Executive Directors which are not in cash relate primarily to the provision of a car or car allowance and medical health insurance.

Full details relating to the holding and exercise of share options by Directors are set out in note 35 to the accounts, which is subject to audit.

Bonuses for Executive Directors were declared on 3 February 2005 (under the annual bonus scheme for the year ended 31 December 2004). Part of the bonus entitlement will be taken in cash, part will be awarded in the form of shares under the SIP, and a further part as a conditional award of shares in the company. The SIP shares are held in trust for a period of five years to qualify for tax advantages. The conditional awards comprise "Restricted" shares and "Additional" shares. "Additional" shares are equal to 50 per cent of the Restricted and SIP shares combined. The Restricted and Additional shares will be released respectively two and four years after the date of the award, provided the Director has remained in service.

Mr Baillie was appointed as Senior Adviser to Liberty International on 1 April 2004 and receives a fee for his services, which include services to the Remuneration Committee as described on page 60, of £20,000 per annum.

Directors' remuneration report

Directors' emoluments Table 2 continued
The bonus share awards to the Executive Directors were as follows:

	SIP*	Restricted*	Additional*
D.A. Fischel	316	3,804	2,060
J.G. Abel	–	–	–
J.I. Saggers	316	3,237	1,776
A.C. Smith	316	2,015	1,166

*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 35 on page 47.

Directors' pensions Table 3

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

(a) Disclosures as required by Schedule 7A of the Companies Act 1985

Name	Total pension accrued at 31 December 2004* £ p.a.	Increase in accrued pension over the year† (including inflation) £ p.a.	Transfer value of benefits 1 January 2004 £	Transfer value of benefits 31 December 2004 £	Increase in transfer value over year £	Increase in transfer value over year, less employee contributions† 2004 £	Increase in transfer value over year, less employee contributions† 2003 £
J.G. Abel	142,794	10,536	2,286,897	2,632,412	345,515	339,285	555,869
D.A. Fischel	130,367	11,499	1,029,075	1,360,452	331,377	311,949	341,352
J.I. Saggers	136,611	7,198	1,982,306	2,318,600	336,294	325,126	300,743
A.C. Smith	64,655	7,404	459,662	628,946	169,284	158,292	153,819
P. C. Badcock (retired 31.03.04)	31,009	2,929	494,928	545,640	50,712	13,751	122,932
Total	**505,436**	**39,566**	**6,252,868**	**7,486,050**	**1,233,182**	**1,148,403**	**1,474,715**

*The pension entitlement shown is that which would be paid annually based on service to the end of the year.
†The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less Directors' contributions.

(b) Additional disclosure required under the Listing Rules of the UK Listing Authority

Name	Increase in accrued pension over the year (excluding inflation) £ p.a.	Transfer value of increase (less employee contributions) £
J.G. Abel	6,833	119,213
D.A. Fischel	8,171	65,614
J.I. Saggers	3,574	48,040
A.C. Smith	5,801	45,408
P.C. Badcock (retired 31.03.04)	2,143	35,324
Total	**26,522**	**313,599**

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.

Two disclosures on transfer values are required; one is defined by the Director's Remuneration Report Regulations 2002, which introduced Schedule 7A into the Companies Act 1985. The other is defined by UKLA Listing Rules, derived from the Companies Act 1985.

The Companies Act Schedule 7A disclosure shows the difference between the transfer valuation of each Director's total pension benefit both at the start and at the end of the year. The valuation takes into account, at each such date, the Director's age; certain economic factors and financial market conditions; the basis of calculation applied at that date; and any increase in pension. In some years, the effect of the change in factors used in the calculation can outweigh the actual increase in pension. By contrast, the Listing Rules disclosure is based on the actual increase in pension benefit in the year and states the transfer value of the increase using actuarial factors as at the year end.

R.W.T. Buchanan
Chairman of the Remuneration Committee, on behalf of the Board
9 February 2005

Corporate social responsibility

Introduction
2004 was the second year of Liberty International's three year programme of formalising within our business and decision making processes a comprehensive social, environmental and ethical culture, for the benefit of shareholders and other stakeholders.

During 2004, Liberty International was included in FTSE4Good and the JSE Securities Exchange South Africa Social Responsible Investment Index. The UK investing institution, Morley, has included Liberty International in its category of recommended investment for sustainable funds. The company is also a member of Business in The Community ("BiTC").

Governance
The CSR Committee is chaired by CSC Director, Peter Badcock, and comprises representatives from senior executives from both operating companies, advised by specialist external consultants Casella Stanger. Our CSR strategy includes our exposure to and management of key social, environmental and ethical risks (called SEE risks by some agencies). As part of our current programme, the Committee oversees the progress of CSR related initiatives, the collection of relevant data and the implementation of policies. In 2004, the company has complied with all applicable legislation and has been subject to no sanctions or fines for environmental, health & safety or any other infringements.

Land management
100 per cent of our portfolio has been developed on brownfield land and our existing development programme continues this policy. We continue to focus on the regeneration of existing town and city sites utilising redundant land. CSC develops retail-led mixed-use schemes, which include housing and leisure facitilies as appropriate to respond to the local requirements. We continue to consult widely and comprehensively as part of these development plans to ensure that we select the best options to achieve financially viable and successful regeneration for the benefit of local communities.

Community involvement
Each year, our UK shopping centres welcome over 175 million shoppers, demonstrating the key role that these assets play in lifestyles in the UK. Our shopping centres are a major focal point within their respective communities and we work to foster a strong bond between the two. As well as detailed consultation at the development stages of a project and a programme of ongoing shopper research, our centre management teams maintain close relationships with their local stakeholders and some 5,000 hours were devoted to work in the community in 2004, covering a wide range of local activities including working with schools and community groups. The UK shopping centres provided the equivalent of £490,000 in community support, including sponsorship of local causes, support for Town Centre management and provision of free mall space and services. In addition, charitable donations of £111,750 were made by Liberty International in the UK.

Environment and Life Cycle Assessment
We have always been committed to a responsible and forward-looking approach to environmental issues and this has been reflected in the company's continuing success in the UK property industry. Our approach is embodied in our Environmental Policy, which, together with the associated Environmental Guide, is used in our discussions with our stakeholders and in particular, with our contractors and suppliers. The Environmental Guide, which addresses inter-alia the specification of sustainable materials, and provides an operational check list for our team, has been formally incorporated in our project approval process to ensure that best practice is considered at the design stage of new projects. Buildings are designed to BREEAM standards where appropriate.

Our suppliers range from those providing goods and services to our existing property portfolio and management offices to those supplying materials, goods and services provided for development projects. Where possible, we use suppliers local to our operations. We are undertaking a consultation process with suppliers to our UK shopping centres and will introduce a Procurement Policy in 2005 which will form an integral part of contract tendering procedures.

We continue to work on our programme of reviewing our properties to identify opportunities to improve energy efficiency through proactive management. Although our ability to reduce energy consumption is very much dependent upon external climatic factors, we have nevertheless achieved a modest reduction in energy use. Energy consumption in the UK shopping centres was 104 million kWh (39,995 tonnes of CO_2) during 2004 compared with 105 kWh (40,237 tonnes) of CO_2 in 2003. We are working with the Carbon Trust on a Carbon Management Study and with our energy management system in place, we will start to introduce targets in 2005 and anticipate achieving meaningful energy efficiency gains.

A significant majority of the 15,000 tonnes of waste handled by our UK shopping centres is generated by our retailers and shoppers. During 2004, we have completed a review of the handling of waste in each centre and have set targets for increased segregation and recycling on site in 2005. We would prefer to dispose of waste through "energy from waste" incineration but facilities nationwide are limited and our ability to reduce the amount of residual waste sent to landfill is therefore constrained by the limited alternatives available to us. Notwithstanding, we will continue to strive for further improvements in this important environmental area.

We continue to work to encourage the use of public transport and in 2004, completed the construction of a major Public Transport Interchange at MetroCentre. Our appointed Sustainable Travel Co-ordinator at MetroCentre has been working with local bus companies to increase the number of services to the centre, and is also working to assist the introduction of Travel Plans at our other centres. We provide facilities for cycle users and encourage their use wherever possible.

Health, Safety & Employment
Our employees are central to the success of our business and the delivery of a high quality service for our shoppers and occupiers. We have a comprehensive set of policies that embody our approach to our employees and establish the framework for the high standards of behaviour and values that we expect. The overarching policy: the Business Code of Practice, sets out our approach to ethics; this was published in 2003 and reviewed in 2004 in the light of feedback. The Value of People Policy brings together our key objectives for our employees and how we aim to achieve these objectives and our human resources sub-policies address particular issues including inter alia Equal Opportunities, Whistleblowing, Disciplinary and Grievance procedures. The overall retention rate of our employees remains encouragingly high at 74 per cent (98 per cent of management). Our female employees represent 39 per cent of all employees (31 per cent of management).

Health & Safety is a top priority. In the context of over 175 million customer visits in 2004 to our UK shopping centres and other properties, there were 39 reportable accidents, and four reportable accidents among our 787 employees (2003 – 24 and seven). In 2004, we provided 1,137 training days to staff, including Health & Safety issues.

We are aware of the need to respond to changes in legislation; we believe our properties to be Disability Discrimination Act compliant and, following a comprehensive audit of all our properties, have implemented asbestos management procedures as necessary.

2004 CSR Report
We have published a separate Corporate Social Responsibility Report which has been independently verified. In compiling the Report we have informally applied best practice guidance, including that from the Global Report Initiative (GRI). It contains more information on our Corporate Social Responsibility Programme, including KPIs, our management of CSR in 2004 and details of our plans for 2005.

Copies of the report can be obtained from the Company Secretary and it is available on www.liberty-international.co.uk.

Copies of all corporate policies are also available on the website.

Management structure and advisers

Liberty International PLC

Donald Gordon, Chairman

Executive Directors
David Fischel, Chief Executive
Aidan Smith, Finance Director
John Abel
Richard Cable
Kay Chaldecott
John Saggers

Non-executive Directors

David Bramson	Ian Henderson
Robin Buchanan	Lesley James
Patrick Burgess	Michael Rapp
Sir Robert Finch	Rob Rowley
Graeme Gordon	

Company Secretary
Susan Folger

General Corporate Counsel
Hugh Ford

Registered Office
40 Broadway, London SW1H 0BT
Telephone 020 7960 1200
Facsimile 020 7960 1333

Registered Number
3685527

Website
www.liberty-international.co.uk

Registrars

United Kingdom
Capita Registrars
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU
Telephone 0870 162 3100 (within UK)
+44 20 8639 2157 (outside UK)
Facsimile 020 8639 2342
www.capitaregistrars.com

South Africa
Computershare Investor
Services 2004 (Pty) Ltd
70 Marshall Street,
Johannesburg 2001, South Africa
Postal address:
PO Box 61051
Marshalltown 2107, South Africa
Telephone +27 11 370 5000
Facsimile +27 11 688 5216
www.computershare.com

United States of America – ADR facility
The Bank of New York
Investor Services
PO Box 11258
Church Street Station
New York, NY 10286-1258
Freephone number within USA:
1-888-BNY-ADRS (1-888-269-2377)
Telephone number outside USA:
+1-610-382-7836
Email shareowners@bankofny.com
http://www.stockbny.com

Property Companies

Capital Shopping Centres

John Abel, Managing Director
Peter Badcock, Director
Peter Barton, Executive Director
Richard Cable, Executive Director
Kay Chaldecott, Executive Director

40 Broadway, London SW1H 0BU
Telephone 020 7887 4220
Facsimile 020 7887 4225
www.capital-shopping-centres.co.uk

Group Managers

Property Management	*Development*
Martin Breeden	Rosemary Coles
Caroline Kirby	Robert Danks
Sally Ann Petrie	Martin Ellis
Philip Wardle	Jane McFarland
Centre Management	
David Greenhalgh	

General Managers

Braehead, Renfrew, Glasgow
www.braehead.co.uk
Peter Beagley 0141 885 1441

The Chimes, Uxbridge
www.thechimes.uk.com
Tony Dunn 01895 819400

Eldon Square, Newcastle upon Tyne
www.eldon-square.co.uk
Susan Nicol 0191 261 1891

The Glades, Bromley
www.theglades.uk.com
Steve Chandler 020 8313 9292

The Harlequin, Watford
www.theharlequin.uk.com
Michael Stevens 01923 250292

Lakeside, Thurrock
www.lakeside.uk.com
Mike Pearse 01708 869933

MetroCentre, Gateshead
www.metrocentre.uk.com
Ron Woodman 0191 493 0200

The Potteries, Stoke-on-Trent
www.potteries.uk.com
Barry Turnbull 01782 289822

The Victoria Centre, Nottingham
www.victoriacentre.uk.com
Keith Campbell 0115 912 1111

Chapelfield, Norwich (opening 2005)
www.chapelfield.co.uk
Steve Bunce 01603 764639

Capital & Counties

John Saggers, Managing Director
Bill Black, Executive Director
Gary Marcuccilli, Executive Director

40 Broadway, London SW1H 0BU
Telephone 020 7887 7000
Facsimile 020 7887 0000
www.capitalandcounties.com

Group Managers

Property: Andrew Hicks
Projects: Rob Mathieson

Capital & Counties U.S.A. Inc.

Turner Newton, President
100 The Embarcadero, Suite 200
San Francisco, California, CA 94105 USA
Telephone 001 415 421 5100
Facsimile 001 415 421 6021

Group Treasury and Accounting

Mark Kildea, Treasurer
Kate Bowyer, Group Financial Controller
Simon Atchley, Chief Accountant

Liberty International Asset Management

Robin White, Investment Manager

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Solicitors
Linklaters

Glossary

Annual net rent Total annual rent in payment at 31 December 2004 after deduction of ground rents.

Annual gross ERV or Market rent Estimated Rental Value, effectively the current annual market rent of all lettable space.

Annual net ERV ERV, as above, net of deduction of expected ground rent.

Passing rent Annual rent currently payable under the terms of a lease. Excludes the rental value of vacant space and adjustments in respect of rent free periods and incentives.

Reversion The difference between ERV and passing rent.

Ground rent Rent payable to superior Landlords of leased properties.

Turnover lease Annual rent is partly or wholly linked to annual sales.

Turnover rent Rent payable under a turnover lease, normally comprising minimum or base rent and excess turnover rent.

Option to break Provision in lease allowing either tenant or landlord or both to surrender or take back a lease at a given time.

Base rent Agreed minimum annual rent for turnover leases.

Rent review A lease provision for the annual rent to be reset at agreed intervals, normally every five years.

Equivalent yield The yield assuming all future reversions are reviewed to discounted estimated rental value, assuming rent receivable annually in arrears.

True equivalent yield Leases generally provide for rent to be paid quarterly in advance. True equivalent yield reflects the value attributable to this advance receipt of income.

Designed and produced by Radley Yeldar (London)

www.liberty-international.co.uk

Members of the Liberty International Group

CSC
CAPITAL SHOPPING CENTRES

CAPITAL & COUNTIES