# ASSOCIATED BRITISH PORTS HOLDINGS LIMITED AND SUBSIDIARIES
(Company Number 1612178)

# ANNUAL REPORT AND ACCOUNTS 2007

**Directors:**

| | |
|---|---|
| RJ Adam | (resigned 28 February 2007) |
| F Biro | (appointed 29 November 2007) |
| PJM Bloemen | (appointed 28 March 2007) |
| PLH Camu | |
| CRN Clark | Chairman |
| EH Clarke | (resigned 22 May 2007, alternate to JNS Cooper ) |
| JNS Cooper | (appointed 22 May 2007) |
| TD Ferguson II | |
| PA Jones | (appointed 01 April 2007) |
| GPR Kay | |
| JC Knowlton | (resigned 29 November 2007) |
| BA Lerenius | (resigned 29 November 2007) |
| SB Lilley | (resigned 22 May 2007) |
| DD Morrison | |
| MJ Nobrega | (resigned 10 March 2007) |
| AE Seng | |
| R Walvis | (appointed 02 August 2007) |
| RM Watters | (resigned 23 January 2008) |
| EYK Wong | (resigned 02 August 2007) |
| JM Rolland | (appointed 23 January 2008) |

Secretary

H Rees, FCIS

**Directors' report**

**The directors present their report and the audited accounts of the company and the group for the year ended 31 December 2007.**

## 1. Business description

The pnncipal activities of the group comprise the provision of innovative and high-quality port facilities and related services to ship and cargo owners and other users of seaports in the UK The group also provides value-added transport-related services and generates income from the ownership and development of properties at port locations within the UK The principal activity of the company is as an intermediate holding company

The group owns and operates 21 general cargo ports within the UK In addition, it owns 49 per cent of Southampton Container Terminals, the second largest container terminal in the UK, and 33 per cent of Tilbury Container Services, a deep-sea container terminal located at the Port of Tilbury The group's ultimate parent company is ABP (Jersey) Limited (formerly known as Rose Ports (Jersey) Limited), a company controlled by Borealis International Investments Corporation, GIC Special Investments Pte, Goldman Sachs Infrastructure Fund and Infracapital Lp acting by its manager M&G Investment Management Limited

## 2. Development and performance in 2007

### Group overview

The continued organic growth achieved by our core UK ports and transport business and the increased contribution from our property activities underpinned a strong operating performance from the group's continuing activities during 2007

Group revenue from continuing activities increased by 10 5 per cent to £462 9m (2006 £419 1m) as a result of the growth achieved by the group's ports and transport activities and increased contribution from its property activities Underlying (before exceptional items and increase in fair value of investment properties) operating profit from continuing activities, as set out in table 1, increased by 7 2 per cent to £196 5m (2006 £183 3m) This improvement in underlying operating performance was driven by further growth achieved from the two new riverside terminals at Immingham, which became operational during the second quarter of 2006, and an increased contribution from the group's property activities, which benefited from three significant transactions concluded during 2007 Underlying group earnings before interest, taxation, depreciation and amortisation (EBITDA) from continuing operations grew by 7 2 per cent to £233 0m (2006 £217 3m)

Recurring EBITDA (defined in the group's credit facilities – after including the group's share of EBITDA in associated undertakings and exceptional costs but excluding gross profit from property development activities and profit on sale of property, plant and equipment) increased by 4 9 per cent to £224 1m (2006 £213 7m)

**Table 1**

| **Operating profit by business segment** | **2007 £m** | **2006* £m** | **Change from 2006 %** |
|---|---|---|---|
| Ports & transport | **173.5** | 162 6 | 6 7 |
| Property investment | **2.3** | 4 3 | (46 5) |
| Property development | **20.7** | 16 4 | 26 2 |
| **Underlying operating profit** | **196.5** | 183 3 | 7 2 |
| Increase in fair value of investment properties | **2.9** | 3 3 | (12 1) |
| Less | | | |
| Exceptional items – administrative expenses | **(6.8)** | (39 2) | (82 7) |
| **Group operating profit** | **192.6** | 147 4 | 30 7 |
| | | | |
| **Underlying group EBITDA** | **233.0** | 217 3 | 7 2 |

**Continuing operations*

Net interest payable associated with the group's underlying continuing activities decreased by 19 7 per cent to £31 8m (2006 £39 6m)

The group's share of profit from associated undertakings contributed £10 3m to pre-tax profit (2006 £6 9m)

Underlying pre-tax profit from continuing activities, which excludes the change in fair value of investment properties and exceptional items, increased by 16 2 per cent to £175 0m (2006 £150 6m)

The review of the group's investment property portfolio led to an increase in carrying values of £2 9m (2006 £3 3m) and the group recorded exceptional administrative costs of £6 8m (2006 £39 2m) following the loss of a customer from the Ports of Ipswich and Immingham and in relation to a number of cost reduction initiatives which were implemented across its operations Consequently, pre-tax profit amounted to £171 1m (2006 £49 1m)

The group's underlying tax charge for the year in relation to its continuing activities amounted to £38 1m (2006 £38 2m) and represented an underlying effective tax rate, excluding associates, of 23 1 per cent (2006 26 6 per cent) The exceptional tax credit recognised during 2007 amounted to £2 0m (2006 £17 6m)

A detailed segmental analysis of the group's business is provided in note 2 to the financial statements on page 34 The operating performance of each business segment is discussed in more detail on the following pages

**Ports & transport – UK**

With 21 strategically located ports the group is the largest and leading ports operator in the UK Table 2 sets out the changes in cargoes, international ferry passengers and cruise passengers handled by UK ports for the five years to 31 December 2006*

**Table 2**

| (million tonnes) | 2006 ABP market position | 2006 ABP market share | 2006 ABP | 2006 market | 2005 market | 2004 market | 2003 market | 2002 market |
|---|---|---|---|---|---|---|---|---|
| **Cargoes:** | | | | | | | | |
| **Liquid bulks** | 1 | 21 8% | 54 9 | 252 3 | 265 4 | 269 4 | 262 5 | 273 1 |
| **Dry bulks** | 1 | 31 9% | 45 3 | 141 8 | 134 9 | 122 8 | 124 1 | 115 9 |
| **Containers, roll-on/ roll-off and vehicles** | 2 | 18 1% | 28 8 | 159 3 | 154 7 | 149 9 | 139 7 | 138 9 |
| **Other general cargo** | 1 | 26 7% | 8 1 | 30 3 | 30 7 | 31 0 | 29 4 | 30 4 |
| **Total** | | 23 5% | 137 1 | 583 7 | 585 7 | 573 1 | 555 7 | 558 3 |
| **Change** | | | | *-0 3%* | *2 2%* | *3 1%* | *-0 5%* | *-1 4%* |
| **International ferry passengers (thousands)** | 4 | 6 9% | 1,612 | 23,465 | 23,693 | 25,799 | 26,523 | 28,726 |
| **Change** | | | | *-1 0%* | *-8 2%* | *-2 7%* | *-7 7%* | *3 5%* |
| **International cruise passengers (thousands)** | 1 | 68 1% | 725 | 1,064 | 987 | 807 | 723 | 572 |
| **Change** | | | | *7 8%* | *22 3%* | *11 6%* | *26 4%* | *15 3%* |

**Source DfT Transport Statistics Report Maritime Statistics 2006, being the latest available data on the UK ports market*

As the UK ports and transport business accounts for 86 6 per cent of the group's revenue from continuing activities and 88 3 per cent of continuing underlying operating profit it is very much the key driver of the group's overall performance During 2007, the cargo volumes handled by the group's UK ports increased by 1 8 per cent to 139 6m tonnes (2006 137 1m tonnes) Table 3 provides an analysis of the changes in the group's 2007 UK ports volumes by cargo category compared with 2006

**Table 3**

| **Changes in ABP's UK port volumes Cargo** | **2007 million tonnes** | **2006 million tonnes** | **Change from 2006 %** |
|---|---|---|---|
| Liquid bulks | **56.6** | 54 9 | 3 1 |
| Dry bulks | **44.4** | 45 3 | (2 0) |
| Containers, roll-on/roll-off and vehicles | **30.2** | 28 8 | 4 9 |
| Other general cargo | **8.4** | 8 1 | 3 7 |
| **Total tonnage** | **139.6** | 137 1 | 1 8 |

The overall volume growth of 1 8 per cent for 2007 reflects a variety of developments across the group's many trades Significant developments in individual cargo volumes included the following

- Liquid bulks growth of 3 1 per cent due to increases in chemicals, crude oil and petroleum product volumes
- Dry bulks overall dry bulks volumes decreased by 2 0 per cent Following exceptional growth in coal volumes experienced during 2006, coal import volumes at Hull, Immingham and Newport were below the previous year Aggregates volumes were also below the levels achieved in 2006 These shortfalls were partially mitigated by growth in agribulks, biomass and iron ore volumes
- Containers container traffic increased by 12 3 per cent, with the decline in shortsea volumes being more than compensated for by strong growth in volumes at Southampton
- Roll-on/roll-off units (excluding vehicles) increased by 1 8 per cent mainly as a result of higher volumes at Hull Import / export vehicle volumes increased by 3 8 per cent with reduced volumes at Southampton being more than offset by growth at Grimsby
- Other general cargo was up on the prior year with increased forest product imports handled by the Humber ports and increased steel volumes in South Wales being partially offset by reduced scrap metal volumes

Table 4 provides an analysis of the changes in the group's UK passenger volumes for 2007 compared with 2006

**Table 4**

| **Changes in ABP's UK ports passenger volumes** | **2007 (000s)** | **2006 (000s)** | **Change from 2006 %** |
|---|---|---|---|
| International ferry passengers | **1,534** | 1,612 | (4 8) |
| International cruise passengers | **790** | 725 | 9 0 |
| Domestic cruise and ferry passengers | **304** | 303 | 0 3 |
| **Total** | **2,628** | 2,640 | (0 5) |

The greater part of the group's international ferry passenger volumes relate to the North Sea routes operating from the Port of Hull International ferry volumes at the Port of Hull decreased marginally due to the fact that the 2006 volumes were favourably impacted by the FIFA World Cup in Germany The suspension of the Swansea to Cork ferry service during the first half of 2007 was the main contributor to the 4 8 per cent drop in international ferry passenger volumes

We remain confident about the growth prospects for the international cruise market International cruise passenger volumes in 2007 increased by 9 0 per cent compared to 2006 despite a slight drop in the number of cruise calls at the Port of Southampton, down by 2 0 per cent to 245 in 2007 (2006 250) Domestic cruise and ferry passenger volumes relate mainly to the Troon to Larne (near Belfast) and Fleetwood to Douglas (Isle of Man) services Passenger volumes on both of these routes increased slightly during 2007 compared with 2006

We have achieved consistent growth in the UK ports and transport business by applying a strategy of targeted investment, generating new business by securing long-term contracts with quality customers

**Table 5**

| **Ports & transport – UK** | **2007 £m** | **2006* £m** | **Change from 2006 %** |
|---|---|---|---|
| Revenue | **400.7** | 386 0 | 3 8 |
| Underlying operating profit | **173.5** | 162 6 | 6 7 |

**Continuing operations*

Supported by the 1 8 per cent growth in overall cargo volumes and returns from recent investments, revenue increased by 3 8 per cent to £400 7m (2006 £386 0m) Underlying operating profit grew by 6 7 per cent to £173 5m (2006 £162 6m) The continued growth of this business is underpinned by the long-term contracts that we have in place with a broad mix of customers, many of which are blue-chip multinational organisations

The group continues to focus on developing its core business through investment in existing facilities on the back of customer-supported projects At the Port of Hull, we are continuing to work towards the development of a new short-sea container terminal At the Port of Southampton, we are progressing plans to increase container capacity by 85 per cent to at least 3 7m twenty – foot equivalent units (TEUs) As part of this expansion, the group has announced plans to invest £8 5m in a new multi-storey vehicle terminal, which will help to create additional space for the port's container activities Also at Southampton, we have recently announced plans to invest £19 0m in the development of a new cruise terminal on the back of a 20-year agreement with Carnival At Port Talbot in South Wales, the group has developed plans to expand the capacity of its existing deepwater jetty to facilitate the import of coal and woodchip volumes This £30-40m development is subject to the finalisation of consents and commercial agreements The expanded facility will support the development by Prenergy Power Limited of a recently approved new £400m, 350 MW, renewable energy power plant We are also continuing to evaluate a number of opportunities to support the development of further dry bulk terminals on the Humber

In addition to the progress made with these major strategic investments, we plan to invest £47 9m in a number of new revenue generating projects, most of which are supported by long-term contracts with customers Details of these new contracts are discussed in the review of operations below While these new projects have lead times of up to two years and will only contribute to our results once they become operational, they nevertheless underpin the group's future growth prospects

Significant developments in operating performance of the five business units of the UK ports and transport business are discussed below

**Hull & Goole**

Revenues increased by 3 9 per cent as the impact of reduced coal and liquid bulk volumes was more than offset by growth in paper volumes following the £4 8m expansion of the Finland Terminal completed in 2006 and increased container volumes at Hull

Work continues to be progressed towards the development of a £30-40m shortsea container terminal at the Port of Hull and we remain confident about the long-term commercial prospects for this development

Also at the Port of Hull, £1 3m was invested during 2007 on improvements to rail related infrastructure, and during 2008 the port will invest a further £1 3m in the £14 5m project being undertaken by a joint venture comprised of Network Rail, Yorkshire Forward and Northern Way to upgrade the Hull Docks Branch

At the Port of Goole, we invested £0 5m in a new facility for the storage of paper and forest products This investment is supported by a seven-year extension to the existing contract with RMS Europe

**Grimsby & Immingham**

Revenue rose by 5 5 per cent, driven by increased coal handling revenues at the new Humber International Terminal, the favourable impact of the new riverside roll-on / roll-off facility and growth in import / export vehicle volumes and liquid bulks

At the Port of Immingham we invested £3 2m in a specialist undercover storage facility, which will provide state of the art drying facilities for imported organic grain This facility, developed under a 20-year agreement with Gleadell Agriculture, became operational in January 2008 In addition, we are investing £1 0m in additional storage facilities for dry bulk materials

Also at the Port of Immingham, we completed a £3 7m investment in cranage equipment in support of an agreement with Hargreaves Group, the coal import and distribution specialist In addition, we are investing £6 5m in a package of works to improve the reliability and durability of service provision at the Humber International Terminal This investment is supported by enhanced agreements with EDF and International Power within which both companies have committed to additional trade and an extended term

**Southampton**

Revenue excluding the former ABP Connect activities increased by 7 8 per cent and including these activities decreased by 2 6 per cent At the Port of Southampton, significant growth in container volumes and cruise traffic was partially offset by reductions in roll-on / roll-off traffic Revenue for the lower margin former ABP Connect activities decreased due to the closure of the transport operation last year and a reduction in low margin stevedoring services associated with the roll-on / roll-off volumes

Southampton's container operations continued to benefit from strong growth in throughput, particularly in relation to the UK's trade with the Far East To support forecast future growth for container traffic, the group continued to progress its plans to increase capacity at the port by 85 per cent to at least 3 7m TEUs (twenty foot equivalent units) This strategy focuses on the sustainable development and re-use of existing dock infrastructure, coupled with significant improvements in efficiency through state-of-the-art container-handling technology As part of this project we are investing £8 5m in the development of a further multi-storey vehicle terminal, which will help create additional space for the port's container activities

Cruise operations at Southampton continued to expand with the opening of the City Cruise terminal in April 2007 This £9 8m investment is supported by a new seven-year agreement with Royal Caribbean Cruises Ltd Southampton's status as the UK's premier cruise port is set to be further enhanced by the group's plans to invest £19 0m in a new terminal for Carnival Cruises UK Limited This new investment is supported by a 20-year agreement with Carnival

The Port of Southampton has also invested £2 9m in the expansion and enhancement of rail facilities to support the increasing volumes being handled by EWS Also at Southampton, progress was made on the £4 3m investment in facilities at the bulk terminal, with the purchase of a 100 tonne mobile crane

The group completed a £2 4m expansion of its container storage facility at the Hams Hall Freight depot This investment is supported by a five-year agreement with Kuehne & Nagel

**South Wales Ports**

At our five South Wales ports of Barry, Cardiff, Newport, Port Talbot and Swansea, revenue fell by 3 0 per cent, as lower coal and ferry passenger volumes were only partially mitigated by increased steel imports

The Port of Cardiff is investing £0 9m in the expansion of general cargo storage facilities to provide increased covered storage capacity for steel and timber imports This investment is supported by a new 10-year agreement with Cardiff Stevedores Ltd Also at Cardiff, we are investing £0 6m in the enhancement of timber shed facilities on the back of a 15-year agreement with F W Morgan

The Port of Barry is investing £0 8m in the development of a metals recycling and export facility This investment is supported by a 20-year agreement with Dunn Brothers

At the Port of Newport, the first stage of the £2 3m development of a waste electrical goods recycling depot for Sims Group was completed with £0 4m spent to upgrade the electrical infrastructure Construction of the waste electrical goods depot will commence in 2008

**Shortsea Ports**

Across our 11 shortsea ports, revenue rose by 2 5 per cent as growth in coal, forest products and agribulks was partially offset by reduced aggregates and clay volumes Increased roll-on / roll-off volumes at Fleetwood, were offset by reduced volumes at Ipswich due to the loss of the Ferryways services in the first half of the year

The Port of Ipswich is to invest £0 4m in the provision of bulk handling and storage facilities on the back of a three-year agreement with Kerneos In addition, the port is investing £0 4m in additional facilities for Cemex under a term agreement

The Port of Lowestoft is to invest £0 6m to create a further 46 berths at the Lowestoft Haven marina

**Property investment**

The group's property investment activities consist of income generated from tenants on its port estates who do not make use of its port facilities Our ongoing, albeit slower, pace of disposal of surplus land and property means that the contribution from property investment is subject to a gradual decline

**Table 6**

| Property investment | 2007 £m | 2006* £m | Change from 2006 % |
|---|---|---|---|
| Revenue | **4.3** | 6 5 | (33 8) |
| Operating profit | **2.3** | 4 3 | (46 5) |

**Continuing operations*

As a result of the receipt of a lease surrender premium at the Port of Southampton in 2006, revenue from continuing activities fell by 33 8 per cent to £4 3m (2006 £6 5m) and operating profit from continuing activities fell by 46 5 per cent to £2 3m (2006 £4 3m)

**Property development**

The group's programme of exploiting the potential of non-core property at its ports continued during 2007 The timing and scope of future disposals is now more difficult to predict, particularly given the long-term nature of the group's property projects and the increasingly protracted and complex planning requirements that need to be satisfied prior to a disposal Table 7 provides a summary of the contribution from the group's property development activities

**Table 7**

| **Property development** | **2007 £m** | **2006* £m** | **Change from 2006 %** |
|---|---|---|---|
| Revenue | **57.9** | 26 6 | 117 7 |
| Underlying operating profit | **20.7** | 16 4 | 26 2 |

**Continuing operations*

Revenue from property development activities increased by 117 7 per cent to £57 9m (2006 £26 6m) and operating profit increased by 26 2 per cent to £20 7m (2006 £16 4m)

There were three major contributors to revenue and operating profit from property development

- The sale of 16 acres of land at Rowhedge, Colchester for a total consideration of £5.3m
- The disposal of 27 acres of land at Fleetwood for a consideration of £5 5m
- The sale of 81 acres of land at the Port of Barry, in partnership with the Welsh Assembly Government, for a consideration of £46 8m Under an existing joint venture agreement, 57 7% of the consideration associated with this land is payable to the Welsh Assembly Government

**Associates**

The group's associates comprise a 49 per cent interest in Southampton Container Terminals (SCT) and a 33 per cent interest in Tilbury Container Services (TCS)

Both SCT, which is located at ABP's Port of Southampton, and TCS, at the Port of Tilbury, engage in container-handling activities SCT is the second-largest container terminal operator in the UK and handles a significant percentage of the UK's trade with the Far East

Table 8

| ***Associates*** | **2007 £m** | **2006 £m** | **Change from 2006 %** |
|---|---|---|---|
| Throughput (000s of twenty-foot equivalent units) | **2,343** | 1,928 | 21 5 |
| | | | |
| Group's share of revenue from associates | **72.5** | 60 6 | 19 6 |
| Group's share of underlying operating profit in associates | **14.0** | 10 4 | 34 6 |
| Group's share of net interest income / (costs) in associates | **-** | (0 3) | - |
| Group's share of taxation in associates | **(3.7)** | (3 2) | 15 6 |
| Group's share of profit in associates | **10.3** | 6 9 | 49 3 |

Container throughput at TCS increased by 10 5 per cent to 473,000 units as a result of the new business added on the back of recent capacity expansion Meanwhile, SCT benefited from the commencement of new services by the Grand Alliance and the strong growth in the UK's trade with the Far East and consequently throughput at SCT increased by 24 6 per cent to 1,870,000 units

Driven by this increase in throughput, the group's share of revenue from associated undertakings increased by 19 6 per cent to £72 5m (2006 £60 6m) The group's share of profit from associated undertakings increased by 49 3 per cent to £10 3m (2006 £6 9m)

**Net interest payable**

Net interest payable (excluding exceptional interest costs detailed below) associated with the group's continuing activities decreased by 19 7 per cent or £7 8m to £31 8m (2006 £39 6m)

Year-end net borrowings increased by £8 6m to £529 2m although the group's average net debt in relation to its continuing activities for 2007 of £514 2m was marginally lower than 2006 (£517 4m)

The group's debt is entirely denominated in sterling The Bank of England base rate for 2007 averaged 5 51 per cent (2006 4 64 per cent) The decrease in the group's net interest payable reflects the impact of lower average borrowing costs following the refinancing of its £295m of Eurobonds in November 2006 The group's overall underlying average rate of interest fell to 6 2 per cent (2006 7 8 per cent), and underlying interest cover increased to 6 2 times (2006 4 6 times)

In the prior year, the group incurred additional exceptional interest costs of £65 6m in relation to the refinancing of its existing debt facilities following its acquisition by ABP Acquisitions UK Limited (formerly Admiral Acquisitions UK Limited) These charges comprised £64 5m in relation to the early redemption premium and associated costs paid in respect of the early repayment of the group's £295m of Eurobonds and the write-off of £1 1m of costs which were being amortised over the term of its existing revolving credit facility

**Increase in fair value of investment properties**

A significant proportion of the group's non-current assets are accounted for by its investment property portfolio In accordance with the requirements of IAS 40 – Investment Property, the fair value for this portfolio is reviewed by a qualified surveyor on an annual basis As a result of the review conducted as at 31 December 2007, the group has recorded £2 9m (2006 £3 3m) in its income statement in respect of the increase in fair value of investment properties

**Exceptional items – administrative expenses**

The group incurred exceptional administrative costs of £6 8m following the loss of a customer from the ports of Ipswich and Immingham and in relation to a number of cost reduction initiative, which were implemented across its operations

The exceptional costs recognised in 2006 of £39 2m were incurred in relation to costs associated with ABP Acquisitions UK Limited's purchase of Associated British Ports Holdings PLC (ABPH) under a scheme of arrangement, which became effective on 14 August 2006, following which ABPH converted into a private limited company in November 2006

These costs included £29 8m in relation to professional fees, £5 7m in relation to acceleration of share-based payments charges and £3 7m of other related costs

## Taxation

The underlying tax charge in relation to the group's continuing activities for the year of £38 1m (2006 £38 2m) equates to an underlying effective tax rate of 23 1 per cent and is lower than the 26 6 per cent underlying effective tax rate for 2006 This rate is below the standard rate of tax of 30 0 per cent for the UK because the charge for the year benefited from the impact of the forthcoming reduction in the UK corporation tax rate to 28 per cent on the group's deferred tax liability and because the group benefits from the utilisation of brought-forward capital losses against its UK property sales The group's share of taxation of associated undertakings reported within its share of profits from associated undertakings amounted to £3 7m (2006 £3 2m)

The exceptional tax credit recognised in relation to the exceptional items discussed above amounted to £2 0m (2006 £17 6m)

## Discontinued operations

In the prior year, on 25 May 2006, the group announced the disposal of its entire USA operations, AMPORTS Inc , to an affiliate of Lincolnshire Equity Fund III, L P , for a consideration of US$107 8m (£57 2m), comprising US$100m (£53 1m) in cash together with US$7 8m (£4 1m) relating to the assumption of certain finance leases by the purchaser AMPORTS' profit after tax during the period to 24 May 2006 amounted to £0 8m and the group generated a post-tax gain of £7 5m in relation to this transaction

## Dividends and share repurchases

During 2007 the company paid no dividend to its parent undertaking, ABP Acquisitions UK Limited

In the prior year, on 28 April 2006, the company paid a final dividend of 9 75 pence per share in respect of its financial year ended 31 December 2005 On 13 September and 20 October 2006 the company paid interim dividends totalling £17 6m to ABP Acquisitions UK limited No final dividend for the year ended 31 December 2006 was paid

During 2007, the company did not repurchase any of its own shares

During 2006, the company repurchased and subsequently cancelled 0 6m ordinary shares of 25 pence each, or 0 2 per cent of the capital at 31 December 2005 These shares were purchased as part of the group's £205m share repurchase programme announced in 2004 The total cost of £3 6m, including costs was charged to retained earnings The group's share repurchase programme was terminated following its acquisition by ABP Acquisitions UK Limited

## Return on capital employed

A key part of the group's strategy is to improve the return on capital employed by growing operating profit, maintaining a disciplined approach to capital expenditure and disposing of non-core assets

The 12 5 per cent underlying return on capital employed that the group achieved in 2007 represents an improvement of 0 6 percentage points on the previous year This increase in the group's return on capital employed was driven by the growth achieved by the ports and transport division and the increased contribution from property activities Given the significant progress to date, future improvements in the return on capital employed are expected to be modest Nonetheless, the group remains committed to this approach going forward

**Cash flow**

The group's business model generates strong operating cash flow The group continued to closely monitor and manage its working capital commitments Cash generated from continuing operations totalled £76 0m for the year, compared to £188 7m in 2006 The decrease in comparison to the prior year is attributable to the loans which the group made to its parent company during 2007

Given the group's commitment to growing the business through investment in its operations, capital expenditure represents the most significant use of its cash flow Gross capital expenditure associated with the group's continuing activities decreased to £53 0m (2006 £68 4m), primarily as a result of the completion of the two Humber projects in 2006

There are two elements to the group's capital expenditure maintenance or infrastructure expenditure and revenue-earning capital projects Maintenance expenditure during 2007 was once again below the level of depreciation and the group aims to maintain this performance in 2008 By contrast, the only restriction the group places on revenue-earning capital projects is that they earn an internal rate of return on investment of at least 15 per cent The group does not intend to enter into any major speculative investments

Revenue-earning capital expenditure amounted to £30 3m (2006 £43 4m) Revenue-earning capital expenditure incurred during 2007 included £6 1m on the expansion and enhancement of City Cruise Terminal at Southampton, £1 8m of additional expenditure on the enhancement of cranage at the Humber International Terminal at Immingham, £3 2m on the development of a new grain storage facility at Immingham, £4 3m of additional expenditure for a package of works to improve the reliability and durability of service provision at the Humber International Terminal at Immingham and £2 1m on the Hams Hall freight terminal

## 3. Financial position

### Balance sheet

The group's balance sheet position as at 31 December 2007 is summarised in table 9 below

**Table 9**

| | 2007 £m | 2006 £m | Change % |
|---|---|---|---|
| Property, plant and equipment | **895.2** | 909.5 | (1.6) |
| Port-related investment property | **580.2** | 534.4 | 8.6 |
| Other property assets | **54.7** | 55.2 | (0.9) |
| | **1,530.1** | 1,499.1 | 2.1 |
| Investment in associates | **56.7** | 46.5 | 21.9 |
| Property developments and land held for sale | **3.9** | 10.2 | (61.8) |
| Net retirement benefit asset | **72.0** | 29.0 | 148.3 |
| Deferred tax liabilities | **(90.9)** | (85.8) | 5.9 |
| Other | **145.2** | 27.9 | 420.4 |
| | **1,717.0** | 1,526.9 | 12.5 |
| Net borrowings | **(529.2)** | (520.6) | 1.7 |
| Net assets | **1,187.8** | 1,006.3 | 18.0 |

*Property, plant and equipment, port-related investment property and other property assets*
The group owns and operates 21 ports around the UK. Consequently, a majority of its capital is invested in port infrastructure and investment property located at its port facilities. Fair values for the group's investment property portfolio are reviewed annually, while property plant and equipment is carried in the balance sheet at cost or previous balance sheet valuation if transferred from another category. During 2007, the group's capital invested in property, plant and equipment decreased by £14.3m, with the impact of additions made more than offset by depreciation. The increase of £45.3m in its port-related investment property and other property assets included a total increase of £17.0m which resulted from the review of fair values conducted as at 31 December 2007, net additions of £5.3m and net transfers from other categories of £23.0m

*Retirement benefits*
The group's major retirement benefits scheme is a defined benefits scheme – the Associated British Ports Group Pension Scheme. The defined benefits section of this scheme was closed to new members in April 2002. The group accounts for retirement benefits in accordance with IAS 19 – Employee Benefits. During 2007, in relation to this scheme, the group recorded £8.4m for current service cost and recognised net finance income of £8.6m within its operating profit. As a result of the actuarial assumptions not having been borne out during 2007, the group also recognised an actuarial gain of £41.3m (2006: £27.3m) within its group statement of total recognised income and expense. This gain arose due to the improvement in funding position associated with a 70 basis point increase in the discount rate applied of £35.5m and an experience gain of £11.8m in respect of changes to membership being partially offset by the loss of £6.0m resulting from worse than expected returns on the scheme's assets. Full details of all of the group's retirement benefit plans are provided in note 15

*Net borrowings and gearing*
Net borrowings comprise £560.0m of balances outstanding under the £910.0m of facilities available to the group under ABP Acquisitions UK Limited's £2,370.0m senior credit facility, £1.8m of obligations under finance leases, £0.9m of bank overdrafts and £33.5m of net cash after deducting interest accruals of £1.3m. Net borrowings increased by £8.6m to £529.2m (2006: £520.6m). The increase in group borrowings is primarily attributable to loans made to its parent company, ABP Acquisitions UK Limited, being in excess of cash generated from its operations

*Changes in net assets*
Net assets increased by £181 5m to £1,187 8m The increase in shareholders' funds comprises

- Increase of £135 0m in respect of the profit for the year
- Increase of £30 4m due to net actuarial gains recognised in relation to the group's pension scheme
- Increase of £13 0m in relation to property revaluation gains recognised in equity
- Increase of £1 6m due to issue of shares
- Increase of £0 7m in relation to fair value gain on forward foreign exchange contract
- Increase of £0 8m due to net actuarial gain recognised in an associates pension scheme

**Accounting standards and policies**

The group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

**Critical accounting policies, estimates and judgements**

As the group is an infrastructure-based provider of services, property, plant and equipment assets such as operational land, buildings, dock structures, quays and dredgers, floating craft and plant and equipment represent a significant proportion of its balance sheet The depreciation charge applied to these assets affects both their carrying value and the group's income statement The group determines depreciation rates by reference to engineering assessments of the useful economic lifespan of each asset It considers the current rates to be consistent with normal practice and appropriate within the context of its past experience

The group's investment property portfolio is its second largest asset by value The group's policy is to undertake internal valuations annually and independent external valuations at least once every five years The portfolio was valued at £634 9m (2006 £589 6m) as at 31 December 2007 by the group's internal surveyors

A full actuarial valuation of the group's main defined benefit pension scheme was last carried out as at 31 December 2006 As at 31 December 2007, the group's actuary reviewed the valuation of this scheme in accordance with the requirements of IAS 19 – Employee Benefits Under IAS 19, this scheme had a surplus of assets over liabilities of £74 8m at the end of 2007 Valuations of retirement benefit schemes require an element of judgement in terms of the assumptions applied, although the directors have taken advice from the scheme actuary on the determination of these assumptions, there can be no certainty that these will be borne out in the future

The group provides for deferred tax liabilities in respect of all temporary differences in accordance with the requirements of IAS 12 – Income Taxes The group also continues to benefit from capital losses brought forward from previous years The potential deferred tax asset that may be recognised in relation to these losses is recognised to the extent that it is probable that future taxable profit will be available to facilitate the realisation of such an asset

Revenue comprises the amounts receivable in respect of ports and transport services provided to third parties, income from investment properties and sales of property developments excluding related sales taxes Revenue and profit, in relation to the provision of ports and transport services and income from investment property, are recognised in line with the provision of the service Revenue and profits or losses arising on the sale of sites or completed developments are recognised when contracts for sale have been exchanged and when all material conditions have been satisfied The timing of revenue recognition in relation to property sales during the year has required judgement to be exercised in particular with regard to the timing of the transfer of the significant risks and rewards of ownership of property to the purchaser, the level of continuing managerial involvement and control exercised by the group and the expected timing of cash flows

**Treasury policies and liquidity**

The group's main financial risks are liquidity, interest rate movements, and credit risk The group's treasury polices and financial risks are managed by ABP Acquisitions UK Limited, its immediate parent company The group does not trade in financial instruments For further details see page 33

## 4. Strategy update

The UK ports and transport operations continue to be the main focus of the group's activities

Our strategy is to invest in long-term projects supported by quality customers that can generate internal rates of return of 15 per cent In addition, we continue to monitor maintenance capital expenditure with a view to keeping this below our annual depreciation charge

Having successfully completed £87 0m of investment in two major new facilities at the Port of Immingham in 2006 – the Humber International Terminal Phase 2 and the Outer Harbour roll-on / roll-off terminal - the group is continuing to progress a number of major developments, which will underpin its growth during the coming years Strategic investment projects currently in progress include

The development of a riverside container terminal to accommodate the continuing strong growth of shortsea container volumes at the Port of Hull

Current and projected future growth in container traffic also underpins the Port of Southampton's plans to expand container capacity by 85 per cent to at least 3 7m TEUs The increased capacity is forecast to become operational on a phased basis over the next five years

Also at Southampton, the group is planning to invest £19m in the development of a new cruise terminal, which will enable the Port to continue to handle the largest cruise liners sailing in European waters

The group has developed plans to expand the capacity of its existing deepwater jetty at Port Talbot to facilitate the import of coal and woodchip volumes This £30-40m development, which is subject to the finalisation of consents and commercial agreements, will provide an import facility for a new biomass power station recently consented for development within the Port estate

The group is also evaluating the potential for the construction of further riverside dry bulk terminals on the Humber, where the availability of land alongside deep water fulfils two of the key requisites for the development of new electricity generation capacity

As always, we continue to talk to all of our customers at every level to ensure that our facilities are developed to serve their growing requirements Organic growth contributed by investment in a whole range of customer-related projects remains an important driver of the group's underlying growth prospects

## 5. Risks and uncertainties

The successful execution of the group's strategy and the attainment of its objectives are contingent upon the effective management of risks and uncertainties that could affect its business activities The group's risk management activities are undertaken by a risk management working group that is responsible for formalising its risk objectives and policies, the identification of the major risks it faces and the implementation of risk management processes The risk management working group reports its findings to the audit committee The group has in place embedded risk management processes, which aim to address the significance of any potential social, environmental and ethical issues that could have an impact on the group's short- and long-term objectives These processes also enable the board to receive information on all significant risks and facilitate the formulation of effective responses on a timely basis

Some of the group's more significant risks, together with details on its monitoring procedures and performance indicators, are discussed below

*Management of health and safety performance*

The nature of the group's business means that the health and safety of its employees and other persons involved in its operations is a continuous risk Ineffective management of health and safety matters can lead to serious injury, damage to infrastructure and can have social and financial ramifications Further, the group is legally obliged to implement safe systems of work in the conduct of its operations

The group manages this risk through the enforcement of rigorous policies and procedures that are backed by a strong commitment from the board and designed to achieve continuous improvement Components of the group's health and safety risk management systems include the clear allocation of management responsibility at group and business unit level, strict enforcement and independent review and monitoring of policies and procedures, well-developed policies and targets on training and education, clear procedures for dealing with contractors and monitoring and reporting of health and safety performance Further details on the group's development of its health and safety performance and initiatives during 2007 will be included in the group's annual Corporate Social Responsibility (CSR) report, which is due to be published in April 2008 Progress against the group's primary performance indicators is detailed in table 10 below

**Table 10**

| | **2007** | **2006** | **Change %** |
|---|---|---|---|
| Fatal accidents to employees / contractors* | **1** | - | 100 0 |
| Reportable injuries per thousand employees | **8.3** | 5 3 | 56 6 |
| Percentage of employees provided with accredited training | **93.0** | 87 0 | 6 9 |

**To avoid duplication, the group is not required to report fatalities at ports that do not involve its employees*

Fatalities are the worst thing that can happen in our business and we naturally do everything we can to prevent them During 2007, the group suffered one fatality involving an employee at the Port of Ipswich and this incident is currently the subject of an investigation by the Health and Safety Executive The group's incidence rate for reportable injuries of 8 3 per thousand employees disappointingly fell short of our target set at the beginning of the year of 7 0 or less per thousand employees and was higher than the level achieved in 2006 The group has reviewed its 2007 performance in detail and the majority of the incidents continued to involve slips, trips or falls The group continues to place great emphasis on improving its heath and safety record

The group continues to provide appropriate accredited health and safety training to all of its employees At the end of 2007, the percentage of UK employees provided with accredited training was 93 0 per cent (2006 87 0 per cent), against a long-term target of 95 0 per cent Every employee within the group's businesses continues to be set the objective of improving health and safety performance

*Management of environmental matters*

The group's UK port estates comprise over 12,000 acres of sea-bed and land The group's obligations in relation to environmental stewardship are a significant risk In operating its business to meet the demands of the country's trade, the group has in place policies and procedures that are designed to ensure that its activities are conducted with due regard for their potential impact on the environment The group's environment management team has developed and implemented a management framework to ensure that environmental aspects relevant to our business are identified, assessed and managed appropriately Further details on the group's management of environmental matters will be detailed in its 2007 CSR report Table 11 below provides details of the group's progress during 2007 against its more significant environmental indicators

**Table 11**

| | 2007 | 2006^ | Change % |
|---|---|---|---|
| CO2 emissions (tonnes)* | **79,730** | 81,351 | (2 0) |
| Electricity consumption (million kWh)* | **81.4** | 81 6 | (0 2) |
| Water consumption (million litres)* | **1,487.9** | 1 375 7 | 8 2 |

**The group's target for CO2 emissions, electricity consumption and water consumption was to maintain these at 2006 levels on a like-for-like basis compared with revenue*
*^Continuing operations*

The group sets targets on resource consumption in order to increase the efficiency of its operations and to minimise their impact on the environment The group continued to implement a range of initiatives to improve resource efficiency and its 2007 performance on resource consumption in respect of CO2 emissions and electricity consumption was ahead of its target on a like-for-like basis, whilst water consumption increased as a result of a full year's operations at our HIT2 terminal at the Port of Immingham In addition, the environment team made good progress on a range of initiatives against which we had set targets at the beginning of 2007, further details of which will be provided in the CSR report

*Management of social and community issues*

The group remains committed to ensuring that its business units are a positive influence on their local communities Social and community matters are managed proactively on a business unit and corporate basis All major developments are subject to a detailed social impact analysis and community integration remains a key priority for all business units The group's social and community initiatives are focused on education, charities, arts sponsorship, civic organisations and local partnerships and the provision of free access to its facilities where practical and appropriate The group assesses its performance by reference to participation in external indices and, in addition, the group targets to increase its contribution to social and community-related initiatives by at least the change in RPI each year Table 12 below provides details of the group's 2007 performance in relation to social and community matters

**Table 12**

| | 2007 | 2006 | Change % |
|---|---|---|---|
| Total cash and in-kind contributions (percentage of pre-tax profit) | **£361,000** | £342,000 | 5 6 |
| Ranking in BiTC Corporate Responsibility Index | **Silver award** | Joint 70th | n/a |

Further details on social and community related initiatives and investment will be included in the group's 2007 CSR report

*Impact from competitor activities*

All of the group's ports and terminals are subject to competition from facilities operated under a variety of ownership structures The group maintains regular dialogue with its current and potential customers and aims to further mitigate this risk by building long-term contractual relationships with its key customers and developing facilities and services to meet their requirements In 2007, the group entered into a number of significant new revenue earning agreements, which will involve an investment of £47 9m by the group

*Availability of planning approvals for future developments*

The success of the group's future strategy of developing its core ports and transport business through organic investment is partly dependent upon the availability of appropriate planning approvals Although the group has been successful in obtaining a number of planning approvals for major developments, as a result of the complexity of the process and the legislation governing planning approvals there is no certainty as to the costs and timeframes attached to the availability of future approvals Multi-disciplinary project teams and the senior management team closely manage all planning applications

*Potential impacts from terrorist incident or other accidents*

Acts of terrorism, natural disasters and accidents all have the potential to limit the group's ability to operate In addition to detailed contingency planning that has been implemented across all of its operating locations, the group mitigates these risks by investing in security policies, procedures and resources

*Other key operating risks*

**Trade volumes**
While over 50 per cent of the group's UK ports business over the next year is secured by customer contracts, significant changes in volumes handled by the UK ports could impact operating performance Overall, volume changes are broadly linked to changes in the UK's Gross Domestic Product, although this does not necessarily hold true at individual cargo level

**Operating costs**
Increases in overall costs that the group is unable to pass on to its customers can be expected to impact its future financial performance During the year, the group has continued to work with its advisors and the UK valuation office to ensure that increased costs associated with the proposed changes to the local authority business rating regime applicable to UK ports are minimised These changes are being implemented on a phased basis and will lead to an increase in the group's cost base in the short term The group intends to recover these increased costs from its customers where possible Increases in the group's other significant costs such as employment costs and utilities, unless effectively managed, could also impact on its future operating performance

The valuation of the group's pension scheme and ongoing service costs attached to the provision of retirement benefits can vary depending on market conditions Although the group's pension scheme remains relatively well funded, it has the potential to impact the group's future cash flow and cost base depending on changes in market conditions

The group also makes contributions to three industry-wide defined benefit schemes, which have various funding levels The group's ability to control these schemes is limited and therefore the impact on the group's future cash flow and cost base from these schemes is uncertain

**Capital expenditure projects**
The group completed its first two riverside terminals on the Humber on schedule during 2006 and these facilities have underpinned the growth achieved by the group's ports and transport business during 2007 Looking ahead, the efficient management of the group's projected capital expenditure will impact on the value the group is able to deliver to its stakeholders in the medium and long term

## 6. Resources and key relationships

The group's core ports and transport business generated 86 6 per cent of group revenue and 88 3 per cent of underlying group operating profit during 2007 The group's prospects and its ability to deliver returns to shareholders are therefore closely linked to the performance of its ports and transport business The group believes that its core business benefits from many characteristics that position it to deliver sustainable future returns Key resources and relationships that could influence the group's future performance are discussed below

### *Employee relations and human capital management*

During 2007 we employed 2,423 people within our businesses As an infrastructure-based provider of services, the success of our business is dependent on our employees, who have a direct impact on the delivery of our services to our customers as well as on the efficient running of our operations The quality and effectiveness of the management of our people is therefore critical to the attainment of our business objectives Further, industrial action by the group's employees can affect its ability to provide facilities and services to its customers The group is committed to the development of its employees and manages industrial relations by maintaining an ongoing dialogue and constructive relationships with employees, and where appropriate, their representatives

Components of our personnel resources strategy include commitments to the highest possible standards of health and safety, equal opportunities, employee development, clear and fair terms of employment, access to information, provision of market-competitive salaries and benefits, as well as the maintenance of effective relationships with unions and contractors The group monitors a range of indicators to assist it with the management of its employees Table 13 below sets out the group's performance in relation to the management of its employees during 2007

**Table 13**

| | **2007** | **2006** | **Change %** |
|---|---|---|---|
| Sickness and absenteeism rate | **3.4%**<br>**7.7 days per employee** | 2 9%<br>6 6 days per employee | n/a |
| Annual appointments as a percentage of headcount | **11.0%** | 10 1% | 8 9 |
| Annual leavers as a percentage of headcount | **15.9%** | 12 2% | 30 3 |
| Annual compulsory redundancies as a percentage of headcount | **3.0%** | 0 7% | 328 6 |
| Female employees as a percentage of headcount | **10.7%** | 10 8% | (0 9) |

The group's objective is to monitor and benchmark the above data to ensure that it is in line with industry norms for each business unit, exceptions are identified and addressed through the implementation of specific initiatives to promote best practice and improve performance The group also monitors the ethnic diversity of its employees and is committed to ensuring that all segments of its communities have the opportunity to participate in and contribute towards the success of its business Further details on the group's employee development initiatives will be reported in its annual CSR Report, due to be published in April 2008 We intend to continue the development of our people during 2008 and beyond

The group is committed to giving full and fair consideration to applicants for employment who are disabled If an employee becomes disabled during their employment, the group makes every effort to ensure that, wherever possible, the person can either continue in their present role or retrain for a different role

**Contracted revenue streams**

In order to ensure that it is able to earn an appropriate return on capital invested in customer-driven schemes, the group enters into long-term agreements that normally include minimum annual revenue commitments from customers These agreements not only enable the group to invest in the development of infrastructure to provide its customers with security over the availability of facilities, but also provide the group with secure and predictable future revenues As at the end of 2007, over 50 per cent of revenues budgeted for the group's UK ports business are expected to be earned from customer agreements

**Market leading and diversified core business**

The group's 21 ports located around the UK mean that its core business is the number one operator within its market by a considerable margin The size and spread of its UK ports portfolio also means that the group's core business is highly diversified in terms of the variety of cargoes handled and the origination and destination markets for its cargoes This diversification further contributes towards the stability of the group's revenues

**Customers and suppliers**

Like all businesses the group's future success is dependent upon the maintenance and development of its relations with current and potential customers The group works closely with its customers to develop new facilities and services to meet their requirements and senior management manages key customer relations at both corporate and business unit level The group is investing £47 9m in new revenue earning projects approved during 2007

The effective and efficient sourcing of both operating and capital expenditure is an important driver of our business performance The group aims to agree terms and conditions before business takes place and to settle amounts due to its suppliers in line with the terms agreed

At year-end, the group owed the equivalent of 26 days of purchases (2006 29 days) to trade creditors, based on average daily amount invoiced by suppliers during the year

**Robust internal control and risk management systems**

Through its audit committee, the group maintains a system of internal controls to identify, evaluate and manage the significant risks it faces in order to safeguard its assets and to minimise the risk of fraud and errors

**Other stakeholder relations**

Good relations with its stakeholders are critical to the successful future development of the group's business The group places a great deal of emphasis on maintaining regular dialogue with and on the communication of its performance to all stakeholders The group publishes annual CSR reports that detail its performance to its wider stakeholder audience The group endeavours to ensure that its communications with stakeholders are informative, relevant and meet the highest standards of transparency

## 7. Other statutory information

### Directors and their interests

No director had any beneficial, including family interests in the shares of the company during the year or at the year end

During the year ended 31 December 2007, no options over shares in the company were awarded to any director Messrs RJ Adam, BA Lerenius and DD Morrison were granted options over 47,520, 73,002 and 20,110 shares in the company, respectively, on 26 April 2006 These options were exercisable at 726 pence each

During the year ended 31 December 2007, no shares were awarded to any directors In the prior year, messrs RJ Adam, BA Lerenius and DD Morrison were awarded 47,520, 73,002 and 20,110 shares, respectively on 26 April 2006 under the group's Performance Share Plan

During the year ended 31 December 2007, no options were exercised During the prior year, the number of options over shares exercised by messrs RJ Adam, BA Lerenius and DD Morrison were 311,942, 480,783 and 111,710 respectively

No director has, or had at any time during the year, held a material interest in any contract or arrangement of significance to which any group undertaking was or is a party

### Charitable and political donations

The group donated £91,000 (2006 £91,000) to charities during the year It did not make any contributions for political purposes (2006 nil)

### Auditors

Each director has taken the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information So far as each director is aware, there is no information of which the company's auditors are unaware

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors of the company Resolutions will be put to the AGM proposing their reappointment as auditors and authorising the directors to set their remuneration

By Order of the Board

**Hywel Rees FCIS**
**Company Secretary**
**150 Holborn**
**London EC1N 2LR**
**Registered in England No. 1612178**
**20 February 2008**

## Statement of directors' responsibilities in respect of the preparation of financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial statements are required by law to 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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRSs as adopted by the European Union,
- 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 that 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 also 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

By Order of the Board

**Hywel Rees FCIS**
**Company Secretary**
**150 Holborn**
**London EC1N 2LR**
**Registered in England No. 1612178**
**20 February 2008**

## Independent Auditors' Report to the Member of Associated British Ports Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of Associated British Ports Holdings Limited for the year ended 31 December 2007 which comprise the group income statement, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of recognised income and expense and the related notes These financial statements have been prepared under the accounting policies set out therein

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's member 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 into 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 have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements The other information comprises only the directors' report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

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

**Opinion**

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of the group's profit and cash flows for the year then ended,

- the parent company financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007 and of the parent company's cash flows for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
**London**
26 **February 2008**

## Group income statement for the year ended 31 December

| | Note | 2007 £m | 2006 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| **Group revenue** | 2 | **462.9** | 419 1 |
| Cost of sales | | **(214.8)** | (179 8) |
| **Gross profit** | | **248.1** | 239 3 |
| Administrative expenses | 3 | **(58.4)** | (95 2) |
| Increase in fair value of investment properties | 13 | **2.9** | 3 3 |
| **Group operating profit** | 2 | **192.6** | 147 4 |
| Analysed between | | | |
| Group operating profit before increase in fair value of investment properties and exceptional items | | **196.5** | 183 3 |
| Increase in fair value of investment properties | 13 | **2.9** | 3 3 |
| Exceptional items - administrative expenses | 3 | **(6.8)** | (39 2) |
| Interest payable and similar charges | 4 | **(40.9)** | (106 7) |
| Analysed between | | | |
| Interest payable and similar charges before exceptional items | 4 | **(40.9)** | (41 1) |
| Exceptional items - interest payable and similar charges | 3,4 | **-** | (65 6) |
| Interest receivable and similar income | 4 | **9.1** | 1 5 |
| Share of profit in associated undertakings | 14 | **10.3** | 6 9 |
| **Profit before taxation** | 2,5 | **171.1** | 49 1 |
| Analysed between | | | |
| Profit before taxation before increase in fair value of investment properties and exceptional items | | **175.0** | 150 6 |
| Increase in fair value of investment properties | 13 | **2.9** | 3 3 |
| Exceptional items - administrative expenses and interest payable and similar charges | 3 | **(6.8)** | (104 8) |
| Taxation | 7 | **(36.1)** | (20 6) |
| **Profit for the year from continuing operations** | | **135.0** | 28 5 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 8 | **-** | 8 3 |
| Analysed between | | | |
| Profit from discontinued operations | 8 | **-** | 0 8 |
| Profit on disposal of discontinued operations | 8 | **-** | 7 5 |
| **Profit attributable to equity shareholder** | 26 | **135.0** | 36 8 |

The company has not presented its own income statement as permitted by Section 230 of the Companies Act 1985 The parent company's profit attributable to the equity shareholder amounted to £160 2 m (2006 loss of £71 1m)

## Balance sheets as at 31 December

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | Note | £m | £m | £m | £m |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 10 | **14.5** | 14.5 | - | - |
| Intangible assets | 11 | **0.7** | 0.7 | - | - |
| Property, plant and equipment | 12 | **895.2** | 909.5 | - | - |
| Investment property | 13 | **634.9** | 589.6 | - | - |
| Investments | 14 | **56.7** | 46.5 | **151.5** | 150.9 |
| Retirement benefit assets | 15 | **74.8** | 31.9 | - | - |
| Derivative financial instruments | 20 | **0.3** | - | - | - |
| Trade and other receivables | 16 | **32.7** | 1.5 | - | - |
| Deferred tax asset | 23 | - | - | **0.9** | - |
| | | **1,709.8** | 1,594.2 | **152.4** | 150.9 |
| **Current assets** | | | | | |
| Property developments and land held for sale | 17 | **3.9** | 10.2 | - | - |
| Derivative financial instruments | 20 | **0.4** | - | - | - |
| Trade and other receivables | 16 | **187.9** | 86.8 | **814.4** | 658.2 |
| Cash | 18 | **34.8** | 43.1 | - | - |
| | | **227.0** | 140.1 | **814.4** | 658.2 |
| **Total assets** | | **1,936.8** | 1,734.3 | **966.8** | 809.1 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Financial liabilities - borrowings | 19 | **(2.4)** | (1.9) | **(1.0)** | (1.0) |
| Trade and other payables | 21 | **(50.4)** | (48.5) | **(2.5)** | (6.0) |
| Current tax liabilities | | **(3.1)** | (10.5) | - | - |
| Provisions | 22 | **(9.4)** | (8.8) | - | - |
| | | **(65.3)** | (69.7) | **(3.5)** | (7.0) |
| **Non-current liabilities** | | | | | |
| Financial liabilities - borrowings | 19 | **(561.6)** | (561.8) | **(560.0)** | (560.0) |
| Retirement benefit obligations | 15 | **(2.8)** | (2.9) | - | - |
| Deferred tax liabilities | 23 | **(90.9)** | (85.8) | - | - |
| Provisions | 22 | **(9.6)** | (7.8) | - | - |
| Other non-current liabilities | 24 | **(18.8)** | - | - | - |
| | | **(683.7)** | (658.3) | **(560.0)** | (560.0) |
| **Total liabilities** | | **(749.0)** | (728.0) | **(563.5)** | (567.0) |
| **Net assets** | | **1,187.8** | 1,006.3 | **403.3** | 242.1 |
| **Shareholder's equity** | | | | | |
| Share capital | 25 | **77.1** | 77.0 | **77.1** | 77.0 |
| Share premium account | 26 | **125.5** | 124.0 | **125.5** | 124.0 |
| Revaluation reserve | 26 | **704.7** | 688.2 | - | - |
| Other reserves | 26 | **48.5** | 47.8 | **39.7** | 40.3 |
| Retained earnings | 26 | **232.0** | 69.3 | **161.0** | 0.8 |
| **Total shareholder's equity** | | **1,187.8** | 1,006.3 | **403.3** | 242.1 |

The financial statements on pages 25 to 71 were approved by the board of directors on 20 February 2008

**George Kay**
**Director**

**Cash flow statements for the year ended 31 December**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| **Continuing operations** | | | | | |
| **Cash flows from operating activities** | | | | | |
| Cash generated from / (absorbed by) operations | 27 | **76.0** | 188 7 | **(162.5)** | 119 0 |
| Interest paid | | **(35.9)** | (110 7) | **-** | (111 0) |
| Interest received | | **4.0** | 1 0 | **13.9** | 0 3 |
| Taxation paid | | **(2.4)** | (19 3) | **-** | - |
| **Net cash from operating activities** | | **41.7** | 59 7 | **(148.6)** | 8 3 |
| **Cash flows from investing activities** | | | | | |
| Dividends received from associates | 14 | **0.7** | - | **-** | - |
| Sale of subsidiary undertakings - cash proceeds | 8 | **-** | 52 8 | **-** | 5 3 |
| Proceeds from sale of property, plant and equipment | | **0.1** | 1 6 | **-** | - |
| Proceeds from sale of investment property | | **-** | 0 8 | **-** | - |
| Purchase of intangible assets | | **(0.4)** | (0 3) | **-** | - |
| Purchase of property, plant and equipment | | **(47.5)** | (64 7) | **-** | - |
| Purchase of investment property | | **(5.1)** | (3 4) | **-** | - |
| **Net cash (outflow)/inflow from investing activities** | | **(52.2)** | (13 2) | **-** | 5 3 |
| **Cash flows from financing activities** | | | | | |
| Dividends (paid) / received | 9 | **-** | (47 0) | **147.0** | (47 0) |
| Decrease in short-term deposits | | **-** | 3 7 | **-** | - |
| Repayment of Eurobonds and bank loans | | **-** | (551 2) | **-** | (551 2) |
| Increase in borrowings | | **-** | 560 0 | **-** | 560 0 |
| Repayments of obligations under finance leases | | **(0.3)** | (0 1) | **-** | - |
| Repurchase of shares | | **-** | (3 6) | **-** | (3 6) |
| Proceeds from issue of share capital | | **1.6** | 30 4 | **1.6** | 30 4 |
| **Net cash outflow from financing activities** | | **1.3** | (7 8) | **148.6** | (11 4) |
| **(Decrease) / increase in cash and cash equivalents during the year from continuing operations** | | **(9.2)** | 38 7 | **-** | 2 2 |
| **Discontinued operations** | | | | | |
| **Increase in cash and cash equivalents during the year from discontinued operations** | 8 | **-** | 3 7 | **-** | - |
| **(Decrease)/increase in cash and cash equivalents during the year** | | **(9.2)** | 42 4 | **-** | 2 2 |
| Cash and cash equivalents at 1 January | | 43 1 | 0 5 | **-** | (2 3) |
| Effect of foreign exchange rate changes | | **-** | 0 2 | **-** | 0 1 |
| **Cash and cash equivalents at 31 December** | 27 | **33.9** | 43 1 | **-** | - |

**Cash flow statements for the year ended 31 December** (continued)

**Reconciliation of net cash flow to movement in net borrowings for the year ended 31 December**

| | Note | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|---|
| (Decrease)/increase in cash and cash equivalents during the year | | (9.2) | 42 4 | - | 2 2 |
| Decrease in short-term deposits | | - | (3 7) | - | - |
| Increase in borrowings | | - | (8 8) | - | (8 8) |
| Sale of subsidiary undertakings - finance leases | | - | 4 1 | - | - |
| Repayments of obligations under finance leases | | 0.3 | 0 1 | - | - |
| **(Increase)/decrease in net borrowings resulting from cash flows** | | (8.9) | 34 1 | - | (6 6) |
| Change in interest payable | | 0.3 | 3 1 | - | 3 6 |
| Currency translation differences | | - | 4 0 | - | 3 3 |
| **Change in net borrowings during the year** | | (8.6) | 41 2 | - | 0 3 |
| Net borrowings at 1 January | | (520.6) | (561 8) | (561.0) | (561 3) |
| **Net borrowings at 31 December** | 19 | (529.2) | (520 6) | (561.0) | (561 0) |

**Statement of recognised income and expense for the year ended 31 December**

| | Note | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|---|
| Actuarial gain relating to net retirement benefit assets | 15 | 41.3 | 27 3 | - | - |
| Deferred tax associated with actuarial gain relating to net retirement benefit assets | 23 | (10.9) | (8 2) | - | - |
| Share of associated undertakings' actuarial gain relating to net retirement benefit liabilities | | 0.8 | 0 7 | - | - |
| Share of associated undertakings' gain in relation to cash flow hedges | | - | 0 1 | - | - |
| Currency translation differences on foreign currency net investments | 26 | - | (0 9) | - | - |
| Fair value gain on forward foreign exchange contract | 20 | 0.7 | - | - | - |
| Surplus arising on revaluation of investment property | 26 | 14.1 | 5 5 | - | - |
| Deferred tax arising on revaluation of investment property | 26 | (1.1) | - | - | - |
| Current tax credit on share-based payments | 7 | 0.9 | 6 7 | - | 1 8 |
| Deferred tax (charge)/credit on share-based payments | 7 | (0.4) | 0 6 | - | (0 2) |
| **Net income and expense recognised directly in equity** | | 45.4 | 31 8 | - | 1 6 |
| Profit/(loss) attributable to equity shareholder | | 135.0 | 36 8 | 160.2 | (71 1) |
| **Total recognised income and expense for the year attributable to equity shareholder** | | 180.4 | 68 6 | 160.2 | (69 5) |

**Notes to the financial statements**

**1 Accounting policies**

**Basis of preparation**
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of operational land, investment properties and land at ports held for development

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates Management believes that the most critical accounting policies and the most significant areas of judgement and estimation are revenue and profit recognition, property, plant and equipment, investment property, property developments and land held for sale, taxation and employee benefits

IFRS 7 Financial Instruments Disclosures, and the complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures, was adopted by the group from 1 January 2007 This has required additional disclosure from the group but had no impact on the classification and valuation of the group's financial instruments

With the exception of IFRS 7 discussed above, the standards, amendments and interpretations to published standards that became mandatory for accounting periods on or after 1 January 2007 are not relevant to the group's operations

IFRS 8 Operating Segments will be mandatory for the group from 1 January 2009 and replaces IAS 14 It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes The expected impact of this standard on the group is still being assessed in detail by management and may require the disclosure of additional segmental information

IAS 1 (Revised) Presentation of Financial Statements has been issued with changes effective for accounting periods on or after 1 January 2009 This will require changes in presentation from the group but will have no impact on classification and valuation

A revised IAS 23 Borrowing Costs has been published effective for accounting periods on or after 1 January 2009 The revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset The group has reviewed its accounting for borrowing costs and does not expect any impact from the revised standard

The group has reviewed the interpretations and other existing standards that have been published and that are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later Of these only IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction, is relevant to the group's operations but it is not expected to have any impact on the pension scheme valuation or disclosures

**Basis of consolidated financial statements**
The consolidated financial statements include the accounts of the company, all of its subsidiary undertakings and its share of the results of all of its associated undertakings, which are accounted for under the equity method The group's associated undertakings prepare their financial statements under IFRS The results of subsidiary undertakings acquired are included from the date of acquisition, using the acquisition method of accounting The results of discontinued operations are included up to the date of disposal

## Notes to the financial statements

### 1. Accounting policies (continued)

**Critical accounting policies, estimates and judgments**
The company's management considers the following to be the most important accounting policies in the context of the group's operations The critical estimates and judgements made in applying these policies are described in the directors report on page 15

**Revenue and profit recognition**
Revenue comprises the amounts receivable in respect of ports and transport services provided to third parties, income from investment properties and sales of property developments, excluding related sales taxes Revenue and profit, in relation to the provision of ports and transport services and income from investment property, are recognised in line with the provision of the service Revenue and profits or losses arising on the sale of sites or completed developments are recognised when contracts for sale have been exchanged and when all material conditions have been satisfied

**Property, plant and equipment**
Operational land, pre-1 January 1999, is held at the 31 December 1998 valuation with subsequent additions being stated at cost and transfers from investment property being made at the carrying value at the last balance sheet date All other property, plant and equipment is carried at cost adjusted for subsequent additions and disposals

Finance costs directly attributable to the construction of major additions to property, plant and equipment are capitalised as part of the cost of those assets

Capital investment grants are credited against the carrying cost of the asset to which they relate Transfers of property, plant and equipment to investment properties are reflected net of any unamortised capital investment grants Transfers of property from non-current assets to current assets - property developments and land held for sale – are made at the higher of market value on the date of transfer and the carrying value at the last balance sheet date

Depreciation is provided on a straight-line basis spread over the expected useful economic lives of the various types of asset and having taken account of the estimated residual values Estimated residual values are reviewed and updated annually Estimated useful lives extend up to a maximum of 50 years for capital dredging costs, dock structures, roads, quays and buildings, up to 30 years for floating craft and range between two and 30 years for plant and equipment Freehold land is not depreciated

**Investment property**
Investment properties and land held for development are stated at fair value In accordance with IAS 40 Investment Property, revaluations are conducted annually by the directors and by external valuers at least once every five years Surpluses or deficits arising on the revaluation of investment property are recognised in the income statement Obligations in relation to leasehold properties classified as investment property are recorded as finance leases

**Property developments and land held for sale**
Property developments and land held for sale are stated at the lower of cost (or transfer value, if transferred from non-current assets) and fair value less costs to sell

Transfers of property from property developments and land held for sale to non-current assets are made at the lower of cost and estimated fair value less costs to sell as at the date of transfer

## Notes to the financial statements

### 1 Accounting policies (continued)

**Taxation**
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised in respect of all temporary differences, except to the extent that the deferred tax liability arises from (a) the initial recognition of goodwill, (b) goodwill for which amortisation is not deductible for tax purposes, or (c) the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit

Temporary differences are differences between the tax base value of assets and liabilities and their carrying amount as stated in the financial statements These arise from differences between the valuation, recognition and amortisation bases used in tax computations compared with those used in the preparation of financial statements under IFRS

Deferred tax liabilities are measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date The group's deferred tax provision is measured on an undiscounted basis No provision is made for unremitted earnings of foreign subsidiaries or for temporary differences relating to investments in subsidiaries, since the realisation of such differences can be controlled and is not probable in the foreseeable future Deferred tax assets are recognised to the extent it is probable that future taxable profit will be available to facilitate the realisation of such assets

**Employee benefits**
The group accounts for pensions and similar benefits under IAS 19 Employee Benefits In respect of defined benefit plans, obligations are measured at their discounted present value using the projected unit cost method, while benefit plan assets are recorded at fair value The operating and financing costs of such benefit plans are recognised as staff costs in the income statement, service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise Actuarial gains and losses are recognised immediately in the statement of recognised income and expense

Payments to defined contribution schemes are charged as an expense as they fall due

**Other accounting policies**

**Business combinations and goodwill**
Purchased goodwill arising on consolidation, representing the excess of the purchase price over the fair value of the identifiable assets less liabilities and contingent liabilities acquired, is capitalised in the year in which it arises and is thereafter subject to impairment reviews annually and when there are indications the carrying value may not be recoverable

**Other intangible assets**
Purchased intangible assets, primarily computer software, are capitalised at cost and amortised on a straight-line basis over their useful economic lives, which normally do not exceed five years Development costs incurred on internal projects are only capitalised where the future economic benefit can reasonably be assessed as assured

**Notes to the financial statements**

**1. Accounting policies (continued)**

### Share-based payment

The fair value of share-based payment awards is calculated using an option pricing model In accordance with IFRS 2 Share-based Payment, the resulting cost is charged as employee costs to the income statement over the vesting period of the relevant award This charge is amended to take into account changes in the number of equity instruments expected to vest as a consequence of the changes in expectation as to the attainment of any performance-related conditions No changes to the charge are made when the expected or actual level of awards vesting differs from the original estimate due to non-attainment of market conditions, e g , non-attainment of the appropriate total shareholder return Cancelled awards are deemed to have vested upon cancellation Any unamortised expense associated with such awards is charged to the income statement immediately

### Foreign currencies

The functional and presentational currency of the group is sterling Transactions of UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date Translation differences arising as a result of changes in exchange rates between the transaction and balance sheet date are recognised in the income statement

The income statements of foreign subsidiary undertakings are translated into sterling at average rates for the relevant period, balance sheets are translated into sterling at the rates of exchange ruling at the balance sheet date

All exchange differences arising on consolidation are taken directly to equity All other translation differences are taken to the income statement

### Leased assets

At the inception of a finance lease, the capital cost of the asset is included in the financial statements at fair value both as a tangible operating asset and as an obligation to pay future rentals Assets acquired under finance leases are depreciated over the shorter of the lease term or their useful life The obligations related to finance leases, net of finance charges in respect of future periods, are included, as appropriate, under current liabilities or non-current liabilities The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period

Amounts payable in respect of operating leases are charged to the income statement on a straight-line basis over the term of the lease

### Provisions

Provisions are recognised when the group has an obligation in respect of a past event, it is more likely than not that payment (or a non cash settlement) will be required to settle the obligation and where the amount can reliably be estimated Provisions are discounted when the time value of money is considered material

### Cash and cash equivalents

The group defines these as short-term highly liquid investments readily convertible into known amounts of cash They are normally represented by bank deposits with a maturity of less than three months at the date of acquisition, less borrowings that are repayable on demand

**Notes to the financial statements**

**1. Accounting policies (continued)**
**Exceptional items**
Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance

**Financial instruments**
Treasury matters throughout the group are controlled centrally and carried out in compliance with policies approved by the board The group's main financial risks are liquidity, interest rate, foreign exchange and credit risk The group aims to manage these risks to an acceptable level It does not trade in financial instruments

*Liquidity risk*
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through committed facilities Liquidity risk is managed by maintaining borrowing facilities at a level that is forecast to provide reasonable surplus beyond the future needs of the group As at 31 December 2007, the group had access to £350 0m of committed and undrawn borrowing facilities, which are available for a period of more than five years Management monitors rolling forecasts of the group's liquidity reserve (comprised of undrawn borrowing facilities (note 20B) and cash and cash equivalents (note 18)) on the basis of expected cash flow

*Interest rate risk*
Risks arising from changes in interest rates are managed by maintaining an appropriate balance between fixed and floating rate debt At 31 December 2007, interest rate exposure in relation to 100 per cent of the group's bank borrowings was fixed by its parent company The group's parent company uses derivative instruments, such as interest rate swaps when appropriate to hedge against changes in interest rates and to adjust the balance between fixed and floating rate debt

*Foreign exchange risk*
The group principally invoices its customers and settles its expenses in sterling Accordingly, currency exposure arising from transactions being settled in other currencies tends to represent the exception rather than the rule Where such exceptions are significant, any related exposure is managed through forward currency contracts

*Capital risk*
The group finances its business with a mixture of shareholders' funds - £202 6m (2006 £201 0m), committed bank borrowings - £560 0m (2006 £560 0m) and finance and operating leases - £1 8m (2006 £2 1m) The group keeps its capital structure under review with a view to maximising shareholder value and to ensure that it has the resources and the capacity to meet its operational requirements and to facilitate the execution of its strategy

*Credit risk*
In common with other companies, the group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments The group mitigates this risk by ensuring its counterparties do not represent excessive credit risk prior to the agreement of any transaction Exposure to counterparties is also reviewed on a regular basis to avoid any excessive reliance on a single counterparty

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment A provision for impairment of trade receivables is made when there is objective evidence that the group will not be able to collect all amounts recorded within the balance sheet Cost for impairment of receivables is recorded within administrative expenses

**Notes to the financial statements**

1 **Accounting policies (continued)**

Fixed deposits, comprised principally of funds held with banks and other financial institutions, short-term borrowings and overdrafts are classified as loans and receivables and held at amortised cost

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

Borrowings are initially recognised at fair value, net of transaction costs incurred and are held at amortised cost Any difference between the amount initially recognised and the redemption amount is recognised in the income statement over the period of the loan, using the effective interest method

Derivative financial instruments utilised by the group comprise interest rate swaps and forward foreign exchange contracts All such instruments are used for hedging purposes to manage the risk profile of an existing underlying exposure of the group in line with the group's risk management policies All derivative instruments are recorded in the balance sheet at fair value Recognition of gains or losses on derivative instruments depends on whether the instrument is designated as a hedge and the type of exposure it is designed to hedge

Gains or losses, for qualifying derivative instruments designated as fair value hedges, are recorded in the income statement together with the changes in the fair value of the item being hedged

The effective part of gains or losses on qualifying cash flow hedges is deferred in equity until the impact from the hedged item is recognised in the financial statements The ineffective portion of such gains or losses is recognised in the income statement immediately

Gains or losses on the qualifying part of net investment hedges are recognised in equity, the ineffective portion of such gains or losses is recognised in the income statement Gains and losses on derivative instruments not qualifying for hedge accounting are taken to the income statement

2 **Segmental analysis**

The group is a leading provider to ship and cargo owners of innovative and high-quality port facilities and services The group is organised into three principal business segments, which provide the basis on which the group reports its primary segmental information

a Ports & transport - port-related activities
b Property investment - rental income from tenants on port estates not using port facilities
c Property development - sales of surplus non-operational land and property

Secondary segmental information is based on geographic location, being activities in the UK and USA

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other segments

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments

There are immaterial sales between business segments Segment assets include intangible assets, property, plant and equipment, investment property, investments, trade and other receivables and property developments and land held for sale Segment liabilities include trade and other payables and provisions

Capital expenditure comprises the balance sheet additions for property, plant and equipment, investment property and intangible assets

**Notes to the financial statements**

2 **Segmental analysis** (continued)

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | UK £m | USA £m | Total £m | UK £m | USA £m | Total £m |
| **Continuing operations** | | | | | | |
| **Group revenue** | | | | | | |
| Ports & transport | 400.7 | - | 400.7 | 386 0 | - | 386 0 |
| Property investment | 4.3 | - | 4.3 | 6 5 | - | 6 5 |
| Property development | 57.9 | - | 57.9 | 26 6 | - | 26 6 |
| **Group revenue** | 462.9 | - | 462.9 | 419 1 | - | 419 1 |
| **Group operating profit** | | | | | | |
| Ports & transport | 173.5 | - | 173.5 | 162 6 | - | 162 6 |
| Property investment | 2.3 | - | 2.3 | 4 3 | - | 4 3 |
| Property development | 20.7 | - | 20.7 | 16 4 | - | 16 4 |
| **Group underlying operating profit** | 196.5 | - | 196.5 | 183 3 | - | 183 3 |
| Increase in fair value of investment properties[1] | 2.9 | - | 2.9 | 3 3 | - | 3 3 |
| Exceptional items - administrative expenses (note 3)[2] | (6.8) | - | (6.8) | (39 2) | - | (39 2) |
| **Group operating profit** | 192.6 | - | 192.6 | 147 4 | - | 147 4 |
| Net interest payable | | | (31.8) | | | (39 6) |
| Exceptional items - interest payable and similar charges (note 3)[3] | | | - | | | (65 6) |
| Share of profit in associated undertakings[4] | | | 10.3 | | | 6 9 |
| **Profit before taxation** | | | 171.1 | | | 49 1 |
| Taxation | | | (36.1) | | | (20 6) |
| **Profit for the year from continuing operations** | | | 135.0 | | | 28 5 |
| **Discontinued operations**[5] | | | | | | |
| **Profit for the year from discontinued operations** | | | | 7 5 | 0 8 | 8 3 |
| Analysed between | | | | | | |
| Share of profit from discontinued operations | - | - | - | - | 0 8 | 0 8 |
| Profit on disposal of discontinued operations | - | - | - | 7 5 | - | 7 5 |
| **Profit attributable to equity shareholder** | | | 135.0 | | | 36 8 |

[1] *Increase in fair value of investment properties comprised £1 2m (2006 £1 7m) in relation to the group's ports and transport segment, £1 7m (2006 £1 6m) in relation to the group's property investment segment and £nil (2006 £nil) in relation to the group's property development segment*

[2] *Exceptional items - administrative expenses comprise £6 8m (2006 £24 5m) in respect of the group's UK ports & transport segment, £nil (2006 £4 9m) in respect of the group's UK property investment segment and £nil (2006 £9 8m) in respect of the group's UK property development segment*

[3] *Exceptional items - interest payable and similar charges comprise £nil (2006 £41 0m) in respect of the group's UK ports & transport segment, £nil (2006 £8 2m) in respect of the group's UK property investment segment and £nil (2006 £16 4m) in respect of the group's UK property development segment*

[4] *Share of profit in associated undertakings relates to the group's UK ports and transport segment*

[5] *Profit from discontinued operations relates to the group's operations in the USA which were sold in May 2006*

**Notes to the financial statements**

2 **Segmental analysis** (continued)

| | 31 December 2007 | | | 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | UK £m | USA £m | Total £m | UK £m | USA £m | Total £m |
| **Segment assets** | | | | | | |
| Total operating assets | | | | | | |
| Ports & transport | **1,663.8** | - | **1,663.8** | 1,530 3 | - | 1,530 3 |
| Property investment | **54.7** | - | **54.7** | 55 4 | - | 55 4 |
| Property development | **36.8** | - | **36.8** | 12 6 | - | 12 6 |
| Share of associated undertakings [1] | **56.7** | - | **56.7** | 46 5 | - | 46 5 |
| | **1,812.0** | - | **1,812.0** | 1,644 8 | - | 1,644 8 |
| **Segment liabilities** | | | | | | |
| Total operating liabilities | | | | | | |
| Ports & transport | **(66.1)** | - | **(66.1)** | (61 1) | - | (61 1) |
| Property investment | - | - | - | - | - | - |
| Property development | **(22.1)** | - | **(22.1)** | (4 0) | - | (4 0) |
| | **(88.2)** | - | **(88.2)** | (65 1) | - | (65 1) |
| Net operating assets before group items | **1,723.8** | - | **1,723.8** | 1,579 7 | - | 1,579 7 |
| **Group items** | | | | | | |
| Goodwill | **14.5** | - | **14.5** | 14 5 | - | 14 5 |
| Net borrowings | **(529.2)** | - | **(529.2)** | (520 6) | - | (520 6) |
| Derivative financial instruments | **0.7** | - | **0.7** | - | - | - |
| Retirement benefit assets | **74.8** | - | **74.8** | 31 9 | - | 31 9 |
| Retirement benefit obligations | **(2.8)** | - | **(2.8)** | (2 9) | - | (2 9) |
| Net liabilities | **(94.0)** | - | **(94.0)** | (96 3) | | (96 3) |
| **Net assets** | **1,187.8** | - | **1,187.8** | 1,006 3 | - | 1,006 3 |
| **Total capital expenditure** [2] | | | | | | |
| Ports & transport | **50.4** | - | **50.4** | 62 4 | 0 1 | 62 5 |
| **Total depreciation and amortisation** [2] | | | | | | |
| Ports & transport | **36.6** | - | **36.6** | 34 0 | 0 8 | 34 8 |

[1]*Share of associated undertakings relates to the group's ports and transport segment*
[2]*Continuing and discontinued operations*

**Notes to the financial statements**

## 3 Exceptional items

Durıng 2007, the group ıncurred exceptıonal admınıstratıve costs of £6 8m followıng the loss of a customer and ın relatıon to a number of cost reductıon ınıtıatıves whıch were ımplemented across ıts operatıons.

Exceptıonal ıtems, ıncluded wıthın admınıstratıve expenses ın 2006 totalled £39 2m and related to the costs assocıated wıth the acquısıtıon of the group by ABP Acquısıtıons UK Lımıted Some of these costs were borne on behalf of other subsıdıary undertakıngs

Exceptıonal ıtems ıncluded wıthın ınterest payable and sımılar charges totalled £nıl (2006 £65 6m) Followıng the group's acquısıtıon by ABP Acquısıtıons UK Lımıted ın 2006, ıt ıncurred costs of £64 5m ın relatıon to the early repayment of ıts Eurobonds and expensed prevıously capıtalısed fees of £1 1m followıng the early refinancıng of borrowıng facılıtıes

The exceptıonal tax credıt arısıng from the above ıtems totalled £2 0m (2006 £23 9m) The 2006 credıt comprısed a £4 2m credıt ın respect of the costs assocıated wıth the group's acquısıtıon by ABP Acquısıtıons UK Lımıted and a £19 7m credıt ın relatıon to the early refinancıng of borrowıng facılıtıes Also ıncluded wıthın exceptıonal tax ın 2006 was a charge of £6 3m relatıng to advance corporatıon tax no longer expected to be recoverable

## 4 Net interest payable

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Eurobonds | - | 23 4 | - | - | - | 23 4 |
| Bank loans and overdrafts | **39.1** | 8 6 | - | - | **39.1** | 8 6 |
| Fınance leases | **0.2** | 0 3 | - | 0 2 | **0.2** | 0 5 |
| Amortısatıon of borrowıng costs | - | 0 3 | - | - | - | 0 3 |
| Loan from parent undertakıng | - | 9 9 | - | - | - | 9 9 |
| Other | **1.6** | 0 1 | - | 0 7 | **1.6** | 0 8 |
| Less finance costs capıtalısed on payments for non-current assets (note 12) | - | (1 5) | - | - | - | (1 5) |
| **Interest payable and similar charges** | **40.9** | 41 1 | - | 0 9 | **40.9** | 42 0 |
| Loan to parent undertakıng | **(4.5)** | - | - | - | **(4.5)** | - |
| Other | **(4.6)** | (1 5) | - | - | **(4.6)** | (1 5) |
| **Interest receivable and similar income** | **(9.1)** | (1 5) | - | - | **(9.1)** | (1 5) |
| **Net interest payable before exceptional items** | **31.8** | 39 6 | - | 0 9 | **31.8** | 40 5 |
| Interest payable and sımılar charges - exceptıonal ıtems | - | 65 6 | - | - | - | 65 6 |
| **Net interest payable** | **31.8** | 105 2 | - | 0 9 | **31.8** | 106 1 |

The Bank of England base rate ıs used as the basıs for calculatıng finance costs capıtalısed on payments for non-current assets These finance costs are capıtalısed as they are dırectly attrıbutable to the constructıon of certaın major addıtıons to non-current assets

**Notes to the financial statements**

5 **Profit before taxation**

Profit before taxation is stated after charging /(crediting)

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2007 £m** | **2006 £m** | **2007 £m** | **2006 £m** | **2007 £m** | **2006 £m** |
| *Depreciation (note 12)* | | | | | | |
| Owned property, plant and equipment | **35.9** | 33 4 | - | 0 8 | **35.9** | 34 2 |
| Leased property, plant and equipment | **0.3** | 0 3 | - | - | **0.3** | 0 3 |
| Amortisation of intangible assets | **0.4** | 0 3 | - | - | **0.4** | 0 3 |
| Profit on disposal of non-current assets | **(0.1)** | (0 9) | - | - | **(0.1)** | (0 9) |
| *Other operating lease rentals payable* | | | | | | |
| Plant and equipment | **2.8** | 2 8 | - | 0 1 | **2.8** | 2 9 |
| Property | **1.9** | 2 1 | - | 1 2 | **1.9** | 3 3 |
| Repairs and maintenance expenditure on property, plant and equipment | **12.7** | 11 1 | - | 0 3 | **12.7** | 11 4 |
| Trade receivables impairment | **2.6** | 1 1 | - | - | **2.6** | 1 1 |
| *Auditors' remuneration* | | | | | | |
| Audit services – statutory audit | **0.3** | 0 3 | - | - | **0.3** | 0 3 |
| Audit - related to regulatory reporting | - | - | - | - | - | - |
| Tax services - advisory services | - | 0 1 | - | - | - | 0 1 |
| Services relating to corporate finance transactions | **0.1** | 0 6 | - | - | **0.1** | 0 6 |

Included in auditors' remuneration above is £20,000 (2006 £57,000) in respect of the audit of the company and the consolidated financial statements In addition to the above services, PricewaterhouseCoopers LLP acted as auditor to the group's main defined benefits scheme - The Associated British Ports Group Pension Scheme The appointment of auditors to the group's pension schemes and the fees paid in respect of those audits are agreed by the trustees of each scheme, who act independently from the management of the group The aggregate fees paid to the group's auditors for audit services to the pension schemes during the year were £30,000 (2006 £30,000)

Profit before taxation is stated after charging £nil (2006 £nil) for breaches of Section 3 of the Health and Safety at Work, etc Act 1974

**Notes to the financial statements**

**6 Directors and employees**

| Staff costs are analysed as follows | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| **Staff costs** | | | | | | |
| Wages and salaries | **75.7** | 73 5 | - | 4 2 | **75.7** | 77 7 |
| Social security costs | **6.7** | 6 9 | - | 0 5 | **6.7** | 7 4 |
| Pension costs (note 15) | **1.6** | 4 4 | - | 0 1 | **1.6** | 4 5 |
| | **84.0** | 84 8 | - | 4 8 | **84.0** | 89 6 |

| Employees by business segment are analysed as follows | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 2007 Number | 2006 Number | 2007 Number | 2006 Number[1] | 2007 Number | 2006 Number |
| UK monthly average number of persons employed | **2,423** | 2,483 | - | - | **2,423** | 2,483 |
| USA monthly average number of persons employed | - | - | - | 217 | - | 217 |
| **Total monthly average number of persons employed** | **2,423** | 2,483 | - | 217 | **2,423** | 2,700 |

[1]*Average number of employees for discontinued operations (all ports and transport segment) prior to disposal on 23 May 2006 was 520*

In relation to the continuing operations, the monthly average number of persons employed in the ports and transport segment was 2,401 (2006 2,461), in the property investment segment was 13 (2006 13) and in the property development segment was 9 (2006 9)

| Key management compensation is analysed as follows | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| **Key management compensation** | | | | | | |
| Salaries and short-term employee benefits | **2.8** | 3 3 | - | 0 3 | **2.8** | 3 6 |
| Post-employment benefits | **0.4** | 0 5 | - | - | **0.4** | 0 5 |
| Termination benefits | **0.7** | 0 1 | - | - | **0.7** | 0 1 |
| Other long-term benefits | **0.2** | - | - | - | **0.2** | - |
| Share-based payments | - | 2 4 | - | - | - | 2 4 |
| | **4.1** | 6 3 | - | 0 3 | **4.1** | 6 6 |

Key management includes the boards of directors of the company, the group's principal subsidiary, Associated British Ports, and its USA-based subsidiary, AMPORTS Inc , prior to its disposal on 25 May 2006

**Notes to the financial statements**

6 **Directors and employees** (continued)

| | 2007 £m | 2006 £m |
|---|---|---|
| **Highest paid director – continuing operations** | | |
| Emoluments | **0.6** | 1 0 |
| Pension contributions – defined contribution | **0.1** | 0 2 |

The directors of the company received total emoluments of £1 2m (2006 £1 9m), and a further £0 1m (2006 £0 4m) related to pension contributions One director is a member of the group's defined benefit scheme (2006 one) Three directors received contributions towards a defined contribution scheme (2006 two) During the year no directors (2006 three directors) exercised options over shares in the company

7 **Taxation**

| Analysis of charge in year | Underlying activities 2007 £m | Exceptional items 2007 £m | Total 2007 £m | Underlying activities 2006 £m | Exceptional items 2006 £m | Total 2006 £m |
|---|---|---|---|---|---|---|
| **Current tax** | | | | | | |
| Continuing operations | **45.3** | **(2.0)** | **43.3** | 34 9 | (24 8) | 10 1 |
| **Deferred tax** | | | | | | |
| Continuing operations | **(7.2)** | - | **(7.2)** | 3 3 | 7 2 | 10 5 |
| **Taxation – continuing operations** | **38.1** | **(2.0)** | **36.1** | 38 2 | (17 6) | 20 6 |

Current tax charge for 2007 included a credit of £1 7m (2006 £nil) in relation to prior year items

| Tax on items charged to equity | 2007 £m | 2006 £m |
|---|---|---|
| Current tax credit on share-based payments | **0.9** | 6 7 |
| Deferred tax (charge) / credit on share-based payments | **(0.4)** | 0 6 |
| Deferred tax charge on actuarial gain | **(10.9)** | (8 2) |
| Deferred tax charge arising on revaluation of investment property | **(1.1)** | - |

Taxation for the year is lower (2006 lower) than the standard rate of taxation in the UK (30 0%) The differences are explained below

| | 2007 £m | 2006 £m |
|---|---|---|
| **Profit before taxation – continuing operations** | **171.1** | 49 1 |
| Profit before taxation multiplied by standard rate of corporation tax in the UK of 30 0% (2006 30 0%) | **51.3** | 14 7 |
| Effects of | | |
| Losses brought forward | **(0.2)** | - |
| Tax credit associated with the exercise of share options not previously recognised in deferred tax | **(0.7)** | - |
| Impact of exceptional items | - | 13 8 |
| Permanent differences | **0.9** | 0 5 |
| Share of profit in associated undertakings | **(3.1)** | (2 1) |
| Property disposals | **(2.3)** | (5 7) |
| Impact of future change in rate of corporation tax to 28% | **(5.0)** | - |
| Other | **(4.8)** | (0 6) |
| **Total tax charge for the group** | **36.1** | 20 6 |

**Notes to the financial statements**

## 8 Discontinued operations

On 25 May 2006, the group sold its entire USA operations, AMPORTS Inc , to an affiliate of Lincolnshire Equity Fund III, L P , for a consideration of £57 2m, comprising £53 1m in cash together with £4 1m relating to the assumption of certain finance leases by the purchaser Between 25 May 2006 and 31 December 2006 £0 3m of costs in connection with this sale were incurred

The disposal of AMPORTS Inc resulted in a profit of £7 5m, after incurring a tax charge of £1 6m

The results of AMPORTS Inc for the period to 25 May 2006 were as follows

| | **2006 £m** |
|---|---|
| **Revenue** | 17 5 |
| Cost of sales | (14 4) |
| **Gross profit** | 3 1 |
| Administrative expenses | (0 8) |
| **Operating profit** | 2 3 |
| Interest payable and similar charges | (0 9) |
| **Profit before taxation** | 1 4 |
| Taxation | (0 6) |
| **Profit for the year from discontinued operations** | 0 8 |

The cash flows attributable to AMPORTS Inc for the period to 25 May 2006 were as follows

| | **2006 £m** |
|---|---|
| Net cash outflow from operating activities | (0 1) |
| Net cash outflow from investing activities | (0 7) |
| Net cash inflow from financing activities | 4 5 |
| **Increase in cash and cash equivalents during the year from discontinued operations** | 3 7 |

There were no cash and cash equivalents held by AMPORTS Inc at the time of disposal

**Notes to the financial statements**

9 **Dividends**

| | 2007 £m | 2006 £m |
|---|---|---|
| **Amounts recognised in equity as distributions to equity holders in the year:** | | |
| Final dividend paid for the year ended 31 December 2006 of nil (2005 9 75p) per ordinary 25p share | - | 29 4 |
| First interim dividend paid for the year ended 31 December 2007 of nil (2006 2 79p) per ordinary 25p share | - | 8 6 |
| Second interim dividend paid for the year ended 31 December 2007 of nil (2006 2 92p) per ordinary 25p share | - | 9 0 |
| **Total amounts recognised as equity distributions during the year** | - | 47 0 |

No final dividend for the year ended 31 December 2007 was paid (2006 £nil) The company received an interim dividend of £65m (2006 £nil) and a final dividend of £82m (2006 £nil) from Associated British Ports

10 **Goodwill**

| | 2007 £m | 2006 £m |
|---|---|---|
| **Cost and net book value** | | |
| At 1 January | **14.5** | 14 5 |
| **At 31 December** | **14.5** | 14 5 |

The group's goodwill balance relates to its ports and transport activities and is reviewed for impairment annually on a value in use basis The group assesses impairment by reference to a comparison between the present value of forecast future cash flows and the carrying value (including goodwill) of the relevant business unit Forecast cash flows represent pre-tax projections covering the business unit's five-year plan excluding significant capital expenditure that would enhance performance Cash flows beyond the five-year period are projected forward for at least a further 27 years using a growth rate of between 2 and 3 per cent The group expects its business units to remain operational for at least the duration of the projection period used The pre-tax discount rate applied to future cash flows was between 7 2% and 10 2% (2006 7 1%) reflecting the specific risks relevant to the operations concerned

11 **Intangible assets**

| **Group acquired intangible assets** | 2007 £m | 2006 £m |
|---|---|---|
| **Cost** | | |
| At 1 January | **3.6** | 3 6 |
| Additions | **0.4** | 0 3 |
| Disposal of subsidiary (note 8) | - | (0 2) |
| Exchange adjustments | - | (0 1) |
| **At 31 December** | **4.0** | 3 6 |
| **Amortisation** | | |
| At 1 January | **2.9** | 2 6 |
| Charge for the year | **0.4** | 0 3 |
| **At 31 December** | **3.3** | 2 9 |
| **Net book value** | | |
| At 1 January | **0.7** | 1 0 |
| **At 31 December** | **0.7** | 0 7 |

All intangible assets above relate to purchased computer software They have finite lives and are being amortised over periods of between three years and five years on a straight-line basis £0 3m (2006 £0 1m) of the amortisation is charged to cost of sales and £0 1m (2006 £0 2m) is charged to administrative expenses

## Notes to the financial statements

### 12 Property, plant & equipment

| | Operational land £m | Buildings £m | Dock structures, quays and dredging £m | Floating cr | Plant and equipment £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| **Cost or valuation** | | | | | | | |
| At 1 January 2007 | **370.3** | **126.6** | **437.7** | **50.4** | **224.8** | **20.1** | **1,229.9** |
| Additions | - | 1 5 | 4 6 | 0 9 | 7 1 | 30 6 | 44 7 |
| Transfers and adjustments within property, plant and equipment | - | 8 9 | 8 8 | 0 1 | 7 2 | (25 0) | - |
| Transfers to property developments and land held for sale | (0 3) | (0 9) | - | - | - | - | (1 2) |
| Transfer to investment property (note 13) | (14 9) | (11 1) | - | - | - | (0 3) | (26 3) |
| Disposals | - | - | - | - | (1 2) | - | (1 2) |
| **At 31 December 2007** | **355.1** | **125.0** | **451.1** | **51.4** | **237.9** | **25.4** | **1,245.9** |
| **Depreciation** | | | | | | | |
| At 1 January 2007 | - | **38.4** | **137.5** | **30.2** | **114.3** | - | **320.4** |
| Transfers to property developments and land held for sale | - | (0 4) | - | - | - | - | (0 4) |
| Transfer to investment property (note 13) | - | (4 3) | - | - | - | - | (4 3) |
| Charge for year | - | 5 2 | 14 2 | 3 2 | 13 6 | - | 36 2 |
| Disposals | - | - | - | - | (1 2) | - | (1 2) |
| **At 31 December 2007** | - | **38.9** | **151.7** | **33.4** | **126.7** | - | **350.7** |
| **Net book value** | | | | | | | |
| **At 31 December 2007** | **355.1** | **86.1** | **299.4** | **18.0** | **111.2** | **25.4** | **895.2** |

**Notes to the financial statements**

12 **Property, plant & equipment** (continued)

| | Operational land £m | Buildings £m | Dock structures, quays and dredging £m | Floating craft £m | Plant and equipment £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|---|
| **2006** | | | | | | | |
| **Cost or valuation** | | | | | | | |
| At 1 January 2006 | 379 3 | 134 8 | 397 4 | 47 8 | 181 0 | 101 9 | 1,242 2 |
| Additions | 0 2 | 4 5 | 22 7 | 1 4 | 14 1 | 16 1 | 59 0 |
| Transfers and adjustments within property, plant and equipment | 3 2 | 9 7 | 43 5 | 1 6 | 34 6 | (78 2) | 14 4 |
| Transfers from property developments and land held for sale | 0 4 | - | - | - | - | - | 0 4 |
| Transfer from/(to) investment property (note 13) | 1 6 | (1 7) | (2 3) | - | - | (16 3) | (18 7) |
| Disposals | - | (1 5) | (0 1) | (0 4) | (1 6) | - | (3 6) |
| Disposal of subsidiary (note 8) | (13 1) | (17 5) | (21 4) | - | (3 0) | (3 1) | (58 1) |
| Exchange adjustments | (1 3) | (1 7) | (2 1) | - | (0 3) | (0 3) | (5 7) |
| **At 31 December 2006** | **370.3** | **126.6** | **437.7** | **50.4** | **224.8** | **20.1** | **1,229.9** |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| At 1 January 2006 | - | 34 7 | 134 0 | 27 5 | 98 2 | - | 294 4 |
| Transfers and adjustments within property, plant and equipment | - | 6 8 | 0 1 | - | 7 5 | - | 14 4 |
| Transfers to investment property (note 13) | - | (0 5) | (0 6) | - | - | - | (1 1) |
| Charge for the year | - | 5 4 | 13 5 | 3 1 | 12 5 | - | 34 5 |
| Disposals | - | (0 7) | (0 1) | (0 4) | (1 4) | - | (2 6) |
| Disposal of subsidiary (note 8) | - | (6 6) | (8 5) | - | (2 3) | - | (17 4) |
| Exchange adjustments | - | (0 7) | (0 9) | - | (0 2) | | (1 8) |
| **At 31 December 2006** | **-** | **38.4** | **137.5** | **30.2** | **114.3** | **-** | **320.4** |
| **Net book value** | | | | | | | |
| **At 31 December 2006** | **370.3** | **88.2** | **300.2** | **20.2** | **110.5** | **20.1** | **909.5** |

All property, plant and equipment is stated at cost with the exception of operational land Operational land is included at valuation as at 31 December 1998, as permitted under IFRS 1 First Time Adoption of International Financial Reporting Standards, or, if transferred from property assets after 31 December 1998, at the carrying value at the last balance sheet date prior to transfer The group's operational land and buildings held at 31 December 1998 were valued as at that date on the basis of existing-use value in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors The valuations were carried out by independent valuers Healey & Baker, International Real Estate Consultants The total valuation amounted to £507 5m, of which £326 7m was apportioned to land, representing an excess of £291 2m over its historical book cost at that date The net book values for property, plant and equipment are reported net of government grants received of £10 9m (2006 £11 0m)

**Notes to the financial statements**

12 **Property, plant & equipment** (contınued)

Plant and equıpment ıncludes assets held under finance leases wıth a book cost and accumulated depreciatıon at 31 December 2007 totallıng £3 1m (2006 £3 1m) and £1 8m (2006 £1 5m), respectıvely The depreciatıon charge for the year ıncludes £0 3m (2006 £0 2m) ın respect of these assets Such assets ınclude marıne vessels operated by the group's UK ports and transport busıness and, prıor to ıts dısposal, ımprovements to certaın facılıtıes operated by the group's US subsıdıary The remaınıng terms for these leases range from two to sıx years

The cost of property, plant and equıpment ıncludes £6 1m (2006 £6 1m) of cumulatıve finance costs capıtalısed The capıtalısatıon rate used ıs the group's margınal borrowıng cost, whıch ıs lınked to the Bank of England's base rate

**Notes to the financial statements**

## 13 Investment property

| | Port-related investment properties £m | Other investment properties £m | Land at ports held for development £m | Total £m |
|---|---|---|---|---|
| **2007** | | | | |
| **At valuation** | | | | |
| At 1 January 2007 | 534 4 | 38 2 | 17 0 | 589 6 |
| Additions | 5 2 | 0 1 | - | 5 3 |
| Transfers within investment property | 3 4 | (3 7) | 0 3 | - |
| Transfers from property developments and land held for sale | - | 0 1 | 0 9 | 1 0 |
| Transfers from property, plant and equipment (note 12) | 21 9 | 0 1 | - | 22 0 |
| | 564 9 | 34 8 | 18 2 | 617 9 |
| Income on re-measurement | 1 2 | (0 7) | 2 4 | 2 9 |
| Surplus on revaluation (note 26) | 14 1 | 0 1 | (0 1) | 14 1 |
| **At 31 December 2007** | **580.2** | **34.2** | **20.5** | **634.9** |
| Historical cost at 31 December 2007 | 243 9 | 14 6 | 6 1 | 264 6 |
| **2006** | | | | |
| At 1 January 2006 | 501 6 | 53 0 | 18 0 | 572 6 |
| Additions | 3 2 | - | - | 3 2 |
| Transfers within investment property | 1 0 | (0 8) | (0 2) | - |
| Transfers to property developments and land held for sale | 1 0 | (2 8) | 1 4 | (0 4) |
| Transfers from/(to) property, plant and equipment (note 12) | 21 6 | (3 8) | (0 2) | 17 6 |
| Disposals | (0 4) | - | - | (0 4) |
| Disposal of subsidiary (note 8) | (0 4) | (7 9) | (2 5) | (10 8) |
| Exchange adjustments | - | (0 8) | (0 2) | (1 0) |
| | 527 6 | 36 9 | 16 3 | 580 8 |
| Income on re-measurement | 1 7 | 1 1 | 0 5 | 3 3 |
| Surplus on revaluation (note 26) | 5 1 | 0 2 | 0 2 | 5 5 |
| **At 31 December 2006** | **534.4** | **38.2** | **17.0** | **589.6** |
| Historical cost at 31 December 2006 | 221 4 | 14 6 | 5 1 | 241 1 |

Investment properties, other than those in the course of construction, have been valued on the basis of market value in accordance with the Appraisal and Valuation Standards issued by The Royal Institution of Chartered Surveyors The valuations were carried out as at 31 December 2007 by Phillip Williams FRICS, Group Property Director, Associated British Ports The open market valuation adopted represents the fair value of the group's investment property portfolio and takes into account the condition of each property, the strength of covenant and the term of any lease agreement Investment properties in the course of construction are stated at cost, including interest and other net outgoings, with the exception of underlying land, which is included at carrying value before construction commenced Costs of £1 0m (2006 £0 2m) in respect of these properties are included in the carrying value of port-related investment properties The cost of investment property assets includes £1 2m (2006 £1 2m) of cumulative finance costs capitalised

**Notes to the financial statements**

13 **Investment property** (continued)

Of the surplus on revaluation during the year of £17 0m (2006 £8 8m), £2 9m (2006 £3 3m) was included within the income statement as an increase in the fair value of investment property with the balance of £14 1m (2006 £5 5m) being credited directly to the revaluation reserve, as it related to the revaluation of properties transferred from property, plant and equipment to investment property during the year

Rental income generated from the group's investment property portfolio amounted to £52 3m, all of which was associated with the group's continuing operations (2006 £52 9m, £51 6m of which was from continuing operations) and related operating expenses amounted to £4 4m, all of which were associated with the group's continuing operations (2006 £4 9m, £4 7m of which was associated with the group's continuing operations) Direct operating expenses relating to vacant property are considered to be immaterial

The group leases various areas of land, buildings and other operational assets across its port facilities The leases have various terms and renewal rights

The future minimum lease payments receivable under non-cancellable operating leases are as follows

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **£m** | **£m** | **£m** | **£m** |
| Not later than one year | **47.8** | 53 2 | - | - |
| More than one year but not more than five years | **138.3** | 145 4 | - | - |
| More than five years | **740.4** | 477 5 | - | - |
| | **926.5** | 676 1 | - | - |

14 **Investments**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **Interest in associated undertakings** | | **Interest in subsidiary undertakings** | |
| | **£m** | **£m** | **£m** | **£m** |
| At 1 January | **46.5** | 38 8 | **150.9** | 144 7 |
| Share of profit for the year | **10.3** | 6 9 | - | - |
| Dividend received from associates | **(0.7)** | - | - | - |
| Actuarial gain relating to group's share of net pension liabilities of associated undertakings | **0.8** | 0 7 | - | - |
| Gain on cash flow hedge taken directly to equity in associated undertakings | - | 0 1 | - | - |
| Disposal of associated undertaking | **(0.2)** | - | - | - |
| Investment in subsidiary undertakings | - | - | **0.6** | 6 2 |
| **At 31 December** | **56.7** | 46 5 | **151.5** | 150 9 |

Investments in group undertakings are stated at cost Associated undertakings are accounted for under the equity method of accounting A list of the company's principal subsidiary and associated undertakings is set out in note 31

**Notes to the financial statements**

14 **Investments** (contınued)

Summarısed ınformatıon ın respect of the group's assocıated undertakıngs ıs set out below

| Continuing operations | 2007 £m | 2006 £m |
|---|---|---|
| Revenue | **72.5** | 60 6 |
| Expenses | **(58.5)** | (50 2) |
| Share of operatıng profit ın assocıated undertakıngs | **14.0** | 10 4 |
| Share of net ınterest costs ın assocıated undertakıngs | **-** | (0 3) |
| Share of taxatıon ın assocıated undertakıngs | **(3.7)** | (3 2) |
| **Share of profit in associated undertakıngs** | **10.3** | 6 9 |
| | | |
| Non-current assets | **143.3** | 134 4 |
| Current assets | **52.5** | 41 5 |
| Current lıabılıtıes | **(32.1)** | (24 8) |
| Non-current lıabılıtıes | **(38.4)** | (43 4) |
| Net assets | **125.3** | 107 7 |
| **Share of net assets in associated undertakings** | **56.7** | 46 5 |

15 **Pension commitments**

**A. Description of plans**

The group partıcıpates ın a number of pensıon schemes, prıncıpally ın the UK The major scheme ıs a funded defıned benefits scheme - The Assocıated Brıtısh Ports Group Pensıon Scheme (ABPGPS) The defined benefits sectıon of thıs scheme was closed to new members wıth effect from 6 Aprıl 2002 New members joınıng thıs scheme from 6 Aprıl 2002 are offered membershıp of a defined contrıbutıons sectıon, whıch at 31 December 2007 constıtuted less than 2 per cent of the total asset value The group also makes contrıbutıons to three ındustry-wıde defined benefit schemes and has unfunded retırement benefıt arrangements ın respect of former employees Except for unfunded retırement benefit arrangements, the assets of the group's pensıon schemes are held ın trust funds ındependent of ıts finances

**B. Summary**

**(i) Income statement**

The total pensıon charge ıncluded ın the group ıncome statement was as follows

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Defined benefits scheme and unfunded retırement benefit arrangements (note 15C) | **8.4** | 9 5 | - | - | **8.4** | 9 5 |
| Defined contrıbutıon arrangements (note 15D) | **1.2** | 1 2 | - | 0 1 | **1.2** | 1 3 |
| Industry-wıde schemes (note 15E) | **0.6** | 0 4 | - | - | **0.6** | 0 4 |
| Gross pensıon costs | **10.2** | 11 1 | - | 0 1 | **10.2** | 11 2 |
| Fınance ıncome | **(8.6)** | (6 7) | - | - | **(8.6)** | (6 7) |
| **Net pension charge recognised wıthin operating profit (note 6)** | **1.6** | 4 4 | - | 0 1 | **1.6** | 4 5 |

**Notes to the financial statements**

15 **Pension commitments** (continued)

**(ii) Balance sheet**
The retirement benefit assets and obligations as at 31 December were

| | 2007 £m | 2006 £m |
|---|---|---|
| Retirement benefit assets | **74.8** | 31 9 |
| Retirement benefit liabilities | **(2.8)** | (2 9) |
| **Net retirement benefit asset** | **72.0** | 29 0 |

**C. Defined benefits scheme and unfunded retirement benefit arrangements**

The most recent formal valuation of the Associated British Ports Group Pension Scheme was carried out as at 31 December 2006 The valuation of the liabilities detailed below has been derived by projecting forward the position as at 31 December 2006 It was performed by an independent actuary, Hewitt, Bacon & Woodrow The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit method In accordance with IAS 19, the present value of pension liabilities has been determined by discounting pension commitments (including an allowance for salary growth) using a AA corporate bond yield

The liability associated with the unfunded retirement benefit arrangement has also been determined by the actuary, Hewitt, Bacon & Woodrow, using the same assumptions as those used to calculate the Associated British Ports Group Pension Scheme liabilities

**(i) Assumptions**
The major financial assumptions used by the actuary as at 31 December were as follows

| | 2007 % | 2006 % |
|---|---|---|
| Inflation | **3.20** | 3 00 |
| Rate of increase in pensionable salaries | **4.20** | 4 00 |
| Rate of increase for pensions in payment (earned before 1 April 2006) | **3.20** | 3 00 |
| Rate of increase for pensions in payment (earned on or after 1 April 2006) | **2.60** | 2 50 |
| Rate of increase for deferred pensions | **3.20** | 3 00 |
| Discount rate | **5.80** | 5 10 |
| Expected return on plan assets | **6.50** | 6 60 |

The mortality assumption used in determining the group's expected pension liabilities is based on the standard actuarial tables PA 92, projected forward to 2016 for current pensioners and 2026 for future pensioners with the "Medium Cohort" adjustment applied Based on these tables, life expectancies from age 60 for people retiring today are estimated as being 24 years for males and 26 7 years for females and for people retiring in 10 years' time are estimated at 24 8 years for males and 27 5 years for females Mortality rates applied have been increased by 35 per cent to reflect the nature of the scheme's membership and its past experience The effect of an increase of 1 year in the life expectancy of a 60-year old would be to increase the liabilities of the ABPGPS by an estimated £15-20m

Expected return on assets is a blended average of projected long-term returns for various asset classes

Assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescales covered, may not necessarily be borne out

**Notes to the financial statements**

15 **Pension commitments** (continued)

**(ii) Operating profit**

The amounts recognised in the income statement during the year were as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| Current service cost | **(8.4)** | (9 5) |
| Expected return on scheme assets | **31.4** | 28 5 |
| Interest cost on scheme liabilities | **(22.6)** | (21 6) |
| Interest cost on unfunded retirement benefit liabilities | **(0.2)** | (0 2) |
| **Net pension credit / (charge) recognised within operating profit** | **0.2** | (2 8) |

The current service cost of £8 4m (2006 £9 5m) represented 27 9 per cent (2006 32 9 per cent) of the applicable pensionable payroll The group recognised £0 2m (2006 £2 2m charge) of its net pension credit for 2007 within cost of sales and £nil (2006 £0 6m charge) within administrative expenses

The group made total contributions of £2 6m (2006 £1 5m) towards funded and unfunded schemes The group expects its level of contribution into the scheme to increase by around £5 1m during 2008, following an increase in the level of contributions towards the ABPGPS Returns on assets and interest on liabilities are determined by reference to the actuarial assumptions adopted at the beginning of each financial year The actual return on assets for 2007 was £25 4m (2006 £24 9m)

**(iii) Balance sheet**

The amounts recognised in the balance sheet as at 31 December were as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| Fair value of scheme assets | **487.8** | 482 4 |
| Present value of funded obligations | **(413.0)** | (450 5) |
| Present value of unfunded obligations | **(2.8)** | (2 9) |
| **Net assets recognised in the balance sheet** | **72.0** | 29 0 |

As at 31 December 2007, approximately 50 per cent (2006 54 per cent) of the scheme's assets were represented by investments in equities, 39 per cent (2006 41 per cent) by bonds, 5 per cent (2006 5 per cent) by property and 6 per cent (2006 nil) by cash

**(iv) Changes in fair value of scheme assets are as follows:**

| | 2007 £m | 2006 £m |
|---|---|---|
| Fair value of scheme assets at 1 January | **482.4** | 476 5 |
| Expected return | **31.4** | 28 5 |
| Actuarial loss | **(6.0)** | (3 6) |
| Contributions to defined contribution section | **(1.1)** | (0 9) |
| Contributions by employees | **0.6** | 0 6 |
| Contributions by employer | **2.6** | 1 5 |
| Benefits paid | **(22.1)** | (20 2) |
| **Fair value of scheme assets at 31 December** | **487.8** | 482 4 |

**Notes to the financial statements**

15 **Pension commitments** (continued)

**(v) Changes in fair value of scheme liabilities are as follows:**

| | 2007 £m | 2006 £m |
|---|---|---|
| Fair value of scheme liabilities at 1 January | (453.4) | (472 6) |
| Current service cost | (8.4) | (9 5) |
| Interest cost | (22.8) | (21 8) |
| Actuarial gain | 47.3 | 30 9 |
| Contributions by employees | (0.6) | (0 6) |
| Benefits paid | 22.1 | 20 2 |
| **Fair value of scheme liabilities at 31 December** | (415.8) | (453 4) |

**(vi) Analysis of the movement in net assets recognised in the balance sheet**

| | 2007 £m | 2006 £m |
|---|---|---|
| At 1 January | 29.0 | 3 9 |
| Net pension credit / (charge) | 0.2 | (2 8) |
| Employer contribution | 2.6 | 1 5 |
| Contributions to defined contribution section | (1.1) | (0 9) |
| Actuarial gains relating to net retirement benefit assets recognised in the statement of recognised income and expense | 41.3 | 27 3 |
| **At 31 December** | 72.0 | 29 0 |

As at 31 December 2007, cumulative actuarial gains recognised in the group's statement of recognised income and expense, since 1 January 2004, amounted to £42 1m (2006 £0 8m) The 2007 actuarial gain of £41 3m arose as a result of the experience losses on scheme assets of £6 0m being more than offset by an actuarial gain of £35 5m due to the changes in the assumptions associated with the scheme liabilities as the yield on AA rated corporate bonds increased by 70 basis points and an experience gain of £11 8m in respect of changes to membership

**(vii) Historical record**

| Amounts for current and previous periods are as follows | 2007 £m | 2006 £m | 2005 £m |
|---|---|---|---|
| Fair value of scheme assets | 487.8 | 482 4 | 476 5 |
| Present value of funded scheme obligations | (413.0) | (450 5) | (469 4) |
| Present value of unfunded obligations | (2.8) | (2 9) | (3 2) |
| **Net assets recognised in the balance sheet** | 72.0 | 29 0 | 3 9 |
| | | | |
| Actuarial gain/(loss) due to changes in assumptions | 35.5 | 22 3 | (66 2) |
| Experience gains on scheme liabilities | 11.8 | 8 6 | - |
| Experience (losses)/gains on scheme assets | (6.0) | (3 6) | 41 1 |
| **Actuarial gain/(loss) relating to net retirement benefit assets recognised in the statement of recognised income and expense** | 41.3 | 27 3 | (25 1) |

**Notes to the financial statements**

15 **Pension commitments** (contınued)

**D. Defined contribution arrangements**

The group ıncurred costs of £1 2m (2006 £1 2m) ın relatıon to defined contnbutıon arrangements provıded by Assocıated Bntısh Ports and £nıl (2006 £0 1m) ın relatıon to defined contnbutıons arrangements provıded by ıts USA subsıdıary AMPORTS Inc , prıor to ıts dısposal on 25 May 2006 At 31 December 2007, there were no amounts outstandıng as beıng due to these arrangements from the group (2006 nıl)

**E. Industry-wide schemes**

**(i) The Pilots Natıonal Pension Fund (PNPF)**

The PNPF ıs an ındustry-wıde defined benefits scheme As at 31 December 2004, the date of the most recent full tnennıal valuatıon carned out by an ındependent actuary, the scheme had assets wıth a market value of £339m, representıng 76 per cent of the benefits accruıng to members after allowıng for future ıncreases As at that date, the fundıng level contınued to exceed the mınımum fundıng requırements The scheme actuary has estımated the IAS 19 deficıt as at 31 December 2007 as beıng £79m Approxımately 17 per cent of the scheme's assets were ınvested ın equıtıes, 42 per cent ın bonds, 40 per cent ın hedge funds and 1 per cent ın cash The IAS 19 valuatıon assumptıons adopted by the actuary were as follows

| | % |
|---|---|
| Inflatıon | 3 20 |
| Rate of ıncrease ın pensıonable salanes | 4 20 |
| Rate of ıncrease for pensıons ın payment | 3 20 |
| Rate of ıncrease for deferred pensıons | 3 20 |
| Dıscount rate | 5 80 |

Followıng the 31 December 2004 valuatıon, the partıcıpatıng bodıes for thıs scheme have agreed a voluntary arrangement under whıch they can make ıncreased contnbutıons ın order to reduce the deficıt over a fıve year penod Under thıs arrangement, the group could make addıtıonal contnbutıons of around £1 2m to thıs scheme dunng the five-year penod whıch commenced on 1 January 2006 Dunng 2007, the group made contnbutıons of £354,000 (2006 £339,000) to thıs scheme ın relatıon to ıts current actıve members and has recorded those as defined contnbutıon costs wıthın the ıncome statement

The scheme rules do not provıde a mechanısm for the allocatıon of past-servıce deficıts A number of dıfferent legal opınıons have been ıssued concernıng thıs scheme and the group ıs unable to determıne ıts share of the past-servıce deficıt on a reasonable basıs The potentıal IAS 19 pre-tax lıabılıty that could anse ın relatıon to the past-servıce deficıt for thıs scheme could range from £0 8m to £23 0m as at 31 December 2007

In the absence of an agreement on the allocatıon of the past-servıce deficıt, the group ıs unable to determıne ıts share of assets and lıabılıtıes for thıs scheme on a consıstent and reasonable basıs and therefore contınues to account for thıs scheme as a defined contnbutıon scheme

**(ii) The Former Registered Dock Workers Pension Fund (FRDWPF)**

The FRDWPF ıs an ındustry-wıde defined benefits scheme As at 5 Apnl 2007 the date of the most recent full tnennıal valuatıon carned out by an ındependent actuary, the scheme had assets wıth a market value of £868 3m, representıng 105 9 per cent of the benefits accruıng to members after allowıng for future ıncreases As at that date, the fundıng level on a buy-out basıs was 102% and management belıeves that thıs scheme remaıned ın surplus on an IAS 19 basıs as at 31 December 2007

**Notes to the financial statements**

15 **Pension commitments** (continued)

As at 5 April 2007, approximately 20 per cent of the scheme's assets were invested in equities, 78 per cent in bonds and 2 per cent in property and cash The valuation assumptions adopted by the actuary at the time of the last valuation were as follows

| | % |
|---|---|
| Inflation | 3 20 |
| Rate of increase in pensionable salaries | 4 20 |
| Rate of increase for pensions in payment | 3 50 |
| Rate of increase for deferred pensions | 3 20 |
| Discount rate | 4 70 |

During 2007, the group made contributions of £50,000 (2006 £49,000) to this scheme in relation to its current active members and has recorded those as defined contribution costs within the income statement

The scheme rules for the FRDWPF do not provide for the allocation of assets and liabilities to the participating employers and therefore the group accounts for this scheme as a defined contribution scheme

**(iii) Merchant Navy Officers Pension Fund (MNOPF)**

The MNOPF is an industry-wide defined benefits scheme The scheme is divided into two sections, the Old Section and the New Section, both of which are closed to new members The latest valuation for each section was carried out on 31 March 2006 As at 31 March 2006, the Old Section had assets of £1,473m, representing 107 per cent of the benefits accrued to members, whilst the New Section had assets of £1,931m, representing 93 per cent of the benefits accrued to members as at that date Following this valuation, a past-service deficit was identified for the New Section The group's share of this past-service deficit amounts to £0 1m and will be settled and expensed in installments up to 2014 In 2007, the group paid and expensed £8,000 (2006 £11,000) of regular contributions to this scheme as defined contribution pension costs

Given the group's immaterial exposure, the lack of availability of data and the limited influence the group has over the affairs of this scheme, the group intends to continue to account for this scheme as a defined contribution scheme

**Notes to the financial statements**

## 16 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** **£m** | **2006** **£m** | **2007** **£m** | **2006** **£m** |
| **Non-current** | | | | |
| Trade receivables | **0.4** | 0 2 | - | - |
| Prepayments and accrued income | - | 1 3 | - | - |
| Property completions due | **32.3** | - | - | - |
| | **32.7** | 1 5 | - | - |
| **Current** | | | | |
| Gross trade receivables | **58.7** | 55 7 | - | - |
| Provision for doubtful receivables | **(6.5)** | (4 6) | - | - |
| Net trade receivables | **52.2** | 51 1 | | - |
| Amounts owed by subsidiary undertakings | - | - | **707.4** | 653 7 |
| Amounts owed by parent undertaking | **107.0** | 4 5 | **107.0** | 4 5 |
| Amounts owed by associated undertakings | **6.8** | 6 5 | - | - |
| Other debtors | **7.1** | 10 4 | - | - |
| Prepayments and accrued income | **14.2** | 11 9 | - | - |
| Property completions due | **0.6** | 2 4 | - | - |
| | **187.9** | 86 8 | **814.4** | 658 2 |

The carrying amount of trade and other receivables approximates to their fair value With the exception of amounts owed by subsidiary and parent undertakings (see note 28), all trade and other receivables are non-interest bearing Other debtors comprise costs incurred and recoverable from third parties

Non–current property completions due are in respect of the sale of 81 acres of land at the Port of Barry, in partnership with the Welsh Assembly Government These proceeds are receivable by not later than September 2010 and have been discounted at a rate of 6 2 per cent The gross proceeds receivable are £38 0m

As at 31 December 2007 the group held trade receivables of £16 7m (2006 £16 8m) that were past due but not impaired These relate to a number of independent customers for whom there is no recent history of default The ageing of these trade receivables is as follows

| | **2007** **£m** | **2006** **£m** |
|---|---|---|
| Up to 3 months | **15.1** | 15 0 |
| 3 to 6 months | **1.5** | 1 2 |
| Over 6 months | **0.1** | 0 6 |
| | **16.7** | 16 8 |

All of the provision for impairment of trade receivables relates to the group's ports and transport segment There are no significant receivables of the group or company that are denominated in foreign currencies

As at 31 December 2007, the group held trade receivables of £7 1m (2006 £5 2m) that were fully or partially impaired The other classes of assets within trade and other receivables do not contain impaired assets The ageing of these trade receivables is as follows

| | **2007** **£m** | **2006** **£m** |
|---|---|---|
| Up to 3 months | **0.7** | **0.7** |
| 3 to 6 months | **0.4** | **0.6** |
| Over 6 months | **6.0** | **3.9** |
| | **7.1** | **5.2** |

**Notes to the financial statements**

16 **Trade and other receivables** (continued)

The group has provided for known credit risks as part of its normal provision for doubtful receivables The provision for doubtful receivables is made when there is objective evidence the group will not be able to collect all amounts recorded within the balance sheet The impaired receivables provision relates to customers who have found themselves in unexpectedly difficult financial situations Costs for doubtful receivables are recorded within administrative expenses

The company had no trade receivables (2006 £nil) and hence no provision for impairment (2006 £nil) The amounts owed by group undertakings to the company have no fixed terms of repayment and none of the group undertakings has a recent history of default

Movements on the group's provision for doubtful receivables are as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| At 1 January / 9 June | **4.6** | 4 2 |
| Provision for trade receivables impairment | **2.6** | 1 1 |
| Receivables written off as uncollectible | **(0.7)** | (0 4) |
| Unused amounts reversed | **-** | (0 3) |
| At 31 December | **6.5** | 4 6 |

The maximum exposure to credit risk at 31 December 2007 is the fair value of each class of receivable shown above The group does not hold any collateral as security Based on the quality and diversity of its customer base, management considers the group's exposure to concentration credit risk to be minimal

17 **Property developments and land held for sale**

Property developments and land held for sale are stated at the lower of their cost or transfer value and fair value less costs to sell as determined by the directors at 31 December 2007 The historical cost of property developments and land held for sale totalled £2 7m (2006 £7 3m) These assets relate to surplus property and land, which are held for sale and reported as part of the group's property development activities

18 **Cash**

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Cash at bank and in hand (note 27) | **34.8** | 43 1 | **-** | - |
| **Cash and short-term deposits** | **34.8** | 43 1 | **-** | - |

**Notes to the financial statements**

19 **Financial liabilities - borrowings**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **£m** | **£m** | **£m** | **£m** |
| **Current** | | | | |
| Bank overdraft - unsecured | **0.9** | - | - | - |
| Interest payable – accrual | **1.3** | 1 6 | **1.0** | 1 0 |
| | **2.2** | 1 6 | **1.0** | 1 0 |
| Obligations under finance leases - secured | **0.2** | 0 3 | - | - |
| | **2.4** | 1 9 | **1.0** | 1 0 |
| **Non-current** | | | | |
| Bank loans – secured | **560.0** | 560 0 | **560.0** | 560 0 |
| | **560.0** | 560 0 | **560.0** | 560 0 |
| Obligations under finance leases - secured | **1.6** | 1 8 | - | - |
| | **561.6** | 561 8 | **560.0** | 560 0 |

The group's borrowings are all denominated in sterling

**Net borrowings**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **£m** | **£m** | **£m** | **£m** |
| Current borrowings | **2.4** | 1 9 | **1.0** | 1 0 |
| Non-current borrowings | **561.6** | 561 8 | **560.0** | 560 0 |
| | **564.0** | 563 7 | **561.0** | 561 0 |
| Less cash at bank and in hand | **(34.8)** | (43 1) | - | - |
| | **529.2** | 520 6 | **561.0** | 561 0 |

The group's share of net cash of associated undertakings not included above is £11 3m (2006 £0 1m)

An analysis of the maturity of financial liabilities is given in note 20

Bank loans are repayable between 2008 and 2013 and bear interest linked to London inter-bank borrowing rates Details of the group's contingent liabilities in relation to its borrowings are set out in note 30 Obligations under finance leases are secured on related leased assets As at 31 December 2007, the group's bank loans and overdrafts are exposed to repricing within 12 months of the balance sheet date The interest rate risk in relation to the group's bank debt is hedged by its parent company The group has not entered into any derivative instruments in relation to financial liabilities The effective interest rate associated with the group's total borrowings was 6 8 per cent (2006 6 0 per cent)

**Notes to the financial statements**

**20 Fınancıal instruments**

The group's rısks ın relatıon to ıts financıal ınstruments are managed by ıts parent undertakıng Numerıcal dısclosures are set out below

**A. Maturıty of financıal lıabılıtıes**

The table below analyses the group's financıal lıabılıtıes, whıch wıll be settled on a net basıs ınto relevant maturıty groupıngs, based on the remaınıng perıod at the balance sheet date to the contracted maturıty date The amounts dısclosed are the undıscounted cashflows Balances due wıthın one year equal the carryıng balances, as the ımpact of dıscountıng ıs not sıgnıficant

| | | | | | | Group |
|---|---|---|---|---|---|---|
| | | | 2007 | | | 2006 |
| | Debt £m | Finance leases £m | Total £m | Debt £m | Finance leases £m | Total £m |
| Not later than one year | 2.2 | 0.4 | 2.6 | 1 6 | 0 5 | 2 1 |
| More than one year but not more than two years | - | 0.5 | 0.5 | - | 0 4 | 0 4 |
| More than two years but not more than five years | - | 1.6 | 1.6 | - | 1 6 | 1 6 |
| More than five years | 560.0 | - | 560.0 | 560 0 | 0 5 | 560 5 |
| | 562.2 | 2.5 | 564.7 | 561 6 | 3 0 | 564 6 |

£50 4m (2006 £48 5m) of trade and other payables wıll be settled not later than one year and £21 9m (2006 £nıl) wıll be settled wıthın more than two years but not more than five years

| | | Company |
|---|---|---|
| | 2007 £m | 2006 £m |
| Not later than one year | 1.0 | 1 0 |
| More than five years | 560.0 | 560 0 |
| | 561.0 | 561 0 |

The table below analyses the group's derıvatıve financıal ınstruments whıch wıll be settled on a gross basıs ınto relevant maturıty groupıngs, based on the remaınıng perıod at the balance sheet date to the contractual maturıty date The amounts dısclosed ın the table are the contractual undıscounted cash flows Balances due wıthın 12 months equal theır carryıng balances as the ımpact of dıscountıng ıs not sıgnıficant

| | | Group |
|---|---|---|
| | 2007 | 2007 |
| | Total outflows £m | Total ınflows £m |
| Not later than one year | 7.8 | 8.1 |
| More than one year but not more than two years | 4.9 | 5.1 |
| More than two years but not more than five years | 1.2 | 1.2 |

**Notes to the financial statements**

20 **Financial instruments** (continued)

The maturity profile of the minimum lease payments under finance leases was as follows

| | Group 2007 £m | 2006 £m |
|---|---|---|
| Not later than one year | **0.4** | 0 5 |
| More than one year but not more than five years | **2.1** | 1 9 |
| More than five years | **-** | 0 6 |
| | **2.5** | 3 0 |
| Future finance charges on finance leases | **(0.7)** | (0 9) |
| **Present value of finance lease liabilities** | **1.8** | 2 1 |

**B. Undrawn borrowing facilities**
The group has the following undrawn borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date

| | Floating rate £m | Fixed rate £m | 2007 Total £m | Group 2006 Total £m |
|---|---|---|---|---|
| Expiring | | | | |
| More than five years – committed | **350.0** | **-** | **350.0** | 350 0 |
| | **350.0** | **-** | **350.0** | 350 0 |

**C. Fair value of financial assets and liabilities**
**(i) Financial assets**
The carrying value for financial assets equates to the estimated fair value both for 2007 and 2006 The group considers that its maximum exposure to credit risk in respect of financial assets equates to their carrying value

**(ii) Financial liabilities**

| | Book value £m | 2007 Fair value £m | Book value £m | Group 2006 Fair value £m |
|---|---|---|---|---|
| Borrowings | **561.3** | **561.3** | 561 6 | 561 6 |
| Finance leases | **1.8** | **2.0** | 2 1 | 2 4 |
| | **563.1** | **563.3** | 563 7 | 564 0 |

| | Book value £m | 2007 Fair value £m | Book value £m | Company 2006 Fair value £m |
|---|---|---|---|---|
| Borrowings | **561.0** | **561.0** | 561 0 | 561 0 |

The fair value of other items has been calculated by discounting expected cash flows at prevailing interest rates at the year-end

**Notes to the financial statements**

20 **Financial instruments** (continued)

**D. Fair values of derivative financial instruments**
The fair value of derivative financial instruments (calculated as the present value of the estimated future cash flows) held by the group at the balance sheet date was

| | Group | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Assets | Liabilities | Assets | Liabilities |
| | £m | £m | £m | £m |
| Forward foreign exchange contracts – held as cash flow hedge | **0.7** | - | - | - |

Trading derivatives are classified as a current asset or liability The maximum exposure to credit risk at 31 December 2007 is the fair value of the derivative instruments The fair value of the forward foreign exchange contracts is allocated between current £0 4 m (2006 nil) and non-current £0 3m (2006 nil) based on the maturity of the hedged item

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December were £13 9m (2006 £nil) The hedged forecast transactions denominated in a foreign currency are expected to occur at various dates during the next 3 years and were transacted to hedge the group's currency exposure in relation to contracted future payments for the purchase of property, plant and equipment The change in value of forward foreign exchange contracts arises entirely in respect of foreign exchange movements The sensitivity of this valuation to exchange rate movements is not considered to be material

21 **Trade and other payables**

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | £m | £m | £m | £m |
| Trade payables | **16.3** | 18 0 | - | - |
| Amounts owed to associated undertakings | - | 0 2 | - | - |
| Other creditors | **3.5** | 2 9 | - | - |
| Taxation | **2.9** | 2 4 | - | - |
| Accruals | **27.7** | 25 0 | **2.5** | 6 0 |
| | **50.4** | 48 5 | **2.5** | 6 0 |

The carrying amount of trade and other payables approximates to their fair value

22 **Provisions**

| | Restructuring | Onerous contracts | Self insurance | Other | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| At 1 January 2007 | - | 4 0 | 10 5 | 2 1 | 16 6 |
| Charged / (credited) to income statement during the year | 5 5 | (0 3) | 2 6 | - | 7 8 |
| Utilised in year | (4 7) | (0 6) | (0 3) | - | (5 6) |
| Amortisation of discounting | - | 0 2 | - | - | 0 2 |
| **At 31 December 2007** | **0.8** | **3.3** | **12.8** | **2.1** | **19.0** |

**Notes to the financial statements**

**22 Provisions** (continued)

Provisions are analysed between non-current and current as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| Current | 9.4 | 8 8 |
| Non-current | 9.6 | 7 8 |
| | 19.0 | 16 6 |

**Restructuring**
Following the loss of a customer during 2007, the group incurred exceptional impairment and restructuring costs of £6 8m The balance of this provision relates to a number of cost reduction exercises due to be completed in the future The group expects to utilise £0 2m of this provision within one year

**Onerous contracts**
The provision for onerous contracts represents amounts provided in relation to property leases, which the group is committed to until 2016, where the unavoidable costs under the lease exceed the economic benefit In determining the provision, cash flows have been discounted on a pre-tax basis using a discount rate of 6 2 per cent The group expects to utilise £0 4m of this provision within one year

**Self insurance**
The group self-insures various matters relating primarily to property, employer's liabilities and general third party liabilities associated with its business In determining the provision, cash flows, where appropriate, have been discounted on a pre-tax basis using a risk-free discount rate The group expects to utilise £8 5m of this provision within one year, with the balance relating to potential liabilities which have been projected forward until 2037 The group reassesses this liability on an annual basis

**Other**
Other provisions primarily relate to obligations from commitments entered into as part of the development of certain port facilities The group expects to utilise £0 3m of the balance outstanding at 31 December 2007 within one year

**23 Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28 0% (2006 30 0%)

The movement on the deferred tax account is shown below

| | 2006 £m | Prior year adjustment £m | Charged/ (credited) to income statement £m | Charged to Retained Earnings £m | 2007 £m |
|---|---|---|---|---|---|
| Accelerated tax depreciation | 65 3 | 3 5 | (8 1) | - | 60.7 |
| Revaluation of operational land and investment properties | 22 1 | (0 8) | (5 6) | 1 1 | 16.8 |
| Capital losses | (7 5) | (5 6) | 10 9 | - | (2.2) |
| Retirement benefit obligations | 8 7 | - | 0 6 | 10 9 | 20.2 |
| Other | (2 8) | (2 9) | 0 7 | 0 4 | (4.6) |
| **Net deferred tax liability** | 85 8 | (5 8) | (1 5) | 12 4 | 90.9 |

No deferred tax asset is recognised in the balance sheet for unused capital losses of £41 7m (2006 £61 4m) These losses have no expiry date

**Notes to the financial statements**

23 **Deferred tax** (continued)

| | 2005 £m | Charged to foreign exchange £m | Charged / (credit) to income statement £m | Discontinued operations £m | Credited to retained earnings £m | 2006 £m |
|---|---|---|---|---|---|---|
| Accelerated tax depreciation | 60 8 | - | 4 5 | - | - | **65.3** |
| Revaluation of operational land and investment properties | 22 3 | - | (0 2) | - | - | **22.1** |
| Capital losses | (7 4) | - | (0 1) | - | - | **(7.5)** |
| Retirement benefit obligations | 1 2 | - | (0 7) | - | 8 2 | **8.7** |
| Discontinued operations | 9 5 | (0 9) | - | (8 6) | - | - |
| Advanced corporation tax | (6 3) | - | 6 3 | - | - | - |
| Other | (2 8) | - | 0 6 | - | (0 6) | **(2.8)** |
| **Net deferred tax liability** | 77 3 | (0 9) | 10 4 | (8 6) | 7 6 | **85.8** |

Deferred tax assets and liabilities are set out below

| | 2007 £m | 2006 £m |
|---|---|---|
| Deferred tax liabilities | **103.6** | 96 1 |
| Deferred tax assets | **(12.7)** | (10 3) |
| **Net deferred tax liability** | **90.9** | 85 8 |

The group's deferred tax assets are offset against deferred tax liabilities where there is a legally enforceable right of offset and there is an intention to settle the balances net Consequently, the group has provided for its deferred tax liabilities at 31 December 2007 of £90 9m (2006 £85 8m) on a net basis The group does not expect this liability to crystallise within the foreseeable future and has classified the balance as being non-current

During 2007, £nil (2006 £0 3m) was charged to the income statement and £0 4m was charged to equity (2006 £0 2m), in relation to deferred tax associated with share-based payments

The company's deferred tax asset of £0 9m relates to excess management expenses

24 **Other non-current liabilities**

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Property completions payable | **18.8** | - | - | - |

Under the terms of the sale of 81 acres of land at the Port of Barry in partnership with the Welsh Assembly Government, the Welsh Assembly Government's outstanding share of the consideration due is payable by the group upon receipt of the outstanding proceeds from the purchaser The outstanding proceeds are payable by the purchaser by not later than September 2010 (note 16) The amount due has been discounted at a rate of 6 2% The gross amount payable is £21 9m

**Notes to the financial statements**

## 25 Share capital

### A. Authorised

| | 2007 £m | 2006 £m |
|---|---|---|
| 500,000,000 (2006 500,000,000) ordinary shares of 25p each | **125.0** | 125 0 |

**Issued and fully paid**

| Ordinary shares of 25p each | 2007 Shares | 2007 £m | 2006 Shares | 2006 £m |
|---|---|---|---|---|
| At 1 January | **307,957,479** | **77.0** | 301,504,380 | 75 4 |
| Allotted under share option schemes and share incentive plan | **511,031** | **0.1** | 7,024,099 | 1 8 |
| Repurchase of shares | - | - | (571,000) | (0 2) |
| **At 31 December** | **308,468,510** | **77.1** | 307,957,479 | 77 0 |

The company did not repurchase any of its own shares during 2007

During 2006 the company repurchased and subsequently cancelled 0 6m shares with a nominal value of £0 2m The shares purchased in 2006, representing 0 2 per cent of ordinary shares in issue were part of the group's £205m share repurchase programme announced in 2004 and terminated following its acquisition by ABP Acquisitions UK Limited in August 2006 The total cost of the share purchases (including expenses and stamp duty) of £3 6m was charged to retained earnings

### B. Potential issue of shares

**(i) Outstanding share options**

During the year, options exercised under the schemes resulted in the issue of 511,031 ordinary shares of 25p each The company received a total of £1 6m in respect of these shares A summary of options granted to employees and outstanding at 31 December 2007 under share option schemes is given below

| | Date granted | Price per share | Date option normally exercisable | Number of options outstanding |
|---|---|---|---|---|
| Savings-related scheme | October 2000 | 255 0p | 2008 | 57,137 |
| Savings-related scheme | October 2001 | 327 0p | 2009 | 48,280 |
| Savings-related scheme | October 2002 | 327 0p | 2008 to 2010 | 368,150 |
| Savings-related scheme | October 2003 | 337 0p | 2008 to 2011 | 331,797 |
| Savings-related scheme | October 2004 | 354 0p | 2008 to 2012 | 522,305 |
| Savings-related scheme | October 2005 | 398 0p | 2009 to 2013 | 426,249 |
| | | | | **1,753,918** |

All grants of options made under the Savings-Related Share Option Scheme (SRSOS) were, as permitted by the rules of the scheme, made at a price equal to 80 per cent of the average middle-market quotations as derived from the Daily Official List of the London Stock Exchange for the dealing days specified in rule 6(ii) of the scheme To the extent permitted by the relevant savings contracts, holders of options under the SRSOS were allowed to exercise their options early following the group's acquisition by ABP Acquisitions UK Limited Options lapsing due to early exercise were cash compensated by ABP Acquisitions UK Limited

## Notes to the financial statements

25 **Share capital** (continued)

Historically the company also operated an Executive Share Option Scheme (ESOS), a Long-Term Incentive Plan (LTIP) and a Performance Share Plan (PSP) Following the acquisition of the company on 14 August 2006 no further grants were made under any of these schemes Historically the company also operated a Share Incentive Plan (SIP) that was closed following the acquisition of the company on 14 August 2006

### (ii) Changes in share options

A reconciliation of the changes in share options is shown below

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of shares | Weighted average exercise price (pence) | Number of shares | Weighted average exercise price (pence) |
| Outstanding at 1 January | **2,393,283** | **343.7** | 9,477,283 | 388 0 |
| Granted | **-** | **-** | 804,469 | 726 0 |
| Forfeited | **(128,334)** | **316.5** | (1,236,007) | 354 2 |
| Exercised | **(511,031)** | **322.5** | (6,652,462) | 451 1 |
| **Outstanding at 31 December** | **1,753,918** | **351.8** | 2,393,283 | 343 7 |
| **Exercisable at 31 December** | **-** | **-** | - | - |

There were no option expiries during the current or prior year Summary data for options outstanding at period end is set out below

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| Range of exercise prices | Weighted average exercise price (pence) | Number of shares | Weighted average remaining life expected (years) | Weighted average remainin g life contracte d (years) | Weighted average exercise price (pence) | Number of shares | Weighted average remaining life expected (years) | Weighted average remaining life contracted (years) |
| £ 2-3 | 255 0 | 57,137 | 1 3 | 1 0 | 251 0 | 142,207 | 7 1 | 1 3 |
| £ 3-4 | 355 1 | 1,696,781 | 2 7 | 2 4 | 349 6 | 2,251,076 | 5 0 | 2 8 |

The weighted average share price during the year for options exercised over the year was 910 0p (2006 872 7p) The weighted average fair value for options granted during 2007 was £nil (2006 £1 58)

**Notes to the financial statements**

25 **Share capital** (continued)

**C. Share-based payments**

**(i) Fair values**
As permitted by IFRS 2 Share-based Payment, the group has applied the requirements of this standard to all share-based payment awards either unvested at 31 December 2004 or granted after 7 November 2002 Under IFRS 2 Share-based Payment, the cost of each share-based payment is assessed on a fair value basis and is charged to the income statement over the vesting period of the grant. The fair value of each share-based payment is determined at the grant date

The fair value of share-based payment awards or grants made in 2006 at the award or grant date, are set out below There were no grants made in 2007

| | Free share plan grants-SIP £m | ESOS £m | LTIP/PSP £m | Total £m |
|---|---|---|---|---|
| 2006 | 1 2 | 1 3 | 1 0 | **3.5** |

The above fair values are an illustration based on 100 per cent of options granted coming to vest Based on the observed actual vesting percentages for completed and the expected vesting percentages for ongoing grants under the SRSOS, the following amounts have been charged to the group's income statement in respect of IFRS 2 Share-based Payment

| | 2007 £m | 2006 £m |
|---|---|---|
| Charge for grants in prior years | **0.3** | 2 7 |
| Charge for grants during 2005 | **0.2** | 2 4 |
| Charge for grants during 2006 | **0.1** | 3 1 |
| **Total income statement charge** | **0.6** | 8 2 |

**Notes to the financial statements**

25 **Share capital** (continued)

**C. Share-based payments** (continued)
**(ii) Fair value assumptions**

The fair value of shares and share options granted under the various schemes has been calculated using the Black-Scholes option pricing model No performance conditions were included in the fair value calculation No options were granted in 2007 The fair value per option granted and the assumptions made for each of the scheme awards for 2006 are listed below

| | **Free share plan grants-SIP[1] £m** | **ESOS** | **PSP** |
|---|---|---|---|
| Grant date | n/a | 26 April 06 | 26 April 06 |
| Participants | 1,881 | 74 | 3 |
| Contractual life (years) | 4 0 | 10 0 | 3 0 |
| Black-Scholes model assumptions | | | |
| Share price (p) | 910 | 726 | 726 |
| Exercise price (p) | - | 726 | - |
| Estimated life (years) | 4 0 | 4 5 | 3 0 |
| Risk-free interest rate | 4 58% | 4 58% | 4 57% |
| Dividend yield | 2 34% | 2 34% | 2 34% |
| Volatility | 23 9% | 23 9% | 20 3% |
| Basic fair value of option (p) | 910 | 158 | 726 |
| Options granted/shares awarded | n/a | 804,469 | 140,632 |
| Fair value of share options (£m) | 1 2 | 1 3 | 1 0 |
| Vesting adjustment factor | 100% | 85% | 71% |
| Total scheme adjusted fair value (£m) | 1 2 | 1 1 | 0 7 |
| Performance period (years) | 4 0 | 3 0 | 3 0 |
| Annual income statement charge which would be applied over the performance period (£m) | 0 3 | 0 4 | 0 2 |

Expected volatility for the 2006 grants was based on the historical volatility taking into account the expected vesting term for each grant The risk-free rate has been taken as the yield on UK government treasury bonds with a maturity date approximating to the expected or contracted vesting date of the share or share option as published in the Financial Times on the grant date For options issued under the Savings-Related Option Scheme, to which no performance criteria apply, the observable historical lapse rate of 25 per cent was applied in determining fair value For options issued under the Executive Share Option Scheme, the observable historical lapse rate of 15 per cent was applied in determining fair value For options issued under the US Stock Purchase Plan and California Stock Purchase Plan, to which no performance criteria apply, an expected vesting percentage of 90 per cent was applied For shares issued under the LTIP, a weighted average expected vesting percentage of 41 per cent was applied after taking into account the probabilities attached to the attainment of the market conditions

Except in a very limited number of circumstances, options granted under ESOS could only be exercised once the underlying earnings per share target for the company had been achieved Following the change of control of the company, options granted before 2005 vested in full on change of control and options granted in 2005 and beyond vested in full as the performance conditions were met over the shortened period Share Incentive Plan shares were allotted to a trustee on a monthly basis and held on trust for a period of five years prior to vesting The total charge for the year relating to employee share-based payment plans was £0 6m (2006 £8 2m), all of which related to equity-settled share-based payment transactions After deferred tax, the net charge to the income statement was £0 4m (2006 £6 0m)

[1] *This would have been granted in March 2007, however, following the acquisition of the Company on 14 August 2006 the SIP was closed and no further share distributions were made*

## Notes to the financial statements

### 26 Reserves and statement of changes in shareholder's equity

| | | | | | | | | Group |
|---|---|---|---|---|---|---|---|---|
| | | | | Other reserves | | | | |
| | Share capital £m | Share premium account £m | Revaluation reserve £m | Hedging reserve £m | Capital redemption Reserve £m | Share Options Reserves £m | Retained earnings £m | Total £m |
| At 1 January 2007 | 77 0 | 124 0 | 688 2 | - | 25 5 | 22 3 | 69 3 | 1,006 3 |
| Actuarial gain relating to net retirement benefit assets | - | - | - | - | - | - | 41 3 | 41 3 |
| Deferred tax associated with actuarial gain relating to net retirement benefit assets | - | - | - | - | - | - | (10 9) | (10 9) |
| Fair value gain on forward foreign exchange contract | - | - | - | 0 7 | - | - | - | 0 7 |
| Share of associated undertakings' actuarial gain relating to net retirement benefit liabilities | - | - | - | - | - | - | 0 8 | 0 8 |
| Profit for the year | - | - | - | - | - | - | 135 0 | 135 0 |
| Issue of ordinary shares | 0 1 | 1 5 | - | - | - | - | - | 1 6 |
| Surplus arising on revaluation of investment property (note 13) | - | - | 17 0 | - | - | - | (2 9) | 14 1 |
| Deferred tax arising on revaluation of investment property | - | - | - | - | - | - | (1 1) | (1 1) |
| Realisation of property revaluation surpluses of previous years | - | - | (0 5) | - | - | - | 0 5 | - |
| **At 31 December 2007** | **77.1** | **125.5** | **704 7** | **0 7** | **25 5** | **22.3** | **232.0** | **1,187 8** |

## Notes to the financial statements

### 26 Reserves and statement of changes in shareholder's equity (continued)

| | | | | | | | | | Group |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Other reserves | | | | | |
| | Share capital £m | Share premium account £m | Revaluation reserve £m | Hedging reserve £m | Capital redemption reserve £m | Share options reserves £m | Translation reserve £m | Retained earnings £m | Total £m |
| At 1 January 2006 | 75 4 | 95 4 | 684 9 | (0 1) | 25 3 | 7 7 | 0 9 | 61 1 | 950 6 |
| Actuarial gain relating to net retirement benefit assets | - | - | - | - | - | - | - | 27 3 | 27 3 |
| Deferred tax associated with actuarial gain relating to net retirement benefit assets | - | - | - | - | - | - | - | (8 2) | (8 2) |
| Share of associated undertakings' actuarial gain relating to net retirement benefit liabilities | - | - | - | - | - | - | - | 0 7 | 0 7 |
| Share of associated undertakings' gain relating to cash flow hedges | - | - | - | 0 1 | - | - | - | - | 0 1 |
| Currency translation differences on foreign currency net investments | - | - | - | - | - | - | (0 9) | - | (0 9) |
| Profit for the year | - | - | - | - | - | - | - | 36 8 | 36 8 |
| Dividends paid (note 9) | - | - | - | - | - | - | - | (47 0) | (47 0) |
| Issue of ordinary shares | 1 8 | 28 6 | - | - | - | - | - | - | 30 4 |
| Repurchase of shares (note 25) | (0 2) | - | - | - | 0 2 | - | - | (3 6) | (3 6) |
| Share-based payments | - | - | - | - | - | 14 6 | - | - | 14 6 |
| Surplus arising on revaluation of investment property (note 13) | - | - | 8 8 | - | - | - | - | (3 3) | 5 5 |
| Realisation of property revaluation surpluses of previous years | - | - | (5 5) | - | - | - | - | 5 5 | - |
| **At 31 December 2006** | **77 0** | **124 0** | **688.2** | - | **25.5** | **22 3** | - | **69 3** | **1,006.3** |

At 31 December 2007, cumulative goodwill written off was £20 9m (2006 £20 9m), including £4 2m (2006 £4 2m) in respect of associated undertakings

**Notes to the financial statements**

26 **Reserves and statement of changes in shareholder's equity** (continued)

| | | | Other reserves | | | Company |
|---|---|---|---|---|---|---|
| | Share capital £m | Share premium account £m | Capital Redemption Reserve £m | Share options reserves £m | Retained Earnings £m | Total £m |
| At 1 January 2007 | **77.0** | **124.0** | **25.5** | **14.8** | **0.8** | **242.1** |
| Profit for the year | - | - | - | - | 160 2 | 160 2 |
| Issue of ordinary shares (note 25) | 0 1 | 1 5 | - | - | - | 1 6 |
| Share-based payments | - | - | - | (0 6) | - | (0 6) |
| **At 31 December 2007** | **77.1** | **125.5** | **25.5** | **14.2** | **161.0** | **403.3** |
| At 1 January 2006 | 75 4 | 95 4 | 25 3 | 5 9 | 122 5 | 324 5 |
| Loss for the year | - | - | - | - | (71 1) | (71 1) |
| Dividends paid | - | - | - | - | (47 0) | (47 0) |
| Issue of ordinary shares | 1 8 | 28 6 | - | - | - | 30 4 |
| Repurchase of shares (note 25) | (0 2) | - | 0 2 | - | (3 6) | (3 6) |
| Share-based payments | - | - | - | 8 9 | - | 8 9 |
| **At 31 December 2006** | **77.0** | **124.0** | **25.5** | **14.8** | **0.8** | **242.1** |

27 **Cash flow statements**

Reconciliation of operating profit to cash generated from operations

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| **Continuing operations** | | | | |
| Operating profit/(loss) | **192.6** | 147 4 | **(1.8)** | (36 9) |
| Depreciation of property, plant and equipment | **36.2** | 33 7 | - | - |
| Amortisation of intangible assets | **0.4** | 0 3 | - | - |
| Share-based payments | **(0.6)** | 7 4 | **(0.6)** | 1 1 |
| Profit on sale of property, plant and equipment | **(0.1)** | (0 6) | - | - |
| Profit on sale of investment property | - | (0 4) | - | - |
| Increase in provisions | **2.2** | 1 9 | - | - |
| Revaluation of investment properties | **(2.9)** | (3 3) | - | - |
| (Increase) / decrease in net retirement benefit asset | **(1.7)** | 2 2 | - | - |
| **Operating cash flows before movements in working capital** | **226.1** | 188 6 | **(2.4)** | (35 8) |
| Decrease in property developments and land held for sale | **6.1** | 5 2 | - | - |
| (Increase)/decrease in trade and other receivables – other | **(131.7)** | 0 2 | **(156.6)** | (4 5) |
| (Decrease)/increase in trade and other payables | **(24.5)** | (5 3) | **(3.5)** | 159 3 |
| **Cash generated from/ (absorbed by) operations** | **76.0** | 188 7 | **(162.5)** | 119 0 |

| | Group | | Company | |
|---|---|---|---|---|
| Analysis of cash and cash equivalents | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Cash at bank and in hand (note 18) | **34.8** | 43 1 | - | - |
| Bank overdraft (note 19) | **(0.9)** | - | - | - |
| **Cash and cash equivalents** | **33.9** | 43 1 | - | - |

**Notes to the financial statements**

26 **Reserves and statement of changes in shareholder's equity** (continued)

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | | | Other reserves | | | |
| | Share capital £m | Share premium account £m | Capital Redemption Reserve £m | Share options reserves £m | Retained Earnings £m | Total £m |
| At 1 January 2007 | **77.0** | **124.0** | **25.5** | **14.8** | **0.8** | **242.1** |
| Profit for the year | - | - | - | - | 160 2 | 160 2 |
| Issue of ordinary shares (note 25) | 0 1 | 1 5 | - | - | - | 1 6 |
| Share-based payments | - | - | - | (0 6) | - | (0 6) |
| **At 31 December 2007** | **77.1** | **125.5** | **25.5** | **14.2** | **161.0** | **403.3** |
| At 1 January 2006 | 75 4 | 95 4 | 25 3 | 5 9 | 122 5 | 324 5 |
| Loss for the year | - | - | - | - | (71 1) | (71 1) |
| Dividends paid | - | - | - | - | (47 0) | (47 0) |
| Issue of ordinary shares | 1 8 | 28 6 | - | - | - | 30 4 |
| Repurchase of shares (note 25) | (0 2) | - | 0 2 | - | (3 6) | (3 6) |
| Share-based payments | - | - | - | 8 9 | - | 8 9 |
| **At 31 December 2006** | **77.0** | **124.0** | **25.5** | **14.8** | **0.8** | **242.1** |

27 **Cash flow statements**

Reconciliation of operating profit to cash generated from operations

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| **Continuing operations** | | | | |
| Operating profit/(loss) | **192.6** | 147 4 | **(1.8)** | (36 9) |
| Depreciation of property, plant and equipment | **36.2** | 33 7 | - | - |
| Amortisation of intangible assets | **0.4** | 0 3 | - | - |
| Share-based payments | **(0.6)** | 7 4 | **(0.6)** | 1 1 |
| Profit on sale of property, plant and equipment | **(0.1)** | (0 6) | - | - |
| Profit on sale of investment property | - | (0 4) | - | - |
| Increase in provisions | **2.2** | 1 9 | - | - |
| Revaluation of investment properties | **(2.9)** | (3 3) | - | - |
| (Increase) / decrease in net retirement benefit asset | **(1.7)** | 2 2 | - | - |
| **Operating cash flows before movements in working capital** | **226.1** | 188 6 | **(2.4)** | (35 8) |
| Decrease in property developments and land held for sale | **6.1** | 5 2 | - | - |
| (Increase)/decrease in trade and other receivables – other | **(127.2)** | 0 2 | **(156.6)** | (4 5) |
| (Decrease)/increase in trade and other payables | **(29.0)** | (5 3) | **(3.5)** | 159 3 |
| **Cash generated from/ (absorbed by) operations** | **76.0** | 188 7 | **(162.5)** | 119 0 |

| | Group | | Company | |
|---|---|---|---|---|
| Analysis of cash and cash equivalents | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Cash at bank and in hand (note 18) | **34.8** | 43 1 | - | - |
| Bank overdraft (note 19) | **(0.9)** | - | - | - |
| **Cash and cash equivalents** | **33.9** | 43 1 | - | - |

**Notes to the financial statements**

28 **Related party transactions**

The group has interests in two associated undertakings Southampton Container Terminals Limited and Tilbury Container Services Limited The nature of these investments is described more fully in note 31 to the financial statements During the year, the group charged these undertakings a total of £30 0m (2006 £24 3m) in respect of property management and operational services At the year-end, £12 8m (2006 £6 5m) remained owing by these undertakings in respect of these charges, and in relation to tax losses to be surrendered by the group to these entities

The amounts disclosed in this note as owing by these undertakings at the year end are aggregated with other loans made to or temporary deposits made by these associated undertakings of the group for the purposes of the disclosure of the balances with associated undertakings in notes 16 and 21

The company has an interest bearing loan arrangement with its immediate parent undertaking, ABP Acquisitions UK Limited During 2007, the company charged to and was paid by ABP Acquisitions UK Limited £4 5m in respect of this facility During 2006, the company was charged by and paid to ABP Acquisitions UK Limited £9 9m in respect of this facility The balance remaining outstanding under this loan facility as at 31 December 2007 was £154 5m (2006 £4 5m) The interest rate on this loan is 8 17% (2006 7 27%)

ABP Insurance Limited, a direct subsidiary of Associated British Ports Holdings Limited, acts as the group's captive insurance company It writes both employers' liability and general package policies for group companies and received £4 0m (2006 £3 8m) of premiums during the year

The group's UK retirement benefit schemes are managed by The Associated British Ports Group Pension Scheme (see note 15) During the year, the group charged The Associated British Ports Group Pension Scheme £0 3m (2006 £0 3m) in respect of administrative services At the year-end, £nil (2006 £nil) remained owing to the group by The Associated British Ports Group Pension Scheme in respect of these charges

Key management compensation is disclosed in note 6 During the year, nine of the directors of the company were employed by the shareholders of ABP (Jersey) Limited Each shareholder is entitled to receive fees for the services of these directors and may request that the fees are paid directly to a Director During 2007, Goldman Sachs International earned £47,014 (2006 £12,000) of directors' fees, Borealis International Investments Corporation and Borealis (Luxembourg) S C A earned £70,521 (2006 £18,000) of directors' fees, Cheyne Walk Investments Pte Limited earned £70,521 (2006 £18,000) of directors' fees and Infracapital Partners Lp and M&G Investment Limited earned £23,507 (2006 £6,000) of directors' fees

**Notes to the financial statements**

## 29 Financial commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £m** | **2006 £m** | **2007 £m** | **2006 £m** |
| Group capital expenditure contracted but not provided for | **22.8** | 8 8 | - | - |

The group's share of the capital commitments of its associated undertakings amounted to £4 0m (2006 £0 1m)

| | Group | | Company | |
|---|---|---|---|---|
| Total future minimum lease payments under non-cancellable operating leases are as follows | **2007 £m** | **2006 £m** | **2007 £m** | **2006 £m** |
| Not more than one year | **3.8** | 2 7 | **0.9** | 0 9 |
| More than one year but not more than five years | **9.2** | 8 0 | **0.2** | 1 1 |
| More than five years | **19.8** | 17 2 | - | - |
| | **32.8** | 27 9 | **1.1** | 2 0 |

| | Group | | Company | |
|---|---|---|---|---|
| Total future minimum lease payments expected to be received under non-cancellable subleases are as follows | **2007 £m** | **2006 £m** | **2007 £m** | **2006 £m** |
| Not more than one year | **0.8** | 1 3 | - | - |
| More than one year but not more than five years | **1.3** | 0 5 | - | - |
| More than five years | **0.4** | - | - | - |
| | **2.5** | 1 8 | - | - |

The group leases various vehicles and offices under non-cancellable operating lease agreements, which have various terms and renewal rights

## 30 Contingent liabilities

| | Group | | Company | |
|---|---|---|---|---|
| Contingent liabilities under claims, indemnities and bank guarantees | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Bank guarantees in respect of parent company borrowings | **2,160.0** | 2,160 0 | **2,160.0** | 2,160 0 |
| Other guarantees and contingencies | **0.6** | 0 6 | - | - |

The company has provided guarantees in respect of parent company borrowings and facilities totalling £2,720m (2006 £2,720m) Under these facilities £560m of indebtedness was incurred by the company as at 31 December 2007 (2006 £560m) and is included in the company's borrowings as set out in note 19 As part of the security package for these facilities the group has given a legal mortgage over all of its real property, shares in subsidiaries and a fixed and floating charge over various assets including its rights in relation to its principal subsidiary, Associated British Ports

Other guarantees and contingencies relate primarily to performance bonds

The group makes contributions to three industry-wide defined benefit pension schemes, which have various funding levels The group's ability to control these schemes is limited and therefore the impact on the group's future cash flows and cost base from these schemes is uncertain Further details on these schemes are set out in note 15

**Notes to the financial statements**

## 31 Principal subsidiary and associated undertakings

| | % held by Group |
|---|---|
| **Subsidiary undertakings** | |
| **Ports and transport** | |
| Associated British Ports | (see below) [1] |
| Southampton Free Trade Zone Limited | 100 |
| The Teignmouth Quay Company Limited | 100 |
| ABP Marine Environmental Research Limited (directly owned) | 100 |
| **Property** | |
| Grosvenor Waterside (Holdings) Limited | 100 |
| ABP Property Development Company Limited | 100 |
| Grosvenor Waterside Investments Limited | 100 |
| **Associated undertakings** | |
| **Ports and transport** | |
| Southampton Container Terminals Limited | 49 |
| Tilbury Container Services Limited | 33[2] |

[1] *Under the Transport Act 1981, the company has powers over Associated British Ports corresponding to the powers of a holding company over a wholly owned subsidiary undertaking*

[2] *Associated British Ports also owns 49 per cent of the issued preference share capital in Tilbury Container Services Limited*

All subsidiary and associated undertakings are registered and operate in England and Wales The group's interest in subsidiary undertakings is represented by ordinary shares All shares held are of the same class with voting rights in the same proportion to the shareholding A full list of subsidiary and associated undertakings will be annexed to the company's next annual return

## 32 Ultimate parent undertaking

The company is a limited liability company domiciled and incorporated in England and Wales Its immediate parent undertaking is ABP Acquisitions UK Limited (formerly Admiral Acquisitions UK Limited), who acquired the entire share capital of the company by way of a scheme of arrangement, which became effective on 14 August 2006 The ultimate parent undertaking is ABP (Jersey) Limited (formerly Rose Ports (Jersey) Limited) (a company controlled by Borealis International Investments Corporation, GIC Special Investments Pte, Goldman Sachs Infrastructure Fund and Infracapital LP acting by its manager M&G Investment Management Limited), which is registered in Jersey and which produces consolidated financial statements that comply with IFRS and are available from Whiteley Chambers, Don Street, St Helier, Jersey, JE4 9WG

## 31 Post balance sheet events

In the 2007 Budget Report, the government announced proposed changes to capital allowances If these measures are enacted they will result in an increase in the future cash tax rate for the group and an increase in the deferred tax liabilities of the group The group continues to evaluate the potential impact of these proposed changes