Doing business...

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“Running a ports business is not just about ships, it’s about service. And it’s not just about handling cargo, it’s about adding value.”

A Dave Atkin, Head of Operations, Port of Grimsby & Immingham

Making Business

ABP

Annual Report & Accounts 2002

"Making it happen, 24 hours a day at 21 ports, is the basics. The real challenge is creating opportunities for growth."

(A) Dave Atkin, Head of Operations, Port of Grimsby & Immingham

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1 **Ships' dues:** normally these charges are based on vessel tonnage and are paid by the ship owner. Dues can also be combined with other charges. We have a statutory right to charge ships' dues to vessels berthing at our ports.

2 **Goods' dues:** also known as wharfage or cargo dues, these are charges based on cargo tonnage for goods passing over our quays. We have a right to levy a charge for all cargo passing over our quays and through our facilities. They can be charged separately or as part of an all-inclusive rate.

3 **Handling services:** when independent stevedores work at our ports, they pay us licence fees, rent and charges for hiring plant and equipment. When we provide stevedoring services ourselves, our customers

. . .everywhere we look

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pay us directly. Our charges cover labour, equipment supply and value-added services such as bagging, blending, de-vanning, warehousing and re-delivery.

4 **Terminal operations:** income earned from terminals we run on behalf of our customers. Under medium- to long-term arrangements, we provide packaged solutions that include handling services, storage and terminal maintenance.

5 **Storage/warehousing:** charges for storing cargo passing through our ports. Based on tonne per day or area used, they can be part of an all-inclusive rate or levied separately.

6 **Rentals/estate management:** income earned from charges for the use of land on our port estate. The agreements can be in the form of leases or tenancy arrangements and can include the provision of utility services.

7 **Pilotage:** statutory Pilotage Authority charges for guiding a vessel through the estuary or harbour area. The charge, including boarding and landing fees, is normally based on vessel size/draught and pilot boarding/landing points.

8 **Conservancy:** statutory charges for the maintenance of safe and navigable waterways. They cover Vessel Traffic Services, navigation markers and the maintenance of channels through dredging. The amount is based on vessel size and distance travelled within our areas of statutory responsibility.

Stability, measured by the bottom line

Our business is stable. We're backed by a quality asset base and there's steady demand for our facilities and services. At the same time, we're growing our turnover by winning new customers for our core ports business and by expanding the range of our services. Our warehousing, distribution, transportation and value-added businesses are all on course for growth.

Queen Mary's new palace at Southampton

The world's largest cruise liner deserves port facilities in keeping with her status. At the Queen Elizabeth II Terminal, we've embarked on a re-building programme to double the number of check-in desks, extend the baggage hall and significantly increase passenger capacity. As part of a new five-year agreement with Cunard Line to welcome Queen Mary 2 when she comes into service in 2004, we're also giving the passenger lounges a comprehensive makeover.

Converting ideas into profitable growth

AMPORTS UK's vehicle centre at Southampton is the base for a small, but profitable, operation. Among other activities, it carries out pre-delivery inspection of vehicles. During 2002, we authorised investment in 31 projects, each costing under £2 million, across the group. Individually, each project was small, yet together they accounted for around a third of our total capital expenditure. We've learnt that small initiatives can lead to sizeable profits.

We even make money from broken glass

Green, brown or clear, we don't care. Midland Glass Processing's new plant at Southampton is set to recycle 24,000 tonnes of glass during its first year. The glass will be shipped to Ayr, Jarrow and Londonderry, where it will be made into new bottles. This project, part-funded by an £800,000 government grant towards the construction cost, will take almost 2,000 heavy goods vehicle movements off the roads on an annual basis.

Seizing opportunities from seized goods

Smuggling has long been a popular coastal activity and Excise fraud is now a growing problem. Following a competitive EC tendering process, ABP Connect, our value-added services division, has won a six-year contract with HM Customs & Excise and is now working closely with them in the provision of 'specialised storage solutions' for seized goods. Where? We can't say–it's an official secret!

We can safely rely on teamwork

Working at our ports often requires strenuous physical effort. Equally, working out logistical solutions requires strenuous mental effort. We respect both contributions. Regardless of job title (or work-wear), our people pull together to get the job done. Our culture is focused on efficiency, effective team-working and, above all, safety.

In early 2000, we said we would…

- Obtain new business which meets new investment disciplines and focuses on the UK ports business
- Develop a new deep-sea container terminal – Dibden Terminal – at the Port of Southampton
- Develop value-added services associated with the ports business
- Sell £200.0m of non-core property and land
- Review other non-core assets within the group
- Repurchase own shares

Developments 2001-2002
● Acquisition
○ Investment in new business
□ Disposal

2001

◐ Tim Bowdler joins the ABPH board as a non-executive director (Jan)

○ Ford and Volvo vehicle-processing contracts, Baltimore, Maryland (Feb) – £1.4m

△ Paul Allen appointed Managing Director, ABP Connect, and joins the ABP board (Apr)

○ Cardiff Distribution Terminal (Apr) – £2.5m

ABP Connect launched (Apr)

○ Rotterdam Terminal, Hull (May) – £14.3m

○ West Dock, Goole (May) – £0.9m

○ Kintyre Terminal, Hydro Agri, Ayr (Jun) – £1.0m

○ East Pier Terminal, Troon (Jul) – £5.0m

● Cold store, ABP Connect, Hull (Jul) – £2.0m

● Fixed-base operation, Burlington, Vermont (Jul) – £2.6m

○ Mitsubishi vehicle-processing contract at Baltimore, Maryland, and Brunswick, Georgia (Sep) – £0.2m

◐ Ross Sayers joins the ABPH board as a non-executive director (Oct)

○ Volkswagen vehicle-processing contract, Brunswick, Georgia (Oct) – £0.2m

○ Garston Agribulk Store, Hydro Agri, Garston (Oct) – £0.4m

○ St. David's Agribulk Terminal, Hydro Agri, Swansea (Oct) – £1.8m

Public inquiry into Dibden Terminal application begins (Nov)

Progress to date...

- Over 50 new long-term contracts won during 2000, 2001 and 2002 – some of which are set out below
- Planning application for Dibden Terminal submitted in October 2000 and public inquiry completed in December 2002. Government decision expected either in late 2003 or 2004
- ABP Connect, formed to develop value-added services, increased its turnover by 32 per cent in 2002
- £169.0m of non-core property and land sold by the end of 2002
- Red Funnel Group sold for £71.0m in 2000 and AMPORTS USA's Aviation division sold for £32.0m in 2002
- Share repurchase programmes totalling £220.0m completed in 2001

2002 – top line results

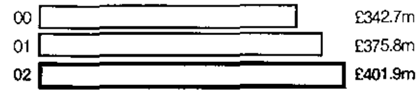
Group turnover#
£401.9m +7%

Underlying operating profit#*
– ports and transport operations
£142.9m +4%

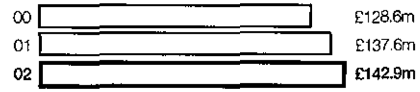
Total underlying operating profit#*
£172.2m +3%

Underlying profit before tax*
£138.1m +6%

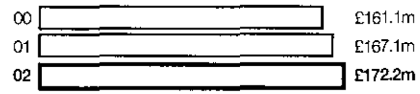
Group turnover#



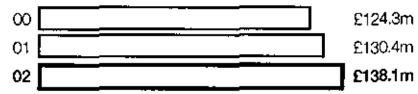
Underlying operating profit#*
– ports and transport operations



Total underlying operating profit#*



Underlying profit before tax*



Continuing operations
* Before goodwill amortisation and exceptional items

2002

- △ **Nick Palmer and Phillip Williams join the ABP board** (Jan)
- △ **Ian Schofield joins the ABP board** (Feb)
- ○ **Timber storage facility, Hull** (Jan) – £0.6m
- ○ **Honda car terminal, Southampton** (Jan) – £0.6m
- ○ **Carrick Terminal, IAWS, Ayr** (Feb) – £1.0m
- ○ **ABP Dowds Terminal, Newport** (Mar) – £0.8m
- ◐ **Ross Sayers appointed non-executive Chairman of the ABPH board** (Apr)
- ◒ **Stephen Walsh appointed General Counsel of ABP** (Apr)
- ○ **Cold store extension, ABP Connect, Cardiff** (Mar) – £2.5m
- ○ **Hyundai vehicle-processing facility, Baltimore, Maryland** (Apr) – £3.1m
- ○ **Mobile harbour crane, Hydro Agri, Immingham** (Apr) – £1.5m
- ● **Purchase of operating assets, Hams Hall, ABP Connect** (Apr) – £0.3m
- ○ **Southampton International Vehicle Terminal, Southampton** (Apr) – £4.0m
- ○ **Warehousing facilities, HM Customs & Excise, ABP Connect** (Jul) – £1.2m
- ○ **Surfacing works, Humber International Terminal, Immingham** (Jul) – £0.6m
- ○ **Rail siding, Humber International Terminal, Immingham** (Aug) – £5.6m
- ○ **Additional vehicle storage facilities, Volkswagen Group, Grimsby** (Dec) – £0.6m
- ◐ **Stuart Chambers joins the ABPH board as a non-executive director** (Oct)
- ○ **Glass recycling & export facility, Southampton** (Dec) – £0.8m
- □ **Completed sale of AMPORTS USA's Aviation division** (Dec) – £32.0m
- **Public inquiry into Dibden Terminal application ends** (Dec)

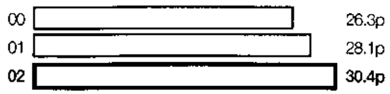
2003

- ○ **Bulk-handling terminal, Southampton** (Feb) – £1.5m
- ○ **Extension of timber terminal, Hull** (Mar) – £0.6m
- ○ **Construction of forest products terminal, Immingham** (Mar) – £1.0m
- ○ **Refurbishment of Mayflower Cruise Terminal, Southampton** (Apr) – £6.5m
- ○ **Agribulk facility, IAWS, Immingham** (Apr) – £1.1m
- ○ **Storage & distribution warehouse, Ayr** (Apr) – £1.0m
- ○ **Queen Elizabeth II Terminal, Southampton** (Apr) – £2.0m
- ○ **Expansion of storage and distribution facilities, Goole** (May) – £0.7m
- ○ **Terminal for Saint-Gobain Building Distribution, Newport** (Jun) – £4.6m
- ○ **New cruise terminal, Southampton** (Jul) – £1.5m
- ○ **Marina development, Lowestoft** (Sep) – £1.0m
- ○ **Redevelopment of port facilities, Teignmouth** (Mar 2004) – £4.0m

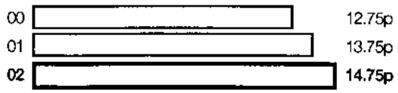
Underlying earnings per share*#
30.4p +8%

Dividend per share
14.75p +7%

Underlying earnings per share*#



Dividend per share



* Before goodwill amortisation and exceptional items
# Restated for the effects of FRS19 – Deferred Tax

Chairman's statement

In my first statement as Chairman, I am pleased to report another strong performance by the group during 2002. Against a challenging economic background our core UK ports business has once again performed satisfactorily, producing 3 per cent growth in underlying operating profit from continuing operations. This performance is reflected in our financial results, with underlying pre-tax profit up 6 per cent to £138.1 million (2001: £130.4 million). Underlying earnings per share increased by 8 per cent to 30.4 pence per share (2001: 28.1 pence per share), benefiting from both the strong operating results and a reduction in the weighted average number of shares following the previous year's share repurchase programme.

Results

The group's ports and transport business continued to grow in 2002, contributing £142.9 million to operating profit from continuing operations, an increase of 4 per cent on 2001 (£137.6 million). As anticipated, as a result of the programme of non-core property sales, lower rental income reduced the profit from property investment to £6.8 million (2001: £8.0 million). There was also a reduction in profit from property development, which contributed £12.0 million (2001: £13.0 million). The contribution from the group's associated companies, however, showed an increase to £10.5 million (2001: £8.5 million), reflecting strong performances from our interests in two container-handling businesses, Southampton Container Terminals and Tilbury Container Services. The disposal of non-core investment properties provided an additional profit of £0.7 million (2001: £0.6 million) and goodwill amortisation at £1.6 million was similar to the previous year's charge (2001: £1.5 million). In addition, the group realised an exceptional profit of £7.4 million, following the sale of AMPORTS USA's Aviation division. This was offset, to a large extent, by a £5.5 million restructuring charge resulting from a review of the group's cost base. We estimate that this review will save the group at least £3.0 million per year once the programme of cost savings is fully implemented. Comparative figures for 2001 have been restated for the effects of Financial Reporting Standard 19 – Deferred Tax, which the group adopted during the year.

Business highlights

The core ports and transport business continued to benefit from our strategy of growing the business with existing and new customers. Our rigorously-targeted capital investment programme continued to generate further growth-producing projects. Highlights for the year included a new £5.6 million rail siding for Humber International Terminal at Immingham, the new £4.0 million Southampton International Vehicle Terminal and a new £3.1 million Hyundai vehicle-processing facility at Baltimore in Maryland, USA. We are investing £8.5 million in passenger-terminal improvements at Southampton and developing a £1.5 million third cruise terminal there. We also reached agreement in principle for a new £4.6 million timber terminal for Saint-Gobain Building Distribution at Newport and the Port of Teignmouth will benefit from a £4.0 million redevelopment.

The public inquiry into our application to develop a new six-berth container port at Dibden, opposite the Port of Southampton, concluded in

December 2002. We are convinced of the need for additional deep-sea container capacity in the UK and remain committed to developing this facility. The government's decision is now expected either in late 2003 or 2004.

Our strategy of disposing of non-core assets continues. As well as the US$50.0 million sale of the Aviation division of our US operations, we sold a further £31.0 million of property and land during the year. Sales of non-core assets since 1 January 2000 total £272.0 million.

Dividend

The directors are recommending a final dividend of 8.25 pence per share (2001: 7.75 pence per share), which makes a total of 14.75 pence per share for 2002 (2001: 13.75 pence per share). If approved by shareholders, the final dividend will be paid on 1 May 2003 to shareholders who are on the register at 4 April 2003.

Board of directors

Sir Keith Stuart retired from the board on 16 April 2002, having been Chairman since 1982 and Managing Director of the British Transport Docks Board, Associated British Ports' predecessor, from 1976. Sir Keith made a very significant contribution to the group over many years. He led the company's successful privatisation – one of the most successful in the UK – in 1983 and played a major role in the reform of industrial relations at the ports. The board and I wish him well.

George Duncan, non-executive Deputy Chairman, will retire from the board at the Annual General Meeting on 15 April 2003. He has served the company as a non-executive director for 17 years, during which time the group has benefited greatly from his considerable boardroom experience.

Stuart Chambers, group chief executive of Pilkington plc, one of the world's leading glass manufacturers, became a non-executive director on 15 October 2002. I am confident that Stuart's wealth of industrial experience will enable him to make an excellent contribution to the board.

I would like to take this opportunity to thank everyone across the group for their continuing efforts. Our strong results would not have been possible without their hard work.

Prospects

While the general economic climate remains uncertain, group performance so far in 2003 has been satisfactory. The group's UK ports business has the advantage of many long-term contracts with quality customers. These agreements, together with the group's strong cash flow and diverse spread of geographical and cargo risk, lead us to remain confident of making further progress in 2003.

Ross Sayers
Chairman

19 February 2003

"In my first statement as Chairman, I am pleased to report another strong performance by the group."

"Developments announced during 2002 are consistent with the group's strategy."

Group Chief Executive's review

Ports & transport – UK

Developments announced during 2002 are consistent with the group's strategy of growing existing business and developing new business through rigorously-targeted investment.

The group continues to focus on its core ports and transport activities. The group's main business of operating its UK ports grew by 3 per cent in 2002, maintaining the positive momentum generated over the previous two years.

The group intends to continue to concentrate its capital investment programme on commercially-attractive projects generating internal rates of return of at least 15 per cent, supported by long-term contracts with quality customers. This strategy has ensured that over 50 per cent of the UK ports' business over the next year is underpinned by customer contracts. This stable revenue profile has helped the group withstand the effects of the current economic slowdown on trade volumes. Non-revenue-earning or maintenance capital expenditure continues to be monitored closely and contained below the group's annual rate of depreciation.

The locations of the group's UK ports constitute a good geographical spread of risk. In addition, no single type of cargo accounts for more than 10 per cent of the group's UK ports turnover.

This carefully-focused strategy has delivered strong growth in underlying earnings per share and an increase in the group's return on capital employed over the last three years.

Dibden Terminal, the group's proposed deep-sea container port development at Southampton, supported by the substantial growth projected in deep-sea container traffic, offers further opportunities for growth. Container volumes through the Southampton container terminal grew by 10 per cent in 2002. The public inquiry into the group's application to develop Dibden Terminal commenced in November 2001 and was completed on schedule in December 2002. The government's decision is now expected either late this year or next year.

To accommodate increasing volumes of roll-on/roll-off traffic, imports of coal and shortsea container traffic, the group is looking to construct further riverside terminals on the Humber Estuary, where ABP owns and operates four ports – Grimsby, Immingham, Hull and Goole. These planned facilities will remove the need for vessels to lock in and out of ports, enabling quicker turnaround and the accommodation of larger ships.

The major growth projects at Dibden Terminal and on the Humber will only be developed once the group has secured customer contracts that meet its investment criteria.

ABP Connect, which focuses on developing the value-added services that the group can offer customers, has now been operating for approximately 18 months. This division is an extension of the ports and transport-related activities in which the group already has considerable expertise. ABP Connect has firmly established itself in the market by operating and managing Hams Hall Railfreight Terminal, Birmingham, and by securing a major contract with HM Customs & Excise for the storage of seized goods. The group's strategy is to consolidate the value-added services that are provided in order to give them greater focus and to realise their full potential. ABP Connect has performed well, in line with expectations.

The group continues to take a cautious view in respect of strategic acquisitions. Activities closely aligned with the group's core business will be considered, provided they meet the prescribed hurdle rate of return of 15 per cent for new capital investment.

ABP is continuing to work with the UK government with regard to anti-terrorism measures in the wake of 11 September 2001. For security legislation to be successful in the ports industry, it needs to be well focused on the immediate ship and port interface and pay particular attention to cargoes and facilities of strategic importance to national security.

As part of the group's ongoing programme of managing its cost base, a further cost review was undertaken towards the end of the year with the intention of reducing future operating expenditure. This resulted in a pre-tax exceptional restructuring charge to the profit and loss account of £5.5 million in 2002. It is estimated that the review will realise savings of at least £3.0 million per year once the programme of cost savings is fully implemented.

Ports & transport – USA

In September 2001, the group announced the result of a review which it undertook in order to determine whether the group's USA operations were in line with its core business objectives.

As a result of this review, the group decided to retain AMPORTS USA's Seaport division, which is more closely aligned with the group's UK port operations, and to sell AMPORTS USA's Aviation division, subject to receipt of a satisfactory offer. Following the terrorist attacks in the USA on 11 September 2001, the group deferred this process until 2002. In July 2002, the group announced that it had reached agreement for the sale of this operation to subsidiaries of Macquarie Global Infrastructure Funds for a cash consideration of US$50.0 million. AMPORTS USA's Aviation division comprised 11 airport operations and the sale of each was conditional upon obtaining consents from the relevant airport and regulatory authorities. The sale was fully completed in December 2002.

Developing AMPORTS USA's Seaport division is part of the group's growth strategy. New vehicle-processing accounts won in 2002, combined with new accounts won in the previous year, contributed to vehicle-volume growth of 48 per cent year-on-year.

Disposal of non-core assets

The group will continue to sell non-operational property and exploit the potential of its property portfolio. However, those assets essential to support the growth strategy in the main ports and transport business will be retained.

As a result of property sales both income and profit from investment property rentals fell. However, the growth generated by the strategic reinvestment of proceeds from non-core property and land sales into the core ports and transport business should compensate for this.

During 2002, the group sold a further £31.0 million of non-core property and land assets. This brings the total amount of non-core property and land sold since 1 January 2000 to £169.0 million. The group remains on track to achieve its target of £200.0 million for total non-core property and land sales set at the beginning of 2000. The group also received £71.0 million from the sale of Red Funnel Group in 2000. Together with the £32.0 million from the sale of AMPORTS USA's Aviation division, this brings the total amount of non-core asset sales since 1 January 2000 to £272.0 million.

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01 The group's main business – its UK ports and transport operations – grew by 3 per cent in 2002.

02 Investment at the Port of Grimsby included the provision of additional car-storage facilities for the Volkswagen Group.

03 The group is looking to develop further riverside terminals on the Humber.

Group Chief Executive's review continued

Operational management

In April 2002, ABP's operational-management team was strengthened by the appointment of Stephen Walsh as General Counsel. Stephen was formerly Legal Director of British Airways plc.

Following the sale of the Aviation division, Doug Tipton, Chief Executive Officer of AMPORTS USA, agreed to step down from his post having spent three successful years improving the performance of the group's US operations. He was succeeded at the beginning of 2003 by Jim Davis, who has been at AMPORTS for three years in senior sales and marketing and operating roles. Jim has considerable experience in transport-related businesses through his previous work for Sealand, Mitsui OSK American Inc. and Contship.

Mike Fell, OBE, ABP's Port Director for Hull & Goole, will be retiring at the end of March 2003 after 32 years' service in a distinguished career that has seen the fortunes of the Port of Hull improve to become one of the UK's major ports. Douglas Morrison, currently Hull & Goole's Deputy Port Manager, will succeed Mike Fell, effective 1 April 2003.

Employees

The interests of the group's employees continue to be aligned to those of the group through opportunities to acquire company shares by way of share schemes and through the payment of bonuses. In some areas, notably those where individual performance can affect the group's results significantly, performance-linked bonus incentives are used to reward achievement of specified targets. The group's success is clearly dependent upon the continuing effort and ingenuity of our staff, who work hard to achieve the group's aims.

The health and safety at work of the group's employees and others affected by its activities is of paramount importance to the group. The group's corporate policy on health and safety is backed by strong commitment from the board of directors and is based on the firmly-held view that injuries and cases of ill health, suffered at work, are preventable.

Corporate social responsibility

The group takes its corporate social responsibility (CSR) seriously. We intend to publish, for the first time, a separate CSR report later this year.

Future growth

Three major strengths of the group's UK ports business support its growth strategy. First, the geographic spread of its 21 ports throughout the UK reduces the business's reliance on any one trade route. Second, as the group's UK ports business handles a wide variety of trades, it is not dependent upon any one type of cargo. Third, over 50 per cent of the group's UK ports business for the next 12 months is already under contract. These factors lead to the belief that the group is well placed to make further progress during the course of this year.

In the medium term, the opportunities to invest in additional riverside terminals on the Humber and at Dibden Terminal – the proposed deep-sea container port development at Southampton – together with regular expansion at the UK ports, will provide a solid platform for future growth.

Bo Lerenius
Group Chief Executive

19 February 2003

Operating highlights

	Ports & transport – UK £m	%	Ports & transport – USA £m	%	Property investment & property development £m	%	Associates £m	%
Turnover*	325.7		36.1		40.1		44.1	
Growth	+21.5	+7.1	+6.2	+20.7	-1.6	-3.8	+3.9	+9.7
Underlying operating profit*	141.4		1.5		18.8		10.5	
Growth	+4.2	+3.1	+1.1	+275.0	-2.2	-10.5	+2.0	+23.5

Revenues earned from:

Ports & transport – UK

- **Ships' dues and wharfage, dredging, supply of electricity, water, etc.**
- **Stevedoring (cargo handling), use of facilities such as cranes to load and unload cargoes, storage of cargo**
- **Port-related property income from tenants on port estates, using port facilities**
- **Pilotage and conservancy where ABP has statutory responsibility**
- **Value-added services including ambient and cold storage, blending, bagging and transportation, haulage and warehousing**

Ports & transport – USA

- Dockage and wharfage
- Unloading and loading cars
- Car processing, including receiving and inspection
- Vehicle-remediation works
- Storage

Property investment & property development

- Property investment – property income from tenants on port estates, not using port facilities
- Property development – income from sales of land and property no longer required for port operational purposes

Associates

- Southampton Container Terminals (49% owned)
- Tilbury Container Services (33% owned)

  Container handling, storage (including temperature-controlled cargoes), ship-planning services, cargo inspection and consolidation
- The Cardiff Bay Partnership (45% owned)

  Property rental income from a portfolio of properties on Cardiff Bay estate

*Continuing operations

01 The Port of Southampton's multi-user bulk-handling terminal has benefited from a £1.5 million upgrade of facilities.

02 The group's South Wales Ports achieved growth in steel volumes in 2002.

Hull & Goole – turnover up 3%
Strong growth in forest products
Growth in roll-on/roll-off traffic
Reduction in container traffic at Goole

Grimsby & Immingham – turnover up 6%
UK's number-one port for coal imports
Strong growth in vehicle imports and forest products
Growth in roll-on/roll-off traffic

Southampton – turnover up 3%
Strong growth in vehicle imports and exports
Growth in container traffic and the UK's number-one cruise port
Loss of banana trade

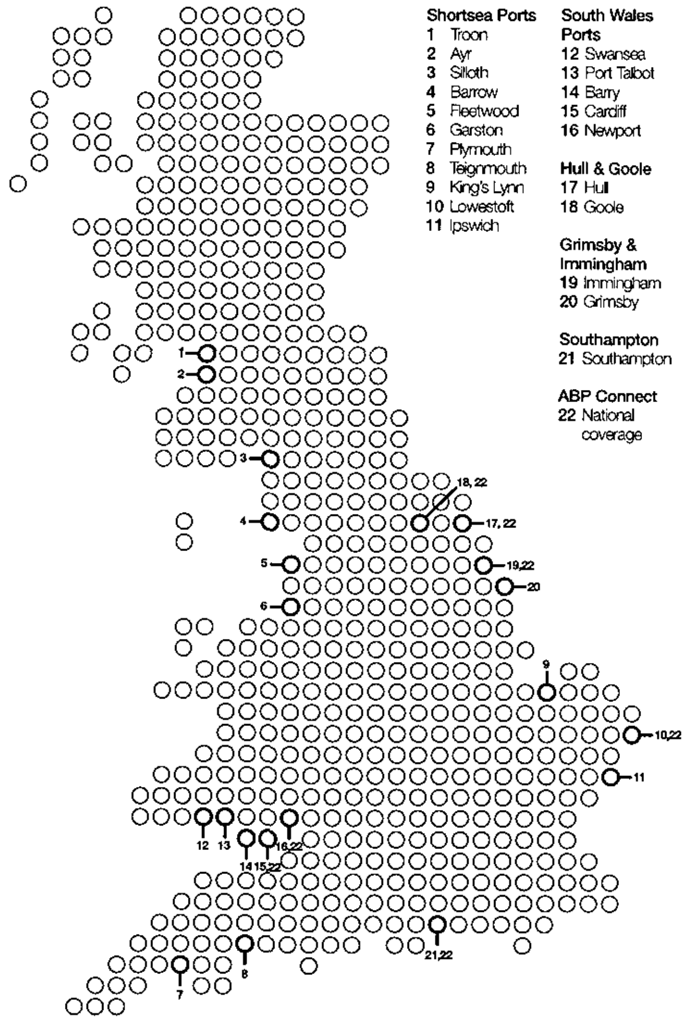
South Wales Ports – turnover in line
Growth in forest products, steel and agribulks
Reduction in iron ore and coal imports due to Corus's restructuring

Shortsea Ports – turnover up 10%
Strong growth in roll-on/roll-off and agribulk traffic
Increased ferry passenger traffic

ABP Connect – turnover up 32%
New business at Hams Hall Railfreight Terminal and HM Customs & Excise

ABP's ports handle more than 120 million tonnes of cargo every year. The ports range in size from Grimsby & Immingham, the UK's largest port complex based on tonnage handled, to smaller-sized specialist ports, such as Teignmouth.

ABP is committed to supplying a fast, efficient, cost-effective and reliable service for customers, providing a comprehensive range of high-quality facilities capable of handling virtually any cargo. Good locations, modern facilities, excellent road and rail links and substantial capital investment mean ABP's ports can meet the needs of customers operating in an increasingly competitive market place.



Ports & transport – UK

Turnover* up 7%

*Continuing operations

Ports & transport – UK
Cargoes handled in 2002

Port	Liquid bulks	Coal/coke	Iron ore	Agribulks	Other dry bulks	Forest products	Fresh produce & perishables	Other break bulk & general cargo	Containers	Roll-on/ roll-off	Vehicles	Passengers & cruises
Hull & Goole												
Hull	○	○		○	○	○	○	○	○	○	○	○
Goole	○			○	○	○	○	○	○		○	
Grimsby & Immingham												
Grimsby	○		○	○	○	○	○	○	○	○	○	
Immingham	○	○	○	○	○	○	○	○	○	○	○	○
Southampton	○			○	○		○	○	○	○	○	○
South Wales Ports												
Barry	○	○		○	○	○		○				
Cardiff	○	○		○	○	○	○	○	○			
Newport		○		○	○	○		○	○			
Port Talbot	○	○	○	○	○							
Swansea	○	○		○	○	○		○		○		○
Shortsea Ports												
Ayr				○	○	○		○				○
Barrow	○				○			○				
Fleetwood							○			○	○	○
Garston		○		○	○	○		○				
Ipswich	○	○		○	○	○	○	○	○	○		
King's Lynn	○			○	○	○		○				
Lowestoft	○			○	○	○	○	○	○			
Plymouth	○									○	○	○
Silloth	○			○	○	○						
Teignmouth				○	○	○		○				
Troon						○				○		○

Underlying operating profit* up 3%

*Continuing operations

"The depth of experience within ABP's operational management team is quite remarkable. That said, innovation and sharing knowledge are also key to our success."

(9) Nick Palmer, Port Director, Shortsea Ports

ABP's operational management

1. Paul Allen, 46
   Managing Director, ABP Connect
2. Andrew Kent, 55
   Port Director, Port of Southampton
3. Stephen Walsh, 38
   General Counsel

4 Richard Adam, 45
Group Finance Director

5 David Twidle, 54
Assistant to Group Chief Executive

6 Phillip Williams, 45
Group Property Director

7 Budha Majumdar, 56
Port Director, South Wales Ports

8 Ian Schofield, 41
Engineering Director

9 Nick Palmer, 43
Port Director, Shortsea Ports

10 Bo Lerenius, 56
Group Chief Executive

11 Mike Fell, 59
Port Director, Hull & Goole

12 John Copping, 55
Port Director, Grimsby & Immingham

13 Hywel Rees, 44
Company Secretary &
Head of Group Personnel

Corporate social responsibility

A copy of our CSR report, to be published later this year, can be obtained using the form of proxy enclosed with this annual report. The report will also be available on our website at www.abports.co.uk

Introduction

The group values all of its stakeholders. Recognising that they are the foundation of the business and key to its success, it works closely with them to develop effective and lasting relationships.

During the year, the group established a corporate social responsibility (CSR) management committee chaired by the Group Finance Director. The CSR committee is responsible for reviewing and co-ordinating the group's strategy and policies on a wide range of areas including the environment, health and safety, employment, communities and corporate ethics. The committee is also responsible for engaging with and reporting to the group's CSR stakeholders. Further details on the group's corporate social responsibilities will be provided in its first CSR report, which will be published during 2003. Copies of this report can be ordered by ticking the appropriate box on the form of proxy enclosed with this annual report.

The risk-management framework and processes described in the corporate governance statement on page 65 are designed to identify all of the CSR-related risks that the group faces. The CSR committee works closely with the risk management working group to ensure that existing and emerging risks are managed appropriately.

Employment

The group recognises that its employees are key to the achievement of its business objectives and the enhancement of shareholder value. Employment policies are designed to ensure that the group attracts, retains and develops employees on the basis of ability and qualifications without discrimination or prejudice under any circumstances. This includes race, colour, nationality, ethnic origin, gender, sexual orientation, marital or parental status, age, disability, social or economic class, trade union membership or non-membership and religious or political beliefs.

In line with its business requirements, it is the group's policy to promote from within the organisation wherever practicable. The group believes that this is important for its ongoing success. Internal promotion not only provides a visible, merit-based path of career development – a key factor in motivating and retaining employees – it also supports the transfer of knowledge and expertise throughout the business. To facilitate this, the group encourages regular feedback and goal-setting, both of which are recognised as critical to personal development and job satisfaction. Annual Personal Development Reviews provide the formal framework for this. Personal development is further encouraged by a mentoring scheme which is open to all UK employees.

The group is committed to ensuring that all employees are fully aware of their roles and responsibilities and the current activities and progress of the group.

Every employee is provided with a copy of a handbook, which gives details of terms and conditions of employment and information on group policies and procedures. A quarterly staff magazine, 'Ports', provides employees with news, features and comment from across the group. Additionally, a corporate intranet has been introduced to facilitate the flow of information throughout the business.

The group's remuneration policies are designed to ensure that the interests of its employees are aligned with those of its other stakeholders. In addition to competitive salaries, an element of the overall package is linked to the group's performance and all employees are invited to join the group's share schemes.

Additional benefits provided by the group include private medical insurance for employees and their families, competitive pension benefit schemes and an employee assistance programme provided through a leading UK organisation.

Environment

All of the group's ports are located in or near environmentally-sensitive areas. The group's environmental policy – to manage its existing obligations to the environment in a responsible manner and to develop its ports and transport business to meet the needs of the country's trade in a manner which encompasses sustainable development both for its business and the environment – seeks to establish a balance between the need to act commercially and the group's commitment to protecting the environment. The group's key environmental objectives include the following:

- To manage operations so as to be sustainable economically and environmentally
- To continue to identify, understand and prioritise all of the environmental risks inherent in the business, allocating the necessary resources to ensure that these risks are managed effectively and economically
- To continue to operate its ports to meet the growing demand for certain trades while minimising any adverse environmental effects
- To ensure that the group maintains the harbours that are under its control to support safe navigation
- To continue its work with environmental non-governmental organisations in partnership towards shared objectives which benefit the environment.

The Group Chief Executive is the member of the board responsible for the development and implementation of the group's environmental policies. Senior operational managers are responsible for the management of environmental issues relating to the operations under their management. During the past year, the group has reviewed its environmental policy and objectives, developed a new environmental-management framework, updated its environmental-impacts register and established data and targets for a number of its environmental impacts. The group is sensitive to how its operations affect the following areas, in particular:

- Air quality
- Biodiversity
- Climate change and resource management
- Estate management
- Integrated coastal-zone management
- Marine matters within its areas of responsibility
- Sustainable port development and sustainable transport networks
- Water-quality management
- Waste management.

Further information on these impacts and the group's management of them will be provided in the forthcoming CSR report.

Communities
By providing livelihood and prosperity through direct and indirect employment opportunities, many of the group's ports are the economic mainstay of their local and regional communities. In turn, the group relies on the health, stability and prosperity of these communities to provide its employees with a suitable environment and to provide it with an appropriate skills base for the group's future recruitment.

The group is always looking for ways in which it can bring about further opportunities for the economic and social development of its communities. To make this happen, the group is forging partnerships with local authorities, schools, trade and business organisations and maritime and medical charities.

Health and safety
The health and safety at work of the group's employees and others affected by its activities is of paramount importance to the group. The group's corporate policies on health and safety are backed by a strong commitment from the board and are based on the firmly-held view that injuries and cases of ill health, suffered at work, are preventable. These policies are communicated to all employees and contractors.

The group's comprehensive health and safety training policy is designed to ensure that employees receive an appropriate level of training, in accordance with their job. The group has also established procedures for assessing, evaluating, monitoring and supervising contractors operating on its premises.

Trained and competent risk assessors carry out risk assessments of all the group's activities and workplaces to ensure that its operations are conducted with appropriate regard to health and safety. The robustness of the group's health and safety standards is verified at several levels. In addition to reviews by the Group Safety Manager and local managers and supervisors, its policies and procedures are reviewed by the group's internal audit department. Accident and incident data are also analysed for trends and patterns to assess performance and to target specific areas for action.

Customers
Capital investment in the group's existing operations and new developments, supported by long-term contracts with both existing and new customers, is the most important feature of its current growth strategy. The group believes that providing sustainable solutions for the strategic needs of its customers helps to align its interests with those of its customers and reduces operational risk for both parties.

The group is committed to developing long-term relationships with its customers and to ensuring that the standard of its services is consistently high throughout the length of any contract.

The group continues to broaden the range of services offered by its ports and by ABP Connect, its value-added services division, with the aim of helping its customers to simplify their supply chains and reduce their costs.

Group and operational senior management maintain a regular dialogue with the group's customers to ensure that any service delivery-related issues are resolved promptly and that its customers are aware of any relevant developments within its businesses.

All of the group's businesses are required to comply in full with all relevant competition legislation.

Suppliers and sub-contractors
The group is committed to ensuring that its dealings with suppliers and sub-contractors are conducted so as to ensure the following:

- The advance agreement of a set of reasonable terms of trade
- The establishment of a fair and transparent relationship based on mutual trust
- The settlement of amounts due under agreement on or before the due date
- The selection of the most efficient solution for the business, taking into account quality, whole-of-life cost and safety and environmental aspects, among other considerations
- Respect for the sensitive nature of commercial agreements between the group and its suppliers and sub-contractors
- The application of a zero-tolerance approach to any corruption or bribery in its commercial negotiations with suppliers or customers.

Shareholders and suppliers of finance
Details of relationships with shareholders are set out in the group's statement on corporate governance on pages 64 and 65.

01 The Port of Grimsby & Immingham's consistently high standards of health and safety at work were recognised for the third time by the Royal Society for the Prevention of Accidents.

02 A former pilot cutter in service at the Port of Swansea was donated to Cardiff Sea Cadet Corps for use as a training vessel.

03 In December 2002, the group was honoured to receive the ProShare award for 'Best New Plan' in recognition of the successful launch of our new share incentive plan to UK employees.

04 Initiatives – such as this art competition sponsored by ABP – help raise awareness of the ports' role in their communities among local schoolchildren.

Board of directors

01 Richard Adam
Group Finance Director, 45
Having qualified as a chartered accountant with KPMG in 1982, Richard gained a broad range of experience in a variety of senior financial posts – predominantly within the media sector – before joining the group in 1999. At the age of 30, he was group finance director of TVS Entertainment plc, which held the ITV franchise for the south and south-east of England. During his time with the company, he raised some £300 million of funds for the acquisition of new businesses. In 1993, as chief financial officer of International Family Entertainment UK, Richard played a key role in planning and launching the new 'Family Channel' on satellite television. Between 1996 and 1999, Richard was group finance director of Hodder Headline plc, the book-publishing business owned by WH Smith Group. He is credited with building up Hodder Headline's financial controls during a period in which pre-tax profits grew by 64 per cent. Since joining Associated British Ports Holdings PLC (ABPH), Richard has developed its communications with investors and stakeholders significantly and overseen the group's disposal of non-core assets. He is also chairman of both the group's risk management working group and main defined benefit pension scheme.

02 Aubrey Adams
Non-executive, 53
Aubrey joined the board in 1996. He is a member of the Audit, Remuneration and Nomination Committees. A Fellow of the Institute of Chartered Accountants, Aubrey has spent the majority of his career within the property sector. In 1990, he joined Savills plc, the global property services business, as finance director, becoming managing director in 1991 and group chief executive in 2000. Previously, he was financial director of Peachey Property Corp. plc, where he played an important part in turning the company around. Aubrey holds a number of other board positions, and is a director of Trammell Crow Savills and a non-executive director of Wigmore Hall. He is also chairman of the Accounting Committee and a member of the Policy Committee of the British Property Federation. Aubrey's knowledge of property matters has contributed greatly to the success of the group's estate-management activities and its non-core property disposal programme.

03 Tim Bowdler
Non-executive, 55
Tim joined the board in 2001. He is a member of the Audit, Remuneration and Nomination Committees. Tim is chief executive of Johnston Press plc, one of the UK's major regional newspaper publishers, which he joined as group managing director in 1994. Since becoming chief executive in 1997, Tim has more than doubled the size of the group. Tim is also president of the Newspaper Society, a member of the Council of the Newspaper Society, a director of The Press Standards Board of Finance and a non-executive director of The Press Association Ltd. Tim spent the early part of his career in the manufacturing sector before moving into publishing. He trained as a production engineer, progressing through a variety of managerial appointments leading up to general management. Prior to Johnston Press, Tim worked as a divisional managing director of Cape plc's building and architectural-products companies. Tim's advice to the board is drawn from his experience as the chief executive of an expanding public company.

04 Stuart Chambers
Non-executive, 46
Stuart joined the board in 2002. He is a member of the Remuneration and Nomination Committees. He joined Pilkington plc, one of the world's leading glass manufacturers, in 1996 as group vice-president responsible for marketing and business development of Building Products. In 1998, he was promoted to managing director of Pilkington's Primary Products Europe, and was subsequently promoted to president of Building Products Worldwide. In May 2002, he became Pilkington's group chief executive. Stuart began his career with Shell where, using his academic background in applied physics, he worked as a chemical engineer and market analyst in a number of Shell's divisions, including Shell Oil UK and Deutsche Shell AG, before becoming Shell Oil UK's regional sales manager for retail in 1986. In 1988, he joined the Mars Corporation as a national account manager, becoming its European sales director four years later. In 1995, he was promoted to vice-president for sales and marketing of Mars Electronics International.

Stuart is able to share his experiences as an active chief executive of a public company with the board on many business matters.

05 George Duncan
Non-executive Deputy Chairman, 69
George joined the board as a non-executive director in 1986 and was appointed Deputy Chairman in 1998. He is a member of the Nomination Committee and Chairman of the Remuneration Committee. George's extensive business experience spans a variety of industries, including brewing and financial services, and he has held a number of executive and non-executive board positions. Currently he is non-executive chairman of housebuilders Swan Hill Group plc. He is also a Fellow of the Institute of Chartered Accountants and Freeman of the City of London. The board has benefited from George's considerable boardroom and business experience over the many years in which he has been involved with the group. He is stepping down from the board at the 2003 Annual General Meeting (AGM).

06 Bo Lerenius
Group Chief Executive, 56
Since his appointment as Group Chief Executive in May 1999, Bo has developed the management team, re-focused the group on its core ports and transport business and instigated a programme to dispose of non-core assets. He is also responsible for the significant progress the group has made in implementing its clearly-defined growth strategy.
While not having previously worked in the ports industry directly, Bo had first-hand knowledge of a port-user's requirements from his time as vice-chairman and then president and chief executive of Stena Line, one of Sweden's largest companies. He was also director of new business investments at Stena AB. Bo had previously been group president and chief executive of Ernstromgruppen, a building-materials group, and a director of both Tarkett and Nordjsö Färg. He is currently a non-executive director of Inmarsat Ventures Ltd. Bo is a member of the Nomination Committee.

07 Derek Sach
Non-executive, 54
Derek joined the board in 1998. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. With a career spent in investment management and banking – he is currently managing director of Specialised Lending Services at the Royal Bank of Scotland plc – Derek provides the board with strategic advice on banking and financing matters. He joined Royal Bank of Scotland in 1992 to set up its Specialised Lending Services business and has held a number of posts subsequently, including director of group risk. In 1997, Derek was seconded for one year as chief executive to Tesco Personal Finance, a joint venture between Royal Bank of Scotland and Tesco. Before joining Royal Bank of Scotland, Derek was managing director (UK) of 3i Group from 1988 to 1992. His other directorships include The Berkeley Group plc and Priority Sites Limited. He is also deputy president and deputy chairman of the London Chamber of Commerce and Industry.

08 Ross Sayers
Non-executive Chairman, 61
Ross spent almost a decade running utility companies before joining the board in October 2001 as a non-executive director, becoming chairman after the 2002 AGM. He is a member of the Remuneration and Nomination Committees. Ross has a long and distinguished track record within the international transport industry. From 1988 to 1992, he was executive chairman of the State Rail Authority of New South Wales. During this time, he introduced a major change programme in which customer service standards were enhanced, operating costs significantly reduced and the railway infrastructure and rolling stock were upgraded. From 1986 to 1988, Ross was executive chairman of New Zealand Railways, where he introduced a change programme to realise significant cost savings and efficiency improvements. In 1993, he became chief executive officer and managing director of Hong Kong-based CLP Holdings, previously known as China Light and Power, where he refocused the utility on customer service, improved operating efficiencies and reduced costs. In 2000, he moved to the UK to become chairman of Innogy Holdings plc. He resigned in 2002 following the acquisition of Innogy by German utility RWE. Ross is a Fellow Chartered Accountant (NZ) and is also a non-executive director of Intertek Testing Services plc and Network Rail.

09 Andrew Simon, OBE
Non-executive, 57
Andrew joined the board in 1994. He is a member of the Audit, Remuneration and Nomination Committees. The first 23 years of Andrew's career were spent with Evode Group, where he was chief executive officer and chairman until 1989, during which time he grew the group's adhesives and sealants business from a £10 million to a £300 million international speciality chemicals and materials group, developing a number of market leadership positions in the process. Following the takeover of Evode ten years ago, Andrew has built up a widely-diversified portfolio of non-executive directorships and chairmanships in UK, European and North American companies across a variety of sectors. He is currently non-executive chairman of Germany's Kaffee Partner, Zeus Group Ltd and Ascent Investments Ltd, deputy chairman of Dalkia plc, is on the supervisory board of SGL Carbon AG of Germany and is a non-executive director of Brake Brothers Holdings Limited, Hampsons plc and Finning International Inc. of Canada. The considerable European and American business experience that Andrew shares with the board includes major strategy reviews and corporate development in a wide range of industries.

Operating and financial review

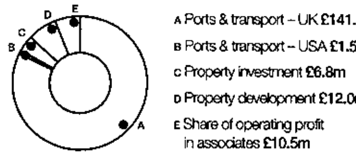
"The group's performance in 2002 was once again strong. A 6.9 per cent increase in group turnover from continuing operations to £401.9 million represented solid growth."

The group's performance in 2002 was once again strong. A 6.9 per cent increase in group turnover from continuing operations to £401.9 million (2001: £375.8 million) represented solid growth. Underlying pre-tax profit rose by 5.9 per cent to £138.1 million (2001: £130.4 million) and underlying earnings per share grew by 8.2 per cent to 30.4 pence (2001: 28.1 pence). A total proposed dividend of 14.75 pence per share (2001: 13.75 pence) represents an increase of 7.3 per cent on last year.

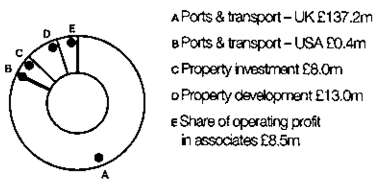
The group's total underlying operating profit from continuing operations grew by 3.1 per cent to £172.2 million (2001: £167.1 million), which is consistent with the growth achieved by the core UK ports and transport business.

Analysis of total underlying operating profit from continuing operations:

2002 £172.2m



2001 £167.1m



A detailed segmental analysis of the operations which have combined to produce the group's results is given in note 2 to the financial statements on page 36 and a discussion of the group's strategy is provided in the Group Chief Executive's review on pages 12 to 14. Significant features of the operating performance of each business segment are discussed below.

Ports & transport – UK

Turnover in the core UK ports and transport business – which accounted for more than 80 per cent of the group's continuing turnover and continuing underlying operating profit – increased by 7.1 per cent to £325.7 million (2001: £304.2 million) and underlying operating profit grew by 3.1 per cent to £141.4 million (2001: £137.2 million), building on the increased growth generated over the previous two years. This growth, which is a key indicator used in managing the group, was achieved against a challenging economic background and despite £3.1 million of additional insurance costs in the year that the group, in common with other transport companies, has had to meet as a result of the terrorist attacks in the USA on 11 September 2001. This performance reflects the robustness of the group's strategy of growing its core business through rigorously-targeted investment in conjunction with securing new long-term customer contracts.

Total annual throughput at the group's 21 UK ports reduced to 120 million tonnes (2001: 125 million tonnes). However, excluding low-margin oil and a decrease in iron ore imports driven by Corus's restructuring in South Wales, both of which had limited impact on the group's results, the group experienced an underlying growth in throughput of 1.6 per cent at its UK ports. This growth was achieved against a decrease in coal imports at the group's South Wales ports. Importantly, key trades continued to show growth, including roll-on/roll-off traffic, containers, vehicle imports and exports, imports of forest products and cruise-ship calls. Agribulk volumes also recovered in the second half of 2002, having been impacted by the foot-and-mouth outbreak in 2001.

Developments within the individual UK ports business units are discussed below.

Hull & Goole

Turnover increased by 2.5 per cent, with forest products, in particular, showing good growth. Roll-on/roll-off traffic and the number of ferry passengers passing through the Port of Hull also grew. This growth more than compensated for a reduction in container traffic at the Port of Goole.

During the year, the group invested some £1.2 million in additional storage facilities at the Port of Hull – the UK's top timber port – to support the continued growth in its timber trade.

At the Port of Goole, ABP reached a long-term agreement with existing customer RMS Europe to develop new storage and distribution facilities, creating 13,000 square metres of undercover storage for weather-sensitive cargoes including paper products and aluminium coils.

Grimsby & Immingham

Re-confirmed as the UK's number one port in the port tonnage figures published by the Department for Transport towards the end of 2002, the Port of Grimsby & Immingham increased turnover by 5.9 per cent. Humber International Terminal continued to perform well, leading to further growth in Immingham's coal trade. Forest products, container traffic, roll-on/roll-off traffic and vehicle imports also performed well.

Revenue-earning projects that became operational during the year included: the provision of additional car-storage facilities for the Volkswagen Group at Grimsby; a £5.6 million investment in a rail siding to accommodate increased traffic created by the growing demand for Humber International Terminal; and the addition of a new £1.5 million mobile harbour crane to service Hydro Agri's agribulk imports. A £1.1 million warehouse complex for IAWS, built under a 15-year contract and a £1.0 million investment in a forest products terminal under a 20-year contract, both at Immingham, are scheduled for completion this year.

Southampton

Turnover increased by 3.5 per cent, boosted by strong vehicle imports and exports, the continued growth in cruise traffic and a strong deep-sea container market. These trades more than compensated for the loss of banana imports.

During the year, a £4.0 million multi-deck car terminal – one of the first of its kind in the UK – became operational. Built under a ten-year agreement with Wallenius Wilhelmsen Lines, the Southampton International Vehicle Terminal provides almost five hectares of storage on a footprint of approximately one hectare. The port also opened a dedicated Honda Terminal and won additional vehicle-handling business to export Toyota Avensis and Corolla models to Portugal.

Work is already under way on a £6.5 million major reconstruction of the Mayflower Cruise Terminal used to service P&O Cruises, under a ten-year agreement. In addition, ABP and Cunard Line reached an agreement confirming Southampton as Cunard's UK base through to 2009, underpinning ABP's £2.0 million refurbishment of the Queen Elizabeth II Terminal. ABP is also investing £1.5 million to develop a third cruise terminal on the site of a former banana terminal.

Other developments included a £1.5 million investment in the port's bulk trade, with a refurbishment of facilities at its multi-user bulk-handling terminal, and a £0.8 million investment in an environmentally-friendly scheme to construct the UK's first port-located glass-recycling plant. This scheme received a Freight Facilities Grant from the UK government as the recycled glass is transported from the port by sea, taking over 640,000 lorry miles off the roads each year.

3% growth from UK ports

01 Forest products – a key trade – continued to show growth during the year.

02 Humber International Terminal at the Port of Immingham performed well, boosting the port's coal trade.

03 The rail-connected Southampton International Vehicle Terminal became operational in April 2002 following a £4.0 million investment.

The public inquiry into the group's application to develop Dibden Terminal was completed on schedule in December 2002. The government's decision is now expected either in late 2003 or 2004. Costs capitalised in respect of this development totalled £35.4 million (2001: £24.0 million) as at the end of 2002. The group remains confident about the need for additional deep-sea container capacity in the UK and the prospects for this project; however, if the government's decision results in the project not proceeding, costs of this project will be written-off to the profit and loss account in the year in which the decision not to proceed is taken.

South Wales Ports

Our South Wales Ports experienced a challenging year in 2002, and turnover was marginally down by 0.4 per cent. This was driven by a major reduction in coal imports and, to a lesser extent, iron ore imports, but was offset by some significant business wins and increased throughput in forest products, steel and agribulks.

During the year, ABP completed a £0.8 million extension to ABP Dowds Terminal at the Port of Newport on the back of a long-term agreement with steel customer W E Dowds (Shipping). Furthermore, ABP agreed in principle with Saint-Gobain Building Distribution to develop a £4.6 million terminal to receive and store forest products at that port. This is expected to become operational during the first half of this year.

Shortsea Ports

Turnover grew significantly, up by 10.0 per cent, mainly as a result of strong growth in roll-on/roll-off and agribulk traffic. Container throughput and ferry-passenger traffic also grew.

At the Port of Troon, ABP acquired the former Ailsa-Troon shipyard under a 50-year lease. This 5.5-hectare site contains two dry docks, a pier, two warehouses and 14,600 square metres of land available for development.

Investments in agribulk facilities were made at the Port of Ayr, with the opening of the £1.0 million Carrick Terminal which was constructed following a 15-year agreement with IAWS, and at the Port of Ipswich, where a £2.2 million grain storage and distribution complex was completed for The Grain Terminal. The Port of Teignmouth is to receive a £4.0 million investment associated with a long-term agribulks contract. Also at the Port of Ayr, an investment in a £1.0 million warehousing facility was announced following a long-term agreement with Peacock Salt. At the Port of Silloth, a £0.2 million storage and distribution centre was completed for Prime Molasses. During 2003, work will commence on a £1.0 million marina development at the Port of Lowestoft.

ABP Connect

Launched in 2001, ABP's value-added services division, ABP Connect, had some significant business wins in 2002, which resulted in turnover increasing by 31.9 per cent.

ABP Connect was selected to operate a railfreight terminal within the strategically-located 400-hectare Hams Hall distribution site east of Birmingham. Since acquiring the site for a cash consideration of £0.3 million, ABP Connect has already attracted new customers, securing railfreight services with Medite Shipping, leading railfreight operator GB Railfreight and Combined Transport. ABP Connect also won a medium-term contract with HM Customs & Excise to provide high-security storage for illegal imports at locations throughout the UK. A £2.5 million extension to the Cardiff Cold Store was also completed during the year.

Ports & transport – USA

Turnover from AMPORTS USA's Seaport division's activities, which comprise the group's continuing ports and transport operations in the USA, increased by 20.7 per cent to £36.1 million (2001: £29.9 million). Continuing underlying operating profit increased to £1.5 million (2001: £0.4 million).

The significant improvement in this business is due to vehicle-volume growth of 47.7 per cent as a result of new accounts coming on stream. Some 582,000 vehicles were handled during the year (2001: 394,000). This volume increase was partially offset by some vehicle-customisation reductions and competitive price pressures as a result of the general economic slowdown in the USA.

AMPORTS invested £3.1 million to accommodate vehicle-volume growth associated with the group's new Hyundai account. This included a new 27.5-hectare vehicle-processing facility at the Chesapeake Marine Terminal in Baltimore, Maryland, which became operational in April 2002.

The sale of AMPORTS USA's Aviation division to subsidiaries of Macquarie Global Infrastructure Funds was completed in December 2002 for a total cash consideration of US$50.0 million (£32.0 million). Prior to completion of the sale, the division contributed turnover of £26.5 million and an underlying operating profit of £3.7 million. The group achieved an exceptional pre-tax profit of £7.8 million from the sale.

"The group received £32.0 million in respect of the sale of AMPORTS USA's Aviation division in 2002, bringing the total amount of proceeds from non-core asset sales since January 2000 to £272.0 million."

Property investment

As a result of the group's ongoing disposal of non-operational property, turnover from property investment rentals reduced to £9.3 million (2001: £10.8 million) and operating profit to £6.8 million (2001: £8.0 million).

Property development

Towards the end of 2002, the group completed the sale of ten hectares of land at the Port of Plymouth jointly to South-West of England Regional Development Agency and English Partnerships for a cash consideration of £9.0 million. As a result of this and other sales made during the course of the year, turnover from property development was £30.8 million (2001: £30.9 million). Operating profit was £12.0 million (2001: £13.0 million).

Disposal of non-core assets

In total, the group has sold a further £31.0 million of non-core property and land since 1 January 2002. This brings the total amount of non-core property and land sold since 1 January 2000 to £169.0 million. The group remains well on track to achieve its target of £200.0 million of non-core property and land sales.

The group also received £71.0 million in respect of the sale of Red Funnel Group in 2000 and £32.0 million in respect of the sale of AMPORTS USA's Aviation division in 2002, bringing total non-core asset sales since 1 January 2000 to £272.0 million.

Associates

The group's share in the turnover of associates increased by 9.7 per cent to £44.1 million (2001: £40.2 million). Its share of operating profit rose 23.5 per cent to £10.5 million (2001: £8.5 million).

Both Southampton Container Terminals (SCT) – 49 per cent owned – and Tilbury Container Services (TCS) – 33 per cent owned – experienced increased container throughput in 2002. SCT handled 1,275,000 container units, an increase of 9.5 per cent, and TCS handled 277,000 container units, an increase of 21.0 per cent. The Cardiff Bay Partnership, in which the group has a 45 per cent interest, produced a result similar to the previous year.

Interest

Net interest payable of £37.7 million was £2.0 million below the previous year (2001: £39.7 million), with lower interest rates more than compensating for an increase in average net borrowings of £23.9 million. The latter resulted from increased borrowings towards the end of 2001 as the share repurchase programme was completed. These were not significantly reduced until the sale of AMPORTS USA's Aviation division towards the end of 2002.

The group's underlying average rate of interest reduced to 7.4 per cent (2001: 8.3 per cent) and underlying interest cover improved to 4.7 times (2001: 4.3 times).

Taxation

The underlying tax charge for the year of £38.7 million (2001: £36.5 million) represents an underlying effective tax rate of 28.0 per cent, in line with the effective tax rate for the previous year as restated for the effects of Financial Reporting Standard 19 – Deferred Tax (see note 34). This rate compares favourably with the weighted standard rate of tax of 30.3 per cent for the UK and the USA, the two main countries in which the group operates, mainly because the group benefits from the utilisation of brought-forward capital losses against its UK property sales.

Goodwill amortisation and exceptional items

At £1.6 million, goodwill amortisation was similar to the previous year's charge of £1.5 million. This is expected to reduce in 2003 as a result of the sale of AMPORTS USA's Aviation division.

Exceptional items included a profit of £7.8 million on the sale of AMPORTS USA's Aviation division, a loss of £0.4 million on the closure of Southern Emergency Vehicles, a small vehicle-modification business in the USA, and a profit of £0.7 million (2001: £0.6 million) from the sale of fixed assets.

In addition, the group's review of its cost base towards the end of 2002 resulted in a restructuring charge of £5.5 million. It is estimated that this review will result in cost savings of at least £3.0 million per year once the cost savings programme is fully implemented.

Earnings per share

Underlying earnings per share, before goodwill amortisation and exceptional items, increased by 8.2 per cent to 30.4 pence per share (2001: 28.1 pence per share).

Basic earnings per share increased to 30.9 pence per share (2001: 27.8 pence per share). The earnings per share calculations benefited from a reduction in the weighted average number of shares to 327.0 million (2001: 334.2 million) following the completion of the share repurchase programme in 2001.

Dividends

In determining the level of dividend in any one period, the directors pay particular attention to the

01 A new storage and distribution facility was opened for Prime Molasses at the Port of Silloth.

02 Our value-added services division, ABP Connect, launched in 2001, had some significant business wins in 2002.

03 Throughput at Southampton Container Terminals increased by 9.5 per cent.

Operating and financial review continued

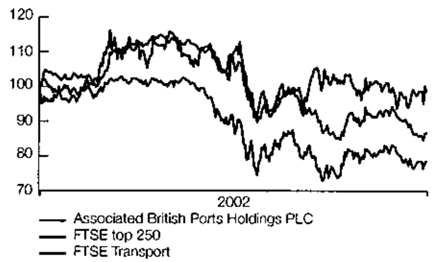
group's underlying earnings per share and the group's underlying dividend cover. Accordingly, based on the financial performance of the group in the first six months and the outlook for the year, the directors declared an increased interim dividend of 6.5 pence per share (2001: 6.0 pence per share). Given the progress made by the group over the year as a whole, the directors recommend a final dividend of 8.25 pence per share (2001: 7.75 pence per share). This would give a total dividend for the year of 14.75 pence per share, an increase of 7.3 per cent on 2001.

Underlying dividend cover of 2.0 times is close to the previous year's level of 2.1 times.

Share price

At the end of the year the share price closed at 399.5 pence. While this was 4.9 per cent below the price at the beginning of the year, it represented a 20 per cent outperformance compared with the FTSE top 250 companies comparator group and a 12 per cent outperformance compared with the FTSE transport sector in terms of total shareholder return. The share price ranged from a high of 488.0 pence in March 2002 to a low of 375.5 pence in July 2002.

2002 total shareholder return

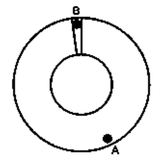


Cash flow

Cash flow remains strong, with underlying operating cash conversion from total underlying operating profit being 114.6 per cent. Cash flow from operations, including dividends from associated undertakings, totalled £201.5 million for the year, 19.4 per cent above the previous year's level of £168.8 million. This benefited from a positive £15.2 million working capital contribution which more than reversed the previous year's negative movement, which was partly related to the timing of receipt of cash from property sales made close to the 2001 year end. Free cash flow at £66.7 million represented a 45.0 per cent improvement on 2001.

Analysis of 2002 free cash flow:

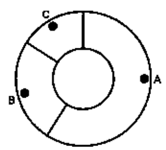
Inflow £206.2m



A Net cash inflow from operating activities including dividends received from associated undertakings £201.5m

B Other £4.7m

Outflow £139.5m



A Gross capital expenditure £76.7m

B Net interest £37.1m

C Taxation £25.7m

Gross capital expenditure totalled £76.7 million (2001: £62.4 million), which included a further £9.5 million of capital expenditure on Dibden Terminal at the Port of Southampton, £4.4 million on a rail siding at Humber International Terminal at the Port of Immingham, and £2.4 million on the Mayflower Cruise Terminal, Southampton. There are two elements to capital expenditure. First, maintenance or infrastructure expenditure and second, revenue-earning capital projects. During 2002, maintenance expenditure was just below the level of depreciation and it is the group's aim that this will also be the case in 2003. In contrast, the only restriction the group places on revenue-earning capital projects is that it targets at least a 15.0 per cent internal rate of return on these projects and the group does not enter into major speculative investments.

In total, growth capital expenditure increased by 11.3 per cent to £52.0 million (2001: £46.7 million). However, as previously stated, many of these new projects will become operational in the future and therefore have had only a modest impact on the results for 2002.

Looking forward, the group has substantial capital expenditure plans on the Humber and at Dibden Terminal, Southampton, which may lead to investments in excess of £700 million over the medium term.

Borrowings and gearing

The group received a net £29.1 million in respect of acquisitions and disposals during the year, primarily as a result of the £32.0 million sale of AMPORTS USA's Aviation division. As a result of this and strong underlying operating cash flow, net borrowings decreased by £58.8 million to £450.1 million (2001: £508.9 million). Consequently, gearing reduced to 44.6 per cent (2001: 53.1 per cent).

"Looking forward, the group has substantial capital expenditure plans on the Humber and at Dibden Terminal, Southampton, which may lead to investments in excess of £700 million over the medium term."

Shareholders' funds and return on capital employed

Shareholders' funds rose by £50.9 million to £1,009.3 million and represent 308 pence per share (2001: 294 pence per share).

The group's 10.8 per cent underlying return on capital employed was similar to the previous year, both of which compare favourably with the 1999 level of 9.5 per cent when the group's current strategy was put in place.

Financial controls and policies

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.

Liquidity risk

Borrowing facilities are maintained at a level which is forecast to provide a reasonable surplus beyond the future needs of the group. At 31 December 2002, the group had £232.3 million of undrawn committed bank facilities (2001: £170.4 million). The 44.6 per cent gearing ratio at 31 December 2002 is below the lower end of the group's target range for gearing of 50 to 70 per cent, leaving the group well placed to fund its planned capital expenditure programme for its core UK ports business.

Interest rate risk

The group maintains a balance between fixed- and floating-rate debt to manage interest rate risk. At the end of the year, 68 per cent of the group's borrowings were fixed (2001: 62 per cent). The group uses derivative financial 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 conducts a proportion of its business in foreign currency, mainly US dollars. Movements in the rate of exchange can therefore affect the translation of the results and the underlying balance sheet and assets of foreign subsidiary undertakings. While it is not group policy to hedge exposure from profit translation, the group does partially hedge balance sheet translation risk. However, the group does not speculate in foreign currency. The average exchange rate used to translate US dollar profits was US$1.5036 (2001: US$1.4413). The year-end exchange rate used to translate US dollar assets and liabilities was US$1.6099 (2001: US$1.4554).

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 credit risk by selecting only those counterparties with an investment-grade credit rating.

Adoption of new accounting standards

The group adopted Financial Reporting Standard (FRS) 17 – Retirement Benefits under its transitional arrangements in 2001 and has continued to report on this basis during 2002. The disclosures required under the transitional arrangements are given in note 5b to the financial statements on pages 39 to 41.

During 2002, the group adopted FRS 19 – Deferred Tax. As a result, the group's reported underlying effective tax rate increased from 24.8 per cent to 28.0 per cent, underlying earnings per share reduced by 1.4 pence from 31.8 pence to 30.4 pence and net assets by £59.0 million to £1,009.3 million without any impact on cash flows. Comparative figures for 2001 have been restated throughout to reflect the effects of FRS 19 (see note 34).

Pensions

An actuarial valuation of the group's main defined benefit pension scheme was carried out as at 31 December 2000. This confirmed that the pension scheme remained in surplus at that date. The group is therefore maintaining its contribution holiday. With effect from 1 April 2002, the scheme was closed to new entrants and replaced with a new defined contribution arrangement. At the end of 2002, under FRS 17, the scheme's assets of £385.8 million exceeded the scheme's liabilities by £33.8 million.

Richard Adam FCA
Group Finance Director

19 February 2003

01 ABP handles more dry bulks than any other UK port company.

02 The Port of Southampton was honoured to receive awards for 'Northern Europe's Most Efficient Terminal Operator' and 'Northern Europe's Best Turnaround Port' for its cruise-ship handling at 2002 Seatrade Cruise Shipping Convention in Miami, Florida.

Group profit and loss account

for the year ended 31 December

	Note	Underlying* 2002 £m	Goodwill amortisation 2002 £m	Exceptional items 2002 £m	Total 2002 £m	Total 2001** £m
Turnover including share of associates						
Existing operations		445.4	–	–	445.4	416.0
Acquisitions		0.6	–	–	0.6	–
Continuing operations		446.0	–	–	446.0	416.0
Discontinued operations		27.9	–	–	27.9	29.6
		473.9	–	–	473.9	445.6
Less: share of turnover in associates		(44.1)	–	–	(44.1)	(40.2)
Group turnover	2	429.8	–	–	429.8	405.4
Cost of sales		(211.8)	–	–	(211.8)	(196.9)
Gross profit		218.0	–	–	218.0	208.5
Administrative expenses	3	(52.7)	(1.6)	(5.5)	(59.8)	(48.4)
Existing operations		161.9	(1.6)	(5.5)	154.8	157.1
Acquisitions		(0.2)	–	–	(0.2)	–
Continuing operations		161.7	(1.6)	(5.5)	154.6	157.1
Discontinued operations		3.6	–	–	3.6	3.0
Group operating profit		165.3	(1.6)	(5.5)	158.2	160.1
Share of operating profit in associates		10.5	–	–	10.5	8.5
Total operating profit		175.8	(1.6)	(5.5)	168.7	168.6
Profit on disposal of discontinued operations	3,26	–	–	7.4	7.4	–
Profit on sale of fixed assets	3	–	–	0.7	0.7	0.6
Profit on ordinary activities before interest	2,4	175.8	(1.6)	2.6	176.8	169.2
Net interest payable	6	(37.7)	–	–	(37.7)	(39.7)
Profit on ordinary activities before taxation		138.1	(1.6)	2.6	139.1	129.5
Taxation on profit on ordinary activities	8	(38.7)	–	0.7	(38.0)	(36.5)
Profit on ordinary activities after taxation attributable to shareholders		99.4	(1.6)	3.3	101.1	93.0
Dividends	10	(48.5)	–	–	(48.5)	(45.4)
Retained profit for the group and its share of associates	28	50.9	(1.6)	3.3	52.6	47.6
Earnings per share – basic	11	30.4p	(0.5p)	1.0p	30.9p	27.8p
Earnings per share – diluted	11				30.6p	27.5p
Earnings per share – underlying *	11				30.4p	28.1p

* Underlying represents results before goodwill amortisation and exceptional items.

** Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

Balance sheets

as at 31 December

	Note	Group 2002 £m	Group 2001* £m	Company 2002 £m	Company 2001* £m
Fixed assets					
Intangible assets	12	**15.4**	23.9	**–**	–
Tangible operating assets	13	**834.0**	798.0	**–**	–
Tangible property assets	14	**568.8**	588.5	**–**	–
Investments	15	**50.2**	48.0	**939.6**	922.1
		1,468.4	1,458.4	**939.6**	922.1
Current assets					
Property developments and land held for sale	16	**38.3**	44.2	**–**	–
Debtors – due within one year	17	**93.4**	97.3	**549.6**	564.1
Debtors – due after one year	17	**82.9**	76.8	**–**	–
Cash and short-term deposits	18	**6.4**	6.0	**–**	–
		221.0	224.3	**549.6**	564.1
Creditors – amounts falling due within one year	19	**(129.9)**	(131.0)	**(38.9)**	(36.5)
Net current assets		**91.1**	93.3	**510.7**	527.6
Total assets less current liabilities		**1,559.5**	1,551.7	**1,450.3**	1,449.7
Creditors – amounts falling due after more than one year	20	**(449.5)**	(505.4)	**(441.0)**	(491.3)
Provisions for liabilities and charges	23	**(92.0)**	(79.0)	**–**	–
Deferred income	24	**(8.7)**	(8.9)	**–**	–
Net assets		**1,009.3**	958.4	**1,009.3**	958.4
Capital and reserves					
Called-up share capital	27	**82.0**	81.6	**82.0**	81.6
Share premium account	28	**77.4**	70.9	**77.4**	70.9
Revaluation reserve	28	**627.9**	641.7	**614.3**	595.6
Other reserves	28	**37.0**	37.0	**51.8**	51.8
Profit and loss account	28	**185.0**	127.2	**183.8**	158.5
Equity shareholders' funds		**1,009.3**	958.4	**1,009.3**	958.4

* Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

The financial statements on pages 30 to 60 were approved by the board of directors on 19 February 2003.

Richard Adam FCA
Group Finance Director

Group cash flow statement

for the year ended 31 December

	Note	2002 £m	2001 £m
Net cash inflow from operating activities	29	199.1	165.2
Dividends received from associated undertakings		2.4	3.6
Returns on investments and servicing of finance			
Interest received		0.8	0.4
Interest paid		(36.9)	(39.1)
Interest element of finance lease rental payments		(1.0)	(1.2)
Net cash outflow from returns on investments and servicing of finance		(37.1)	(39.9)
Taxation		(25.7)	(28.2)
Capital expenditure and financial investment			
Tangible operating assets		(70.0)	(53.3)
Tangible property assets		(6.7)	(9.1)
Sale of fixed assets		3.4	2.1
Movement on investment in own shares	15	1.3	5.6
Net cash outflow from capital expenditure and financial investment		(72.0)	(54.7)
Free cash flow		66.7	46.0
Acquisitions and disposals			
Purchase of business and subsidiary undertakings	25	(0.3)	(4.6)
Sale of subsidiary undertakings	26	29.4	(0.9)
Net cash inflow/(outflow) from acquisitions and disposals		29.1	(5.5)
Equity dividends paid		(46.6)	(44.5)
Cash inflow/(outflow) before use of liquid resources and financing		49.2	(4.0)
Management of liquid resources	29	(2.0)	0.9
Financing			
Issue of shares		4.8	5.6
Repurchase of shares		-	(68.3)
(Decrease)/increase in borrowings		(48.8)	67.0
Capital element of finance lease rental payments		(3.3)	(2.9)
Net cash (outflow)/inflow from financing		(47.3)	1.4
Decrease in cash in the year	29	(0.1)	(1.7)

Reconciliation of net cash flow to movement in net borrowings

for the year ended 31 December

	Note	2002 £m	2001 £m
Decrease in cash in the year	29	(0.1)	(1.7)
Cash outflow/(inflow) from decrease/(increase) in borrowings and lease finance		52.1	(64.1)
Cash outflow/(inflow) from movement in liquid resources	29	2.0	(0.9)
Currency translation differences	29	4.8	(1.5)
Change in net borrowings resulting from cash flows		58.8	(68.2)
Net borrowings at 1 January		(508.9)	(440.7)
Net borrowings at 31 December	21,29	(450.1)	(508.9)

Statement of group total recognised gains and losses

for the year ended 31 December

	Note	2002 £m	2001* £m
Profit on ordinary activities after taxation attributable to shareholders		**101.1**	93.0
(Deficit)/surplus arising on revaluation of tangible property assets	14	**(5.5)**	0.3
Currency translation differences on foreign currency net investments	28	**(0.9)**	0.2
Total recognised gains for the year		**94.7**	93.5
Prior year adjustment	34	**(54.5)**	–
Total recognised gains since last annual report		**40.2**	93.5

Note of group historical cost profits and losses

for the year ended 31 December

	Note	2002 £m	2001* £m
Profit on ordinary activities before taxation		**139.1**	129.5
Realisation of property revaluation surpluses of previous years	28	**8.3**	0.7
Historical cost profit on ordinary activities before taxation		**147.4**	130.2
Taxation on profit on ordinary activities		**(38.0)**	(36.5)
Dividends		**(48.5)**	(45.4)
Historical cost profit for the year retained for the group and its share of associates		**60.9**	48.3

Reconciliation of movements in equity shareholders' funds

for the year ended 31 December

		Group		Company	
	Note	2002 £m	2001* £m	2002 £m	2001* £m
Profit on ordinary activities after taxation attributable to shareholders		**101.1**	93.0	**75.4**	98.2
Dividends		**(48.5)**	(45.4)	**(48.5)**	(45.4)
		52.6	47.6	**26.9**	52.8
New share capital subscribed		**4.7**	6.4	**5.3**	6.8
Repurchase of shares	27	**–**	(68.3)	**–**	(68.3)
(Deficit)/surplus arising on revaluation of tangible property assets	14	**(5.5)**	0.3	**–**	–
Realised surplus/(deficit) on revaluation of subsidiary undertakings	28	**–**	–	**18.7**	(5.1)
Currency translation differences on foreign currency net investments	28	**(0.9)**	0.2	**–**	–
Net increase/(decrease) in equity shareholders' funds		**50.9**	(13.8)	**50.9**	(13.8)
Equity shareholders' funds at 1 January		**958.4**	972.2	**958.4**	972.2
Equity shareholders' funds at 31 December		**1,009.3**	958.4	**1,009.3**	958.4

*Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of operational land, investment properties, land at ports held for development and investments in subsidiary and associated undertakings.

Basis of consolidated financial statements

The consolidated financial statements include the accounts of the company, its subsidiary undertakings and its share of the results of associated undertakings. The results of subsidiary undertakings acquired are included from the date of acquisition. The results of discontinued operations are included up to the date of disposal.

New financial reporting standards

Financial Reporting Standard (FRS) 19 – Deferred Tax became effective for accounting periods ending on or after 23 January 2002 and has been adopted in the preparation of these financial statements. The effects of adopting FRS 19 are set out in note 34 and comparative results have been restated throughout these financial statements to reflect the adoption of FRS 19.

The group continues to account for pensions in accordance with Statement of Standard Accounting Practice (SSAP) 24 – Accounting for Pension Costs. The group is continuing to apply the transitional disclosure requirements (see note 5) of FRS 17 – Retirement Benefits.

Turnover and profit recognition

Turnover 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. Turnover and profit, in relation to the provision of ports and transport services and income from investment property, is recognised when the provision of the service is complete. Turnover 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.*

Financial instruments

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 which are set out in the operating and financial review on page 29. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contract. Exchange gains and losses on forward foreign exchange contracts are recognised on maturity of the underlying transaction. Profits or losses arising on the early termination of interest rate swap transactions and forward foreign exchange contracts are recognised when the agreement is terminated or transferred to a third party.

Goodwill

Purchased goodwill arising on consolidation, representing the excess of the purchase price over the fair value of net assets acquired, is capitalised in the year in which it arises and is amortised on a straight-line basis over its estimated useful economic life. The estimated useful economic life is calculated having due regard to the period over which *the group expects to derive economic benefit from the assets. For acquisitions made since 1 January 1998, the estimated useful economic life does not exceed 20 years.* Prior to 1 January 1998, as a result of accounting policies in force at that time, purchased goodwill arising on consolidation was written-off against reserves in the year of acquisition.

Tangible operating assets

Operational land, pre-1 January 1999, is held at the 31 December 1998 valuation with subsequent additions being valued at cost and transfers from tangible property assets being made at the carrying value of the last balance sheet date. All other tangible operating assets are carried at cost adjusted for subsequent additions and disposals. Finance costs directly attributable to the construction of certain major additions to fixed assets are capitalised as part of the cost of those assets.

Depreciation is provided on a straight-line basis with reference to the expected useful lives of the various types of asset. These lives range 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 between two and 30 years for plant and equipment. Freehold land is not depreciated. Significant capital investment grants are credited to the profit and loss account over the useful lives of the assets concerned. The balance of such grants not yet transferred to the profit and loss account is included as deferred income. Any transfers of tangible operating assets to investment properties are reflected net of any unamortised capital investment grants.

Tangible property assets

Investment properties and land held for development are stated at open market value. In accordance with SSAP 19 – Accounting for Investment Properties, revaluations are conducted annually with any surpluses or deficits being transferred to the revaluation reserve. No provision is made for depreciation of freehold properties or for amortisation of leasehold properties held on leases having more than 20 years unexpired. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is, in the opinion of the directors, necessary for the financial statements to show a true and fair view in accordance with applicable accounting standards.

1 Accounting policies (continued)

Tangible property assets (continued)

The depreciation or amortisation (which would, had the provisions of the Act been followed, have reduced profit for the year) is only one of the factors reflected in the annual valuation and the amount attributable to this factor cannot reasonably be separately identified or quantified.

Transfers of property from fixed assets to current assets – property developments and land held for sale – are made at the higher of market value on the date of transfer or the carrying value at the last balance sheet. This departure from the requirements of the Companies Act 1985, which requires transfer at the lower of cost and net realisable value, is, in the opinion of the directors, necessary for the financial statements to show a true and fair view in accordance with applicable accounting standards. Had the provisions of the Act been followed, the net assets of the group would be artificially reduced on transfer, whereas in reality, such a reduction has not occurred; and the profit on disposal calculated by reference to a lower carrying value, would give rise to an artificially high profit. Transfers of property from property developments to fixed assets are made at the lower of cost and estimated net realisable value as at the date of transfer.

Leased assets

At the inception of finance leases, the capital cost of the asset is included in the financial statements both as a tangible operating asset and as an obligation to pay future rentals. Amounts payable in respect of operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

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 tangible operating assets or tangible property assets) and net realisable value.

Retirement benefits

The group operates a number of defined benefit pension schemes. The majority of the scheme members are in funded schemes with the assets being held in separate trustee-administered funds.

In accordance with SSAP 24 – Accounting for Pension Costs, the expected cost of pensions in respect of the group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. Past service surpluses and other variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of independent actuaries.

Provision is maintained for unfunded retirement benefit arrangements less attributable taxation on a full provision basis. Interest at the rate recommended by the actuaries is credited to the provision and charged to the profit and loss account. Payments are charged to the provision.

The group also contributes to a number of defined contribution pension schemes. These costs are charged to the profit and loss account in the year in which contributions become payable.

The group has included the transitional disclosures required under FRS 17 – Retirement Benefits in note 5b.

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.

Other than for timing differences arising due to capital losses, and property revaluation gains, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the group's taxable profit and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax computations in periods different from those in which they are recognised in the financial statements. The group does not provide for timing differences arising from capital losses, as the future utilisation of these losses cannot be assessed with reasonable certainty. No deferred tax is provided in relation to property revaluation gains, as the group expects any crystallised gains to be offset by brought-forward losses.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing 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.

Foreign currencies

Transactions of UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Where matching forward foreign exchange contracts have been entered into, the rate specified in the relevant contract is used. These translation differences are recognised in the profit and loss account.

The profit and loss accounts of foreign subsidiary undertakings are translated into sterling at average rates for the year; the 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 reserves. All other translation differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises which are taken directly to reserves together with the exchange difference on the net investment in these enterprises.

2 Segmental analysis

Analysis of group turnover, profit on ordinary activities before interest and net assets by class of business and geographical segment are given below. Turnover is disclosed by origin. There is no material difference between turnover by origin and turnover by destination.

	UK 2002 £m	USA 2002 £m	Total 2002 £m	UK 2001 £m	USA 2001 £m	Total 2001 £m
Group turnover						
Ports and transport						
Existing operations	325.1	36.1	361.2	304.2	29.9	334.1
Acquisitions	0.6	–	0.6	–	–	–
Continuing operations	325.7	36.1	361.8	304.2	29.9	334.1
Discontinued operations	–	27.9	27.9	–	29.6	29.6
	325.7	64.0	389.7	304.2	59.5	363.7
Property investment	7.3	2.0	9.3	8.8	2.0	10.8
Property development	30.8	–	30.8	30.9	–	30.9
Group turnover	363.8	66.0	429.8	343.9	61.5	405.4
Profit on ordinary activities before interest						
Ports and transport						
Existing operations	141.6	1.5	143.1	137.2	0.4	137.6
Acquisitions	(0.2)	–	(0.2)	–	–	–
Continuing operations	141.4	1.5	142.9	137.2	0.4	137.6
Discontinued operations	–	3.6	3.6	–	3.0	3.0
	141.4	5.1	146.5	137.2	3.4	140.6
Property investment	5.0	1.8	6.8	6.2	1.8	8.0
Property development	12.0	–	12.0	13.0	–	13.0
Share of operating profit in associates	10.5	–	10.5	8.5	–	8.5
Total underlying operating profit	168.9	6.9	175.8	164.9	5.2	170.1
Goodwill amortisation (note 12)			(1.6)			(1.5)
Exceptional items – administrative expenses (note 3)			(5.5)			–
Total operating profit			168.7			168.6
Profit on disposal of discontinued operations (notes 3 and 26)			7.4			–
Profit on sale of fixed assets (note 3)			0.7			0.6
Profit on ordinary activities before interest			176.8			169.2

2 **Segmental analysis** (continued)

	UK 2002 £m	USA 2002 £m	Total 2002 £m	UK 2001* £m	USA 2001* £m	Total 2001* £m
Net assets						
Net operating assets						
Ports and transport	**1,355.2**	**42.5**	**1,397.7**	1,308.0	46.5	1,354.5
Property investment	**73.2**	**9.4**	**82.6**	83.0	10.3	93.3
Property development	**39.2**	**–**	**39.2**	47.2	–	47.2
Share of associated undertakings	**49.3**	**–**	**49.3**	45.8	–	45.8
Continuing operations	**1,516.9**	**51.9**	**1,568.8**	1,484.0	56.8	1,540.8
Discontinued operations	**–**	**–**	**–**	–	14.4	14.4
	1,516.9	**51.9**	**1,568.8**	1,484.0	71.2	1,555.2
Less: group items						
Goodwill (note 12)			**15.4**			23.9
Net borrowings (note 21)			**(450.1)**			(508.9)
Net liabilities			**(124.8)**			(111.8)
Net assets			**1,009.3**			958.4

The group's share of associated undertakings is stated after deducting the group's share of net borrowings of £22.1 million (2001: £19.2 million).

* *Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).*

3 Exceptional items

Towards the end of 2002, the group undertook a review of its cost base which resulted in a £5.5 million restructuring charge. This has been recorded as an exceptional item within administrative expenses.

Profit on disposal of discontinued operations includes a £7.8 million profit on the sale of AMPORTS USA's Aviation division. The group entered into a conditional sale agreement on 29 July 2002 with subsidiaries of Macquarie Global Infrastructure Funds, the sale being conditional upon obtaining consents from the relevant airport and regulatory authorities. All of these consents, together with the cash proceeds of £32.0 million (US$50.0 million), were received by 13 December 2002.

In addition, an exceptional charge of £0.4 million arose on the closure of Southern Emergency Vehicles, a small vehicle-modification business located in the USA.

Profit arising on the sale of fixed assets totalled £0.7 million (2001: £0.6 million), which includes £0.5 million (2001: nil) relating to an insurance claim resulting from a damaged pier in the USA.

The exceptional tax credit arising from the above items totalled £0.7 million (2001: nil), comprising a £1.7 million credit for the restructuring charge in respect of the group's review of its cost base and a £1.0 million charge relating to the sale of AMPORTS USA's Aviation division.

4 Profit before interest and taxation

Profit before interest and taxation is after charging/(crediting):	2002 £m	2001 £m
Depreciation (note 13)		
Owned tangible fixed assets	**23.5**	21.9
Leased tangible fixed assets	**1.6**	1.8
Grant amortisation (note 24)	**(0.6)**	(0.7)
Operating lease rentals		
Plant and machinery	**3.7**	3.5
Property	**5.6**	5.3
Auditors' remuneration – statutory audit (including expenses)	**0.3**	0.3

Fees paid to PricewaterhouseCoopers for non-audit services in the UK totalled £0.3 million (2001: £0.4 million) comprising £0.2 million (2001: £0.1 million) for taxation services and £0.1 million (2001: £0.1million) for internal audit services. There were no fees paid for corporate transactions (2001: £0.2 million).
The statutory audit fee above includes £45,000 (2001: £45,000) in respect of the company.
There were no fines payable in respect of breaches of section 3 of the Health and Safety at Work, etc. Act 1974 (2001: £0.4 million).

5 Retirement benefits

The group continues to account for pensions in accordance with Statement of Standard Accounting Practice (SSAP) 24 – Accounting for Pension Costs and the disclosures given in (a) are those required by that standard. The group is continuing to apply the transitional disclosure requirements of Financial Reporting Standard (FRS) 17 – Retirement Benefits (see (b) below).

a SSAP 24 – Accounting for Pension Costs

The group participates in a number of pension schemes, principally in the UK. The major scheme is a funded defined benefits scheme – The Associated British Ports Group Pension Scheme (ABPGPS). The defined benefits section of this scheme was closed to new members with effect from 1 April 2002. New members joining ABPGPS from 1 April 2002 are offered membership of a defined contributions section which at 31 December 2002 constituted less than 0.1% of the total asset value. The assets of the group's pension schemes are held in trust funds independent of its finances.
For ABPGPS, the pension costs under SSAP 24 have been assessed in accordance with the advice of a firm of actuaries, Mercer Human Resource Consulting.
The most recent valuation of ABPGPS, the group's largest funded defined benefit scheme, was undertaken as at 31 December 2000. The market value of the assets of the scheme at the valuation date was £484.4 million. The value of the assets represented 137 per cent of the benefits which had accrued to members after allowing for future expected increases in earnings and certain benefit improvements. The regular cost has been assessed on the basis of the projected unit method. The assets of the scheme have been taken into account at their market value. Consistent with this, the liabilities were valued using financial assumptions derived from yields on index-linked and fixed-interest government securities. In particular, it was assumed that pensions would increase by 2.5 per cent per annum (the implied rate of inflation), salaries would increase by 4.0 per cent per annum and investments would yield 5.0 per cent per annum (4.5 per cent per annum post-retirement on accrued liabilities).
In deriving the pension costs under SSAP 24, the surplus in the scheme is being spread over the future working lives of existing members.

5 Retirement benefits (continued)

Analysis of pension credit:	2002 £m	2001 £m
Group scheme		
Amortisation of past service surpluses including interest on the balance sheet prepayment	**13.9**	13.7
Regular annual cost of providing current and future service benefits	**(7.2)**	(5.7)
Total added to prepayment of pension contributions	**6.7**	8.0
Cost of pension benefits in other group schemes	**(1.2)**	(1.4)
Pension credit	**5.5**	6.6

No employer's contributions were made to ABPGPS during the year and based on the most recent valuation of ABPGPS the group is maintaining its contribution holiday.

b FRS 17 – Transitional disclosures

The pension costs reported in 5a above have been calculated in accordance with SSAP 24. Under the transitional arrangements of FRS 17 – Retirement Benefits, the group is disclosing the following information that would have been reported had the group calculated its pension costs for the year ended 31 December 2002 and valued its scheme assets and liabilities as at 31 December 2002 in accordance with FRS 17.

(i) The latest formal revaluation of the scheme was carried out as at 31 December 2000. The valuation of the liabilities detailed below has been derived by projecting forward the position as at 31 December 2000 and has been performed by an independent actuary, Mercer Human Resource Consulting. FRS 17 gives the present value of pension liabilities by discounting pension commitments (including an allowance for salary growth), using a AA corporate bond yield.

(ii) The major financial assumptions used by the actuaries under FRS 17 were as follows:

Financial assumptions:	As at 31 December 2002 %	As at 31 December 2001 %
Inflation	**2.35**	2.50
Rate of increase in pensionable salaries	**3.85**	4.00
Rate of increase for pensions in payment	**2.35**	2.50
Rate of increase for deferred pensions	**2.35**	2.50
Discount rate	**5.50**	5.75

(iii) The assets and liabilities of the pension scheme, along with the expected rates of return on the scheme's assets under FRS 17 at 31 December 2002 and 31 December 2001, were as follows:

	As at 31 December 2002		As at 31 December 2001	
	%	£m	%	£m
Equities	**7.0**	**174.5**	7.0	233.1
Bonds	**5.1**	**193.7**	5.4	182.3
Cash and other investments	**4.5**	**17.6**	5.0	8.3
Total market value of pension scheme assets		**385.8**		423.7
Present value of pension scheme liabilities		**(352.0)**		(320.0)
Surplus in the pension scheme		**33.8**		103.7
Deferred tax liability		**(10.1)**		(31.1)
Net pension scheme asset under FRS 17		**23.7**		72.6

5 Retirement benefits (continued)

(iv) If the amounts set out in 5b (iii) had been recognised in the financial statements, the group's net assets and profit and loss account reserve under FRS 17 at 31 December 2002 and 31 December 2001 would be as follows:

Net assets:	As at 31 December 2002 £m	As at 31 December 2001* £m
Net assets (note 2)	**1,009.3**	958.4
Amount representing SSAP 24 pension prepayment (note 17)	**(82.9)**	(76.5)
Deferred tax liability on SSAP 24 pension prepayment (note 23)	**24.9**	22.9
Pension scheme asset net of deferred tax liability under FRS 17 (note 5b (iii))	**23.7**	72.6
Net assets – as adjusted under FRS 17	**975.0**	977.4

Profit and loss account reserve:	As at 31 December 2002 £m	As at 31 December 2001* £m
Profit and loss account reserve (note 28)	**185.0**	127.2
Amount representing SSAP 24 pension prepayment (note 17)	**(82.9)**	(76.5)
Deferred tax liability on SSAP 24 pension prepayment (note 23)	**24.9**	22.9
Pension scheme asset net of deferred tax liability under FRS 17 (note 5b (iii))	**23.7**	72.6
Profit and loss account reserve – as adjusted under FRS 17	**150.7**	146.2

* Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

(v) The following amounts would have been recognised in the group's profit and loss account and the statement of group total recognised gains and losses in respect of pension costs under FRS 17 for the year ended 31 December 2002:

	2002 £m
Operating profit	
Current service cost	(7.1)
Past service cost	–
Total charge to operating profit	(7.1)
Finance income	
Expected returns on pension scheme assets	26.6
Interest on pension scheme liabilities	(18.6)
Net credit to finance income	8.0
Pension scheme credit under FRS 17	0.9

5 Retirement benefits (continued)

Statement of group total recognised gains and losses:

	2002 £m
Actual return less expected return on pension scheme assets	(71.2)
Actual return less expected return on pension scheme liabilities	5.4
Changes in assumptions underlying the present value of the pension scheme liabilities	(5.0)
Actuarial loss recognised in statement of group total recognised gains and losses under FRS 17	(70.8)

(vi) The movement in the pension scheme surplus and details of experience gains and losses under FRS 17 during the year ended 31 December 2002 were as follows:

Movement in the pension scheme surplus during the year:

	2002 £m
Surplus in the pension scheme at 1 January 2002 under FRS 17	103.7
Movement in year:	
Current service cost	(7.1)
Employer contributions	–
Past service costs	–
Other financial income	8.0
Actuarial loss recognised in statement of group total recognised gains and losses	(70.8)
Surplus in the pension scheme at 31 December 2002 under FRS 17	33.8

Details of experience gains and losses in the year ended 31 December 2002:

	2002 £m	2002 %
Actual return less expected return on pension scheme assets	(71.2)	(18)
Actual return less expected return on pension scheme liabilities	5.4	2
Actuarial loss recognised in statement of group total recognised gains and losses	(70.8)	(20)

6 Net interest payable

	Fixed rate 2002 £m	Variable rate 2002 £m	Total 2002 £m	Total 2001 £m
Interest payable and similar charges				
Eurobonds	28.0	–	28.0	28.0
Bank loans	0.4	7.4	7.8	9.1
Bank overdraft and other borrowings	–	0.2	0.2	0.3
Finance leases	1.0	–	1.0	1.2
Amounts payable in respect of loans from associated undertakings	–	–	–	0.2
Liabilities for retirement benefits (note 23)	–	0.3	0.3	0.3
Other	0.4	0.3	0.7	1.2
Less: finance costs capitalised on payments for fixed assets	–	(1.1)	(1.1)	(1.2)
	29.8	7.1	36.9	39.1
Interest receivable and similar income	–	(0.7)	(0.7)	(0.4)
Total group	29.8	6.4	36.2	38.7
Share of interest in associates	1.2	0.3	1.5	1.0
	31.0	6.7	37.7	39.7

The Bank of England base rate is used as the basis for calculating finance costs capitalised as being directly attributable to the construction of certain major additions to fixed assets. None of the finance costs capitalised have been or will be deductible against corporation tax (2001: £0.2 million).

7 Directors and employees

Full details of directors' emoluments, including shareholdings and options, are shown in the remuneration report on pages 68 and 69.

	2002 £m	2001 £m
Staff costs		
Wages and salaries	90.1	79.3
Social security costs	7.2	6.7
Other pension costs – net credit (note 5a)	(5.5)	(6.6)
	91.8	79.4

	2002 Number	2001 Number
Monthly average number of persons employed		
Ports and transport	3,492	3,206
Property	44	48
	3,536	3,254

8 Taxation on profit on ordinary activities

	2002 £m	2001* £m
UK corporation tax at 30.0% based on the profit for the year	27.0	28.6
Double taxation relief	–	(0.4)
Total UK taxation charge	27.0	28.2
Overseas taxation – current year	2.4	(1.3)
Deferred taxation (note 23)	6.3	8.3
Total group	35.7	35.2
Share of taxation of associates	2.3	1.3
	38.0	36.5

The exceptional tax credit included within the above totalled £0.7 million (2001: nil), comprising £1.7 million credit for restructuring charge in respect of the group's review of its cost base and £1.0 million charge for the sale of AMPORTS USA's Aviation division.

The tax charge for the year is lower (2001: lower) than the standard rate of taxation in the UK of 30.0%. The differences are explained below:

	2002 £m	2001* £m
Profit on ordinary activities before taxation	139.1	129.5
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0%	41.7	38.9
Effects of:		
Exceptional tax credit	(0.7)	–
Expenses not deductible for tax purposes	1.5	1.6
Utilisation of capital losses	(4.5)	(4.0)
Actual tax charge for the group	38.0	36.5

* Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

9 Profit attributable to shareholders

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The parent company's result for the financial year amounted to a profit of £75.4 million (2001: £98.2 million).

10 Dividends

	2002 £m	2001 £m
Interim dividend paid of 6.5p (2001: 6.0p) per ordinary 25p share	**21.4**	20.2
Proposed final dividend of 8.25p (2001: 7.75p) per ordinary 25p share	**27.1**	25.2
	48.5	45.4

If approved, the final dividend would be payable on 1 May 2003 to shareholders on the register at the close of business on 4 April 2003.

11 Earnings per share

The calculation of the earnings per share is based on 327.0 million (2001: 334.2 million) ordinary shares being the weighted average number of shares in issue and ranking for dividend during the year.

The directors consider that underlying earnings per share is a more appropriate basis for comparing performance between periods than basic earnings per share. Figures calculated on this basis have been provided to show the effect of excluding goodwill amortisation, exceptional administrative expenses, profit on disposal of discontinued operations and profit on sale of fixed assets.

Reconciliation of the profit used for calculating the basic and underlying earnings per share:	Profit 2002 £m	Profit 2001* £m	Earnings per share 2002 p	Earnings per share 2001* p
Profit on ordinary activities after taxation attributable to shareholders – basic earnings per share	**101.1**	93.0	**30.9**	27.8
Goodwill amortisation (note 12)	**1.6**	1.5	**0.5**	0.5
Exceptional items – administrative expenses (note 3)	**5.5**	–	**1.7**	–
Profit on disposal of discontinued operations (notes 3 and 26)	**(7.4)**	–	**(2.3)**	–
Profit on sale of fixed assets (note 3)	**(0.7)**	(0.6)	**(0.2)**	(0.2)
Attributable tax	**(0.7)**	–	**(0.2)**	–
Profit on ordinary activities after taxation attributable to shareholders – underlying earnings per share	**99.4**	93.9	**30.4**	28.1

Reconciliation of weighted average number of shares used for calculating basic and diluted earnings per share:	Number of shares 2002 m	Number of shares 2001 m	Earnings per share 2002 p	Earnings per share 2001* p
Weighted average number of shares – basic earnings per share	**327.0**	334.2	**30.9**	27.8
Dilution arising from share option schemes	**3.0**	3.7	**(0.3)**	(0.3)
Weighted average number of shares – diluted earnings per share	**330.0**	337.9	**30.6**	27.5

* Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

12 Intangible assets

	Goodwill £m
Cost	
At 1 January 2002	27.1
Disposal of business (note 26)	(7.8)
Exchange adjustments	(0.6)
At 31 December 2002	**18.7**
Amortisation	
At 1 January 2002	3.2
Charge for year	1.6
Disposal of business (note 26)	(1.4)
Exchange adjustments	(0.1)
At 31 December 2002	**3.3**
Net book value	
At 31 December 2001	23.9
At 31 December 2002	**15.4**

13 Tangible operating assets

	Operational land £m	Buildings £m	Dock structures, roads, quays and dredging £m	Floating craft £m	Plant and equipment £m	Capital works in progress £m	Total £m
Cost or valuation							
At 1 January 2002	358.9	88.6	337.3	45.1	153.2	45.6	1,028.7
Additions	0.1	2.6	10.7	0.1	6.6	47.9	68.0
Acquisition of a business (note 25)	–	–	–	–	0.3	–	0.3
Transfers within tangible operating assets	(0.6)	7.1	12.1	0.2	5.0	(23.8)	–
Transfers to land held for sale	(0.3)	–	–	–	–	–	(0.3)
Transfers from/(to) tangible property assets (note 14)	5.2	6.2	(0.3)	–	0.1	–	11.2
Disposals	(0.3)	(1.1)	(0.2)	(0.1)	(4.1)	(0.1)	(5.9)
Disposal of business (note 26)	–	(9.5)	(1.5)	–	(1.3)	(0.1)	(12.4)
Exchange adjustments	(1.8)	(2.2)	(1.9)	–	(0.3)	(0.2)	(6.4)
At 31 December 2002	**361.2**	**91.7**	**356.2**	**45.3**	**159.5**	**69.3**	**1,083.2**

13 Tangible operating assets (continued)

	Operational land £m	Buildings £m	Dock structures, roads, quays and dredging £m	Floating craft £m	Plant and equipment £m	Capital works in progress £m	Total £m
Depreciation							
At 1 January 2002	–	21.9	108.8	17.9	82.1	–	230.7
Transfers within tangible operating assets	–	(0.1)	–	–	0.1	–	–
Transfers from/(to) tangible property assets (note 14)	–	0.2	0.2	–	0.1	–	0.5
Charge for year	–	3.3	9.6	2.4	9.8	–	25.1
Disposals	–	(0.3)	(0.2)	(0.1)	(3.3)	–	(3.9)
Disposal of business (note 26)	–	(0.9)	(0.1)	–	(0.8)	–	(1.8)
Exchange adjustments	–	(0.6)	(0.7)	–	(0.1)	–	(1.4)
At 31 December 2002	**–**	**23.5**	**117.6**	**20.2**	**87.9**	**–**	**249.2**
Net book value							
At 31 December 2001	358.9	66.7	228.5	27.2	71.1	45.6	798.0
At 31 December 2002	**361.2**	**68.2**	**238.6**	**25.1**	**71.6**	**69.3**	**834.0**

All tangible operating assets are stated at cost with the exception of operational land. Operational land is included at valuation as at 31 December 1998, as permitted under FRS 15 – Tangible Fixed Assets, or, if transferred from property assets after 31 December 1998, at the carrying value of 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 £507.5 million, of which £326.7 million was apportioned to land, representing an excess of £291.2 million over its historical book cost at that date.

Operational land, buildings and dock structures are held freehold with the exception of short leasehold properties with an historic net book value of £1.9 million (2001: £2.8 million).

Floating craft includes assets held under finance leases with a book cost and accumulated depreciation at 31 December 2002 totalling £29.9 million (2001: £29.7 million) and £12.5 million (2001: £10.9 million) respectively. The depreciation charge for the year includes £1.6 million (2001: £1.7 million) in respect of these assets.

Plant and equipment includes assets held under finance leases with a book cost and accumulated depreciation at 31 December 2002 totalling £0.5 million (2001: £0.6 million) and £0.5 million (2001: £0.5 million) respectively. There was no depreciation charge for the year in respect of these assets (2001: £0.1 million).

The cost of tangible operating assets includes £7.8 million (2001: £6.7 million) of cumulative finance costs capitalised.

Costs in respect of Dibden Terminal total £35.4 million (2001: £24.0 million), of which £30.2 million (2001: £18.8 million) is included within capital works in progress and £5.2 million (2001: £5.2 million) is included within land at ports held for development (note 14). The public inquiry into the group's application to develop Dibden Terminal commenced in November 2001 and was completed in December 2002 with the government's decision expected in late 2003 or 2004. The group remains confident about the prospects for this project; however, if the government's decision results in the project not proceeding, costs relating to this project will be written-off to the profit and loss account in the year in which a decision not to proceed is taken.

14 Tangible property assets

	Port-related investment properties £m	Other investment properties £m	Land at ports held for development £m	Total £m
At 1 January 2002	494.4	59.2	34.9	588.5
Additions	5.7	–	–	5.7
Transfers within tangible property assets	1.5	(0.4)	(1.1)	–
Transfers to land held for sale	(0.3)	(4.3)	(1.1)	(5.7)
Transfers to tangible operating assets (note 13)	(8.6)	–	(2.1)	(10.7)
Disposals	–	(1.2)	(1.5)	(2.7)
Exchange adjustments	–	(0.6)	(0.2)	(0.8)
	492.7	52.7	28.9	574.3
(Deficit)/surplus on revaluation (note 28)	(6.3)	0.8	–	(5.5)
At 31 December 2002	**486.4**	**53.5**	**28.9**	**568.8**
Historic cost at 31 December 2002	185.6	21.9	14.0	221.5

Tangible property assets, all of which are shown at valuation as at 31 December 2002, have been valued on the basis of open market value in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors. The valuations were carried out by Phillip Williams FRICS, Group Property Director, Associated British Ports. All the above properties are owned freehold with the exception of £0.9 million (2001: £0.6 million) of port-related investment properties which are owned leasehold.
The cost of tangible property assets includes £0.3 million (2001: £0.3 million) of cumulative finance costs capitalised.

15 Investments

	Group			Company		
	Interest in associated undertakings £m	Own shares £m	Total £m	Subsidiary undertakings £m	Own shares £m	Total £m
At 1 January 2002						
as previously reported	50.2	2.2	52.4	974.4	2.2	976.6
prior year adjustment (note 34)	(4.4)	–	(4.4)	(54.5)	–	(54.5)
as restated	45.8	2.2	48.0	919.9	2.2	922.1
Share of profit for the year	6.7	–	6.7	–	–	–
Dividends receivable	(3.2)	–	(3.2)	–	–	–
Investment in subsidiary undertakings	–	–	–	0.1	–	0.1
Surplus arising on revaluation of subsidiary undertakings (note 28)	–	–	–	18.7	–	18.7
Other movements	–	(1.3)	(1.3)	–	(1.3)	(1.3)
At 31 December 2002	**49.3**	**0.9**	**50.2**	**938.7**	**0.9**	**939.6**

In presenting the figures for the company's investments in subsidiary and associated undertakings, the company has adopted the alternative accounting rules under the terms of schedule 4, part II, section C to the Companies Act 1985 and revalued these assets at 31 December 2002 to directors' valuations.
The company has an Employee Share Ownership Trust (ESOT) to acquire from the market and hold shares to meet the exercise of options arising from grants under the Executive Share Option Scheme as an alternative to the issue of new shares. At 31 December 2002, the ESOT held 0.3 million shares (2001: 0.8 million) with a nominal value of £0.1 million (2001: £0.2 million). The market value of these shares at 31 December 2002 was £1.3 million (2001: £3.4 million). The dividends on the shares held have been waived by the trustees with the exception of 0.01p per share.

16 Property developments and land held for sale

Property developments and land held for sale include £4.3 million (2001: £4.8 million) of land held for future development and £34.0 million (2001: £39.4 million) of land and completed developments held for sale.

Property developments and land held for sale are stated at the lower of their cost or transfer value, and net realisable value as determined by the directors at 31 December 2002. The historic cost of property developments and land held for sale totalled £33.0 million (2001: £36.9 million) and includes £0.2 million (2001: £0.2 million) of finance costs capitalised.

17 Debtors

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Due within one year				
Trade debtors	54.1	53.8	–	–
Amounts owed by subsidiary undertakings	–	–	549.2	563.6
Amounts owed by associated undertakings	7.1	7.0	–	–
Other debtors	10.1	10.0	0.4	0.4
Corporation tax recoverable	3.2	7.5	–	–
Prepayments and accrued income	14.8	12.7	–	0.1
Property completions due	4.1	6.3	–	–
	93.4	97.3	549.6	564.1
Due after one year				
Other debtors	–	0.3	–	–
Prepayment of pension contributions	82.9	76.5	–	–
	82.9	76.8	–	–
	176.3	174.1	549.6	564.1

18 Cash and short-term deposits

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Short-term deposits	4.9	2.9	–	–
Cash at bank and in hand	1.5	3.1	–	–
	6.4	6.0	–	–

Liquid resources comprise short-term deposits with banks with maturity dates between seven days and 12 months.

19 Creditors – amounts falling due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Borrowings				
Bank overdraft	**1.9**	3.2	**0.7**	1.8
Loan notes – unsecured	**–**	1.6	**–**	–
Bank loans	**2.2**	2.0	**–**	–
Obligations under finance leases	**3.4**	3.2	**–**	–
	7.5	10.0	**0.7**	1.8
Other				
Trade creditors	**21.4**	23.3	**–**	–
Amounts owed to associated undertakings	**1.2**	0.2	**–**	–
Other creditors	**13.9**	16.5	**–**	–
Taxation and social security	**21.8**	20.9	**–**	–
Dividends	**27.2**	25.3	**27.2**	25.3
Accruals	**36.9**	34.8	**11.0**	9.4
	129.9	131.0	**38.9**	36.5

20 Creditors – amounts falling due after more than one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Borrowings				
Eurobonds 2008 (6 5/8%)	**120.0**	120.0	**120.0**	120.0
Eurobonds 2011 (11 7/8%)	**100.0**	100.0	**100.0**	100.0
Eurobonds 2015 (10 7/8%)	**75.0**	75.0	**75.0**	75.0
Bank loans – unsecured	**147.9**	200.7	**147.3**	197.9
Obligations under finance leases – secured	**7.5**	11.0	**–**	–
Less: deferred borrowing costs to be amortised	**(1.4)**	(1.8)	**(1.3)**	(1.6)
	449.0	504.9	**441.0**	491.3
Other				
Accruals	**0.5**	0.5	**–**	–
	449.5	505.4	**441.0**	491.3

The bank loans are repayable between 2004 and 2006. Of the unsecured bank loans, £0.6 million (2001: £2.8 million) are repayable by instalments and bear interest at fixed rates of between 10.3 per cent and 12.35 per cent. The remaining £147.3 million (2001: £197.9 million) bear interest linked to national inter-bank rates. Obligations under finance leases are secured on related leased assets.

21 Group net borrowings

	2002 £m	2001 £m
Creditors – amounts falling due within one year (note 19)	7.5	10.0
Creditors – amounts falling due after more than one year (note 20)	449.0	504.9
	456.5	514.9
Less: cash and short-term deposits (note 18)	(6.4)	(6.0)
	450.1	508.9

The group's share of net borrowings of associated undertakings not included in the balance sheet total £22.1 million (2001: £19.2 million).
An analysis of maturity of gross financial liabilities is given in note 22a.

22 Financial instruments

The group's policies as regards derivatives and financial instruments are set out in the operating and financial review on page 29 and the accounting policies on page 34.
Short-term debtors and creditors have been excluded from these disclosures.

a Maturity profile of gross financial liabilities

Amounts falling due:	Debt 2002 £m	Finance leases 2002 £m	Other 2002 £m	Total 2002 £m	Debt 2001 £m	Finance leases 2001 £m	Other 2001 £m	Total 2001 £m
Within one year or less, or on demand	4.1	3.4	6.1	13.6	6.8	3.2	0.8	10.8
More than one year, but not more than two years	0.3	3.6	1.1	5.0	2.2	3.4	1.0	6.6
More than two years, but not more than five years	147.0	3.8	1.6	152.4	197.5	7.6	0.9	206.0
More than five years	294.3	–	3.4	297.7	294.2	–	2.7	296.9
	445.7	10.8	12.2	468.7	500.7	14.2	5.4	520.3

Other gross financial liabilities comprise accruals due after more than one year of £0.5 million (2001: £0.5 million) and provisions – excluding deferred taxation – for retirement benefits of £3.3 million (2001: £3.4 million), restructuring £5.5 million (2001: nil), onerous contracts £2.7 million (2001: £1.2 million) and other £0.2 million (2001: £0.3 million).

Undrawn committed borrowing facilities expiring:	2002 £m	2001 £m
Within one year or less	39.6	28.3
More than two years	192.7	142.1
	232.3	170.4

22 Financial instruments (continued)

b Interest rate profile

The following interest rate profiles analysed by principal currency of the group's financial liabilities and assets are after taking into account interest rate swaps entered into by the group.

Gross financial liabilities:	Fixed rate 2002 £m	Floating rate 2002 £m	Other non-interest bearing 2002 £m	Total 2002 £m	Fixed rate 2001 £m	Floating rate 2001 £m	Other non-interest bearing 2001 £m	Total 2001 £m
Sterling	307.8	116.7	8.9	433.4	316.6	126.8	2.0	445.4
US dollar	–	35.3	–	35.3	–	74.9	–	74.9
	307.8	152.0	8.9	468.7	316.6	201.7	2.0	520.3

The weighted average interest rate for fixed rate financial liabilities is 9.4 per cent (2001: 9.4 per cent). The weighted average period for which the rate is fixed is 8.5 years (2001: 9.4 years).

Interest on floating rate liabilities is based on the relevant national inter–bank rate and is fixed in advance for periods of up to six months.

Gross financial assets:	Floating rate 2002 £m	Other non-interest bearing 2002 £m	Total 2002 £m	Floating rate 2001 £m	Other non-interest bearing 2001 £m	Total 2001 £m
Sterling	3.6	0.4	4.0	3.1	–	3.1
US dollar	2.4	–	2.4	3.1	0.1	3.2
	6.0	0.4	6.4	6.2	0.1	6.3

Gross financial assets comprise short-term deposits of £4.9 million (2001: £2.9 million), cash at bank and in hand of £1.5 million (2001: £3.1 million). At the year end there were no other debtors due in more than one year (2001: £0.3 million).

Interest on floating rate deposits is based on the relevant national inter-bank rate and is fixed in advance for periods of up to six months. Other non-interest bearing financial assets comprise current bank accounts.

c Fair values of financial assets and liabilities

Gross financial liabilities:	Carrying amount 2002 £m	Estimated fair value 2002 £m	Carrying amount 2001 £m	Estimated fair value 2001 £m
Debt	445.7	521.8	500.7	556.5
Finance leases	10.8	11.3	14.2	15.0
Other liabilities	12.2	12.2	5.4	5.4
	468.7	545.3	520.3	576.9

The carrying value of financial assets equates to the estimated fair value for both 2002 and 2001.

Market values have been used to determine the fair value of all foreign currency contracts and listed instruments. The fair value of other items has been calculated by discounting expected cash flows at prevailing interest rates at the year end.

22 Financial instruments (continued)

d Hedging

As explained in the operating and financial review on page 29, the group's policy is to hedge certain interest rate and foreign exchange risks by using interest rate swaps and forward foreign currency contracts.

Unrecognised gains and losses on instruments used for hedging and the movements therein:	2002 £m	2001 £m
Unrecognised losses at 1 January	(0.5)	–
Losses arising during the year that were not recognised	(0.7)	(0.5)
Unrecognised losses on hedges at 31 December	**(1.2)**	(0.5)
Losses expected to be recognised in next financial year	(0.3)	–
Losses expected to be recognised after one year	(0.9)	(0.5)
Unrecognised losses on hedges at 31 December	**(1.2)**	(0.5)

e Currency exposures

The extent to which the group's operating entities hold monetary assets and liabilities in currencies other than in their local currency has been reviewed. Taking into account the impact of forward foreign exchange currency contracts, the group had no material profit and loss exposure to foreign exchange gains or losses on monetary assets and liabilities denominated in foreign currency as at 31 December 2002.

23 Provisions for liabilities and charges

	Retirement benefits £m	Deferred taxation £m	Restructuring £m	Onerous contracts £m	Other £m	Group Total £m
At 1 January 2002						
as previously reported	3.4	24.0	–	1.2	0.3	28.9
prior year adjustment (note 34)	–	50.1	–	–	–	50.1
as restated	3.4	74.1	–	1.2	0.3	79.0
Foreign exchange	–	(0.1)	–	–	–	(0.1)
Disposal of business (note 26)	–	–	–	–	0.4	0.4
Charge for year	0.1	6.3	5.5	1.9	–	13.8
Utilised in year	(0.5)	–	–	(0.4)	(0.5)	(1.4)
Interest	0.3	–	–	–	–	0.3
At 31 December 2002	**3.3**	**80.3**	**5.5**	**2.7**	**0.2**	**92.0**

23 Provisions for liabilities and charges (continued)

Retirement benefits

The provision for retirement benefits represents the present value estimated on an actuarial basis, net of attributable taxation of £0.9 million (2001: £0.9 million) of liabilities in respect of pensions and allowances of former employees of predecessor undertakings and of unfunded and non-tax-exempt pension arrangements. An independent actuarial assessment as at 31 December 2000 confirmed that, apart from annual interest, no additional provision is required in respect of these liabilities.

Deferred taxation

	Group 2002 £m	Group 2001* £m
Excess of capital allowances over depreciation	**54.8**	50.1
Retirement benefits	**24.9**	22.9
Other	**0.6**	1.1
	80.3	74.1

No potential or actual liability is shown in respect of fixed assets – property gains, which are more than covered by capital losses.

Restructuring

The restructuring provision relates to the group's review of its cost base (see note 3).

Onerous contracts

The provision for onerous contracts represents property leases where the unavoidable costs under the lease exceed the economic benefit.

Other

Other provisions relate to the closure costs of Southern Emergency Vehicles, a small vehicle-modification business located in the United States.

* Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

24 Deferred income

Movements on capital investment grants are set out below:	Group 2002 £m	Group 2001 £m
Balance not yet credited to profit and loss account at 1 January	**8.9**	9.3
Grants receivable	**0.4**	0.3
	9.3	9.6
Credited to profit and loss account	**(0.6)**	(0.7)
Balance not yet credited to profit and loss account at 31 December	**8.7**	8.9

25 Acquisition

On 19 April 2002, the group acquired the business and operating assets of Hams Hall Railfreight Terminal from Parsec of Europe Limited for a cash consideration of £0.3 million.

Net assets acquired:	Acquisition balance sheet £m	Fair value adjustments £m	Fair value to the group £m
Tangible operating assets	0.6	(0.3)	0.3
Consideration			0.3

Fair value adjustments comprise the write-down of tangible operating assets to net realisable value at the date of acquisition.

26 Disposal of AMPORTS USA's Aviation division and closure of Southern Emergency Vehicles

Profit on disposal of discontinued operations includes £7.8 million in respect of the sale of AMPORTS USA's Aviation division. The group entered into a conditional sale agreement on 29 July 2002 with subsidiaries of Macquarie Global Infrastructure Funds, the sale being conditional upon obtaining consents from the relevant airport and regulatory authorities. All of these consents, together with the cash proceeds of £32.0 million (US$50.0 million), were received by 13 December 2002. In addition, a charge of £0.4 million arose on the closure of Southern Emergency Vehicles, a small vehicle-modification business located in the USA.

Net assets disposed:	£m
Intangible assets (note 12)	6.4
Tangible fixed assets (note 13)	10.6
Net current assets (excluding cash)	1.5
	18.5
Disposal costs	5.7
	24.2
Profit on disposal before taxation	7.8
Satisfied by cash	32.0

Cash flow from sale of subsidiary undertakings of £29.4 million is stated net of disposal costs paid of £2.6 million. In the period up to its date of disposal, AMPORTS USA's Aviation division generated turnover of £26.5 million, incurred cost of sales of £21.9 million and administrative expenses of £0.9 million, giving rise to an operating profit of £3.7 million. In the period up to its date of closure, Southern Emergency Vehicles generated turnover of £1.4 million and incurred cost of sales of £1.5 million, giving rise to an operating loss of £0.1 million.

27 Share capital

	2002 £m	2001 £m
Authorised		
500,000,000 ordinary shares of 25p	**125.0**	125.0
Issued, called-up and fully paid		
328,123,684 (2001: 326,203,394) ordinary shares of 25p	**82.0**	81.6

In 2001, the company repurchased and subsequently cancelled 16,899,332 ordinary shares with a nominal value of £4.2 million. These shares, representing 5.0 per cent of the ordinary shares in issue at 31 December 2000, were purchased out of the proceeds following the disposal of Red Funnel Group in 2000. The total cost of the purchase (including expenses and stamp duty) of £68.3 million was charged to the profit and loss account reserve.

Share option schemes

During the year, options exercised under the schemes resulted in the issue of 1,818,686 ordinary shares of 25p each. The company received a total of £4.4 million in respect of these shares. A summary of options granted to employees (including executive directors) and outstanding at 31 December 2002 under share option schemes is given below and continued on page 56:

	Date granted	Price per share	Date option normally exercisable	Number of options outstanding
Savings-related scheme	October 1995	249.0p	until 2003	234,178
Savings-related scheme	October 1996	234.0p	until 2004	200,563
Savings-related scheme	October 1997	222.0p	until 2005	845,083
Savings-related scheme	October 1998	208.0p	until 2006	656,104
Savings-related scheme	March 1999	217.0p	2003 to 2007	542,424
Savings-related scheme	October 1999	249.0p	2003 to 2007	689,676
Savings-related scheme	October 2000	255.0p	2004 to 2008	747,074
Savings-related scheme	October 2001	320.0p	2005 to 2009	786,240
Savings-related scheme	October 2002	327.0p	2006 to 2010	1,055,491
Executive scheme	April 1994	281.5p	until 2004	20,000
Executive scheme	April 1995	281.0p	until 2005	41,800
Executive scheme	September 1996	296.0p	until 2006	50,000
Executive scheme	September 1997	293.5p	until 2007	53,000
Executive scheme	September 1997	285.0p	until 2007	10,000
Executive scheme	September 1998	253.0p	until 2008	11,500
Executive scheme	September 1998	255.0p	until 2008	47,000
Executive scheme	September 1999	293.0p	until 2009	227,685
Executive scheme	September 2000	311.0p	2003 to 2010	1,181,012
Executive scheme	April 2001	406.5p	2004 to 2011	50,000
Executive scheme	September 2001	400.0p	2004 to 2011	1,192,488
Executive scheme	April 2002	466.0p	2005 to 2012	34,334
Executive scheme	September 2002	419.0p	2005 to 2012	1,409,822

27 Share capital (continued)

Share option schemes (continued)

	Date granted	Price per share	Date option normally exercisable	Number of options outstanding
US Stock Purchase Plan	October 2001	361.0p	January 2004	47,434
US Stock Purchase Plan	October 2002	348.0p	January 2005	30,095
Californian Stock Purchase Plan	October 2001	361.0p	January 2004	25,560
Californian Stock Purchase Plan	October 2002	348.0p	January 2005	25,030
				10,213,593

All grants of options made under the Savings-Related Share Option Scheme are, 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.
All grants of options under the Executive Share Option Scheme have been made at the full, undiscounted market price of the shares immediately preceding the date of grant.
The grants of options made under the US and Californian Stock Purchase Plans were, as permitted by the rules of those plans, made at a price equal to not less than 85 per cent of the closing market price, as derived from the Daily Official List of the London Stock Exchange, on the previous dealing day before the date of grant.

ABP Share Incentive Plan
In 2002, in respect of the ABP Share Incentive Plan, the company received a total of £0.4 million for the 101,604 ordinary shares issued.

28 Reserves

			Other reserves		Group
	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2002					
as previously reported	70.9	641.7	19.8	17.2	181.7
prior year adjustment (note 34)	–	–	–	–	(54.5)
as restated	70.9	641.7	19.8	17.2	127.2
Issue of ordinary shares	4.3	–	–	–	–
Qualifying Employee Share Trust	2.2	–	–	–	(2.2)
Deficit arising on revaluation of tangible property assets (note 14)	–	(5.5)	–	–	–
Realisation of property revaluation surpluses of previous years	–	(8.3)	–	–	8.3
Retained profit for the year	–	–	–	–	52.6
Currency translation differences on foreign currency net investments	–	–	–	–	(0.9)
At 31 December 2002	**77.4**	**627.9**	**19.8**	**17.2**	**185.0**

During the year, £4.7 million was received by the company upon the exercise of options awarded under the Savings-Related Share Option Scheme. Employees paid £2.5 million to the group for the issue of these shares and the balance of £2.2 million comprised contributions to the Qualifying Employee Share Trust from the employing company.
At 31 December 2002, cumulative goodwill written-off was £20.9 million (2001: £20.9 million), including £4.2 million (2001: £4.2 million) in respect of associated undertakings.

28 Reserves (continued)

					Company
			Other reserves		
	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2002					
as previously reported	70.9	650.1	34.6	17.2	158.5
prior year adjustment (note 34)	–	(54.5)	–	–	–
as restated	70.9	595.6	34.6	17.2	158.5
Issue of ordinary shares	4.3	–	–	–	–
Qualifying Employee Share Trust	2.2	–	–	–	(1.6)
Surplus arising on revaluation of subsidiary undertakings (note 15)	–	18.7	–	–	–
Profit for the year	–	–	–	–	26.9
At 31 December 2002	**77.4**	**614.3**	**34.6**	**17.2**	**183.8**

29 Group cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities:	2002 £m	2001 £m
Group operating profit	**158.2**	160.1
Non-cash items:		
Depreciation and grant amortisation	**24.5**	23.0
Amortisation of goodwill	**1.6**	1.5
Pension prepayment movement	**(6.7)**	(7.9)
Cash inflow/(outflow) from movements in working capital:		
Property developments and land held for sale	**11.9**	(0.3)
Debtors	**(3.4)**	(17.7)
Creditors	**6.7**	7.1
Increase/(decrease) in provisions	**6.3**	(0.6)
Net cash inflow from operating activities	**199.1**	165.2

Included within net cash inflow from operating activities is £4.4 million (2001: £3.3 million) in relation to discontinued operations. These operations utilised £0.3 million (2001: £5.0 million) in relation to capital expenditure and financial investment and £nil (2001: £2.6 million) in relation to purchase of business and subsidiary undertakings.

Analysis of (decrease)/increase in borrowings and lease finance during the year:	2002 £m	2001 £m
Borrowings due within one year:		
(Decrease)/increase in unsecured loans	**(1.4)**	0.2
Increase in finance leases	**0.2**	0.3
Borrowings due after one year:		
Decrease in secured loans	**–**	(0.3)
(Decrease)/increase in unsecured loans	**(47.8)**	66.8
Decrease in finance leases	**(3.5)**	(3.1)
Decrease in amortised costs	**0.4**	0.2
	(52.1)	64.1

29 Group cash flow statement (continued)

Analysis of changes in net borrowings during the year:	At 1 January 2002 £m	Cash flow 2002 £m	Effect of foreign exchange rates 2002 £m	At 31 December 2002 £m
Cash at bank and in hand	3.1	(1.4)	(0.2)	**1.5**
Bank overdraft	(3.2)	1.3	–	**(1.9)**
	(0.1)	(0.1)	(0.2)	**(0.4)**
Borrowings – amounts falling due within one year (excluding overdrafts)	(6.8)	1.2	–	**(5.6)**
Borrowings – amounts falling due after more than one year	(504.9)	50.9	5.0	**(449.0)**
	(511.8)	52.0	4.8	**(455.0)**
Liquid resources	2.9	2.0	–	**4.9**
Net borrowings	(508.9)	54.0	4.8	**(450.1)**

Liquid resources comprise short-term deposits with banks with maturity dates between seven days and 12 months.

30 Related party transactions

The group has interests in three associated undertakings: Southampton Container Terminals Limited, Tilbury Container Services Limited and The Cardiff Bay Partnership. The nature of these investments is described more fully in note 33 to the financial statements.

During the year, the group charged these undertakings a total of £23.8 million (2001: £19.0 million) in respect of property management and operational services. At the year end, £5.2 million (2001: £5.2 million) remained owing by these undertakings in respect of these charges.

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 17 and 19.

31 Financial commitments

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Capital expenditure contracted but not provided for	**19.8**	12.9	**–**	–

Operating leases

Commitments during the next financial year in respect of operating lease payments are as follows:

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Land and buildings				
Leases which expire within one year	**0.3**	0.3	**–**	–
Leases which expire within two and five years	**2.9**	3.4	**–**	–
Leases which expire after five years	**2.4**	1.5	**0.9**	0.9
Other leases				
Leases which expire within one year	**0.4**	0.4	**–**	–
Leases which expire within two and five years	**1.5**	1.3	**–**	–
Leases which expire after five years	**0.4**	0.1	**–**	–
	7.9	7.0	**0.9**	0.9

32 Contingent liabilities

Contingent liabilities under claims, indemnities and bank guarantees:	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank guarantees in respect of subsidiary undertakings	**–**	–	**2.8**	4.8
Other guarantees and contingencies	**4.0**	5.3	**–**	–

Other guarantees and contingencies primarily relate to performance bonds.

33 Principal subsidiary and associated undertakings

	% held by group
Subsidiary undertakings	
Ports and transport	
Associated British Ports	(see below)*
Exxtor Shipping Services Limited	100
Ipswich Port Limited	100
Northern Cargo Services Limited	100
Slaters Transport Limited	100
Southampton Free Trade Zone Limited	100
The Teignmouth Quay Company Limited	100
ABP Marine Environmental Research Limited	100
American Port Services Inc. (registered and operating in the USA)	100
AMPORTS Cargo Services Limited	100
AMPORTS Vehicle Terminals Limited	100
Property	
Grosvenor Waterside (Holdings) Limited	100
Grosvenor Waterside Developments Limited	100
Grosvenor Waterside Investments Limited	100
Associated undertakings	
Ports and transport	
Southampton Container Terminals Limited	49
Tilbury Container Services Limited	33†
Property	
The Cardiff Bay Partnership	45

* 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.
† 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 except for American Port Services Inc., which is registered in the USA, and The Cardiff Bay Partnership, which is unincorporated and has its principal place of business at 150 Holborn, London, EC1N 2LR. The group's interest in subsidiary undertakings is represented by ordinary shares.

34 Financial Reporting Standard 19 – Deferred Tax (FRS 19) restatement

The group adopted FRS 19, which sets out the revised accounting guidance on deferred tax, in its 2002 interim financial statements. Prior to FRS 19, the group had complied with Statement of Standard Accounting Practice 15 – Deferred Tax (SSAP 15) which required provision for deferred tax to be made using the liability method to the extent that the net deferred tax assets or liabilities recognised were likely to crystallise in the foreseeable future. Given the group's ongoing capital expenditure programme, under SSAP 15 the group was not required to recognise any deferred tax liability in respect of the timing differences between the group's industrial building and capital allowances and the group's depreciation expense as the group's industrial building and capital allowances are expected to continue at levels in excess of the group's depreciation expense for the foreseeable future.

Under FRS 19, except for brought-forward capital losses and property revaluation gains, the group has made a full provision for deferred tax in respect of timing differences and recognised in full the future tax impact of past transactions without taking into account the beneficial tax impact of the group's planned future capital expenditure programme as permitted under SSAP 15. The group has not recorded a deferred tax asset with respect to unrelieved capital losses as the recoverability of these cannot be assessed with reasonable certainty. The adoption of FRS 19 has increased the group's reported underlying effective tax rate from 24.8 per cent to 28.0 per cent and reduced the group's underlying earnings per share by 1.4 pence from 31.8 pence to 30.4 pence. In addition, net assets as at 31 December 2002 have been reduced by £59.0 million from £1,068.3 million to £1,009.3 million. None of this has had any impact on cash flows.

Comparative figures for 2001 have been restated to reflect the effects of FRS 19 as follows:

Year ended 31 December 2001	Reported £m	Adjustment £m	Restated £m
Group profit and loss account			
Profit on ordinary activities before taxation	129.5	–	129.5
Taxation on profit on ordinary activities	(32.3)	(4.2)	(36.5)
Profit on ordinary activities after taxation attributable to shareholders	97.2	(4.2)	93.0
Dividends	(45.4)	–	(45.4)
Retained profit for the group and its associates	51.8	(4.2)	47.6
Earnings per share – underlying	**29.4p**	**(1.3p)**	**28.1p**
Group balance sheet			
Investments – interest in associated undertakings	52.4	(4.4)	48.0
Provisions for liabilities and charges – deferred taxation	(28.9)	(50.1)	(79.0)
Equity shareholders' funds – profit and loss account	181.7	(54.5)	127.2

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors confirm that the financial statements comply with these requirements. 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.

The directors are responsible for the maintenance and integrity of the group's website where the group's Annual Report & Accounts is available. Information published on the Internet is accessible in many countries where legal requirements may differ from the United Kingdom's legislation relating to the preparation and dissemination of financial statements.

Directors' report

Principal activities

The principal activities of the group comprise the provision of port facilities and related services to ship owners and other users of seaports in the UK and the USA. The group owns and operates 21 ports in the UK and provides vehicle-processing services from four port locations in the USA. In addition, the group engages in the provision of value-added transport-related services in the UK, and generates income from the ownership and development of properties at port locations within the UK and the USA. This report should be read in conjunction with the operating and financial review on pages 24 to 29 and the Group Chief Executive's review on pages 12 to 14, both of which include details of the group's trading during the year and an indication of likely future developments.

Results and dividend

The profit for the year attributable to shareholders was £101.1 million, giving underlying earnings per share of 30.4 pence. Further details of the group's results are set out in note 2 to the financial statements. The directors are recommending a final dividend of 8.25 pence per share to be paid on 1 May 2003 to ordinary shareholders on the register at close of business on 4 April 2003. Combined with the interim dividend of 6.5 pence per share paid on 1 November 2002, this would make a total ordinary dividend for the year of 14.75 pence per share, representing an increase of 7.3 per cent on the previous year's dividend of 13.75 pence per share.

Acquisitions and disposals

On 19 April 2002, the group acquired the business and operating assets of Hams Hall Railfreight Terminal from Parsec of Europe Limited for a cash consideration of £0.3 million.

On 1 July 2002, the group closed down the operations of Southern Emergency Vehicles, a small vehicle-modification business in the USA.

On 29 July 2002, the group entered into a conditional agreement for the sale of AMPORTS USA's Aviation division, which comprised 11 airport facilities, to subsidiaries of Macquarie Global Infrastructure Funds, the sale being conditional upon obtaining consents from the relevant airport and regulatory authorities. All of these consents, together with the cash proceeds of £32.0 million (US$50.0 million), were received by 13 December 2002.

Investment property

The group's tangible property assets were valued on the basis of open market value as at 31 December 2002 at £568.8 million, leading to a decrease in the revaluation reserve of £5.5 million.

Directors and their interests

Biographies of the directors of the company are provided on pages 22 and 23. Of the three directors retiring at the Annual General Meeting (AGM) in accordance with the company's Articles of Association, Richard Adam and Aubrey Adams, being eligible, offer themselves for re-election. George Duncan is not seeking re-election. Stuart Chambers has been appointed since the last AGM and, being eligible, will also offer himself for re-election.

Of the directors offering themselves for re-election, Richard Adam has a service agreement with the company.

Details of the remuneration paid to directors who held office during the year are given in the remuneration report on pages 66 to 69. This also contains details of each director's interest in the share capital of the company at the year end.

Share capital

Details of changes in the company's share capital, including shares issued and options granted under the employee share schemes, are set out in note 27 to the financial statements. Details of the company's shareholders at the year end are provided on page 71.

Payment of suppliers

The group agrees terms and conditions with suppliers before business takes place. The group's policy and practice is to pay agreed invoices in accordance with the terms of settlement. At the year end, the amount owed to trade creditors amounted to 30 days (2001: 20 days) of purchases from suppliers.

Research and development

The group undertakes research and provides a wide range of hydraulic, dredging and engineering consultancy services both for Associated British Ports and outside customers through ABP Marine Environmental Research Limited, a wholly-owned subsidiary.

Employee involvement

The company uses various methods to provide information to, and, where appropriate, consult with employees about current activities and progress. The company believes that financial participation is a major constituent of employee involvement and employee share schemes are well established. An offer under the Share Incentive Plan (formerly known as the All Employee Share Ownership Plan) was made to employees in 2002, as well as grants of options under both the Savings-Related Share Option Scheme (SRSOS) and the Executive Share Option Scheme (ESOS). A further offer under the Share Incentive Plan and a grant of options under the SRSOS will take place in 2003. The company also intends to make another grant under the ESOS in 2003 at the full, undiscounted market price of the shares at the date of the grant. Offers were also made in 2002 to employees under the US and Californian Stock Purchase Plans, with further offers scheduled for 2003.

Disabled persons
It is group policy to give full and fair consideration to applications for employment by disabled persons. Where employees become disabled during employment, the group seeks to provide opportunities for them to continue employment in positions compatible with their disability wherever possible. Disabled employees, in line with all staff, are encouraged to make use of training and development facilities.

Charitable and political contributions
Donations for charitable purposes in 2002 amounted to £74,000 (2001: £73,000). The group also made contributions of £2,000 (2001: nil) for political purposes in the USA.

Special business at the Annual General Meeting (AGM)
The remuneration report will be put to the AGM for approval, as an ordinary resolution.

New authorities for the issue of the balance of the authorised share capital are being sought. At the AGM held on 16 April 2002, shareholders approved an ordinary resolution conferring a general authority (for the purposes of section 80 of the Companies Act 1985) on the directors to allot equity securities up to an aggregate nominal amount representing the lesser of (i) the unissued ordinary share capital of the company and (ii) one-third of the issued equity share capital of the company, for one year ending on the date of the AGM in 2003. The directors are proposing that an ordinary resolution be submitted at the AGM, in order to grant a general authority for a further year in respect of an amount equivalent to one-third of the issued equity share capital. The authorised share capital of the company is £125,000,000 divided into 500,000,000 ordinary shares of 25 pence each, of which £27,409,096, comprising 109,636,384 ordinary shares, represents one-third of the issued equity share capital as at 19 February 2003. The directors have no present intention of exercising such authority other than to issue shares pursuant to the company's employee share schemes.

The directors are also proposing that a special resolution be submitted at the AGM to empower them to allot, wholly for cash, up to a nominal amount of £4,111,364 (16,445,456 ordinary shares) representing approximately five per cent of the issued equity share capital of the company as at 19 February 2003, without offering them first to existing shareholders. The authority would expire at the AGM in 2004. The directors believe it is in the best interests of the company that, as permitted by the Companies Act 1985, they should have available a relatively small number of shares in order that they may take advantage of any appropriate opportunities that may arise.

The directors are further proposing that a special resolution be submitted at the AGM giving the company authority to purchase in the market up to 32.8 million of its ordinary shares of 25 pence each (representing approximately 10 per cent of the present issued share capital). The authority would expire on the date of the AGM in 2004. In reaching their decision to purchase ordinary shares, the directors will take into account the company's cash resources and capital requirements and the effect of any purchase on earnings per share. There is no present intention to use this authority.

Finally, the directors are proposing that an ordinary resolution be submitted at the AGM giving the company authority to establish the Associated British Ports Long-Term Incentive Plan, as outlined in the appendix to the letter from the Chairman to shareholders dated 11 March 2003.

Auditors
Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 17 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the AGM.

By order of the board

Hywel Rees

Hywel Rees
Company Secretary

19 February 2003

Corporate governance

Combined Code
The board of directors is responsible for, and committed to, the maintenance of the highest standards of corporate governance throughout the group and fully supports the principles laid down in the Combined Code on Corporate Governance (the Code). This statement describes how the principles of the Code are implemented and reports on the group's compliance with the Code's provisions.

Board of directors
The board of directors is responsible for the group's strategic direction, the establishment of policies and internal controls and the monitoring of operational performance.

The board currently comprises seven non-executive directors and two executive directors. The non-executive role of Chairman is separate from the executive role of the Group Chief Executive, and there is a clear division of responsibilities between the two. On 16 April 2002, Ross Sayers succeeded Sir Keith Stuart as non-executive Chairman following Sir Keith's retirement. Biographies of all board members are provided on pages 22 to 23.

The executive directors operate within clearly defined limits of authority and must refer any matters outside these limits to the board for its consideration. The group's non-executive directors bring wide and varied commercial experience to the board's deliberations and fully participate in the resolution of matters reserved for the board. They are all considered to be independent of management and free from any business or other relationship that could materially interfere with their independent judgement.

The board meets eight times a year in the normal course of business. Board meetings are held both at head office and at the group's port locations around the UK. The schedule of matters reserved for the board includes annual budgets, strategic plans, reporting to shareholders, approval of acquisitions and divestments, approval of major capital expenditure projects and consideration of significant financing.

Board members are provided with all relevant information on a timely basis in order to enable the board to discharge its duties effectively. The Chairman is responsible for ensuring that all directors are properly briefed on issues arising at board meetings.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are followed.

Newly-appointed directors who do not have any previous public company board experience are provided with relevant training on their role and responsibilities. Subsequent training is available to all directors on an as needed basis. Any director may also take independent professional advice, at the group's expense, in furtherance of his duties.

All directors are subject to re-election at intervals of no more than three years.

Board committees
There are three main committees of the board.

The Audit Committee is responsible for keeping under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditors, particularly in the context of the nature and extent of any non-audit services they provide to the group. The committee meets at least twice a year and its terms of reference also include the review of the annual and interim financial statements before they are approved by the board and the monitoring of internal and external audit functions.

The committee may, as appropriate, meet the group's internal and external auditors without the group's management being present. The Audit Committee is chaired by Derek Sach. Its other members are Aubrey Adams, Tim Bowdler and Andrew Simon.

The Remuneration Committee is chaired by George Duncan, the Deputy Chairman and senior independent director, and comprises all the non-executive directors. The committee is responsible for setting all the elements of executive directors' remuneration packages. This includes establishing the targets attached to the performance-related element of executive directors' remuneration and for the granting of options under the group's share option schemes. A separate report on directors' remuneration is included on pages 66 to 69.

The Nomination Committee meets as and when necessary, and at least once a year. Its responsibilities include consideration of candidates for board nomination, re-election to the board of those directors retiring by rotation and succession planning. The committee is chaired by Ross Sayers and comprises the non-executive directors and Bo Lerenius.

Relations with shareholders
The board is committed to maintaining good communications with shareholders. Other than during close periods, the Group Chief Executive and the Group Finance Director maintain a regular dialogue with institutional shareholders throughout the year. The group also encourages communications with private shareholders throughout the year and welcomes their participation at shareholder meetings. Institutional shareholders and analysts are invited to presentations by the executive directors immediately after the announcement of the group's half-year and full-year results. These are subsequently made available on the group's website.

In addition to the half-year and full-year results announcements, the company also issues trading statements in advance of entering its close periods and provides an indication of trading at the time of the Annual General Meeting (AGM). All board members attend the AGM and, in particular, the chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions. Resolutions are proposed on each substantially separate issue and the agenda at the AGM includes a resolution adopting the group's Annual Report & Accounts. Notice of the AGM is sent to all shareholders at least 20 working days before the meeting. Details of the proxy votes for and against each resolution are announced after the result of the hand votes is known.

The group's Annual Report & Accounts, preliminary and interim announcements, trading statements and press releases are available on its website, www.abports.co.uk. Whether a shareholder or not, all of these communications from the company can be received in electronic form by e-mailing pr@abports.co.uk.

Going concern
After making enquiries, the directors believe that the group and the company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control
The board acknowledges that it has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The board takes regular account of the significance of social, environmental and ethical matters in assessing the appropriateness of the group's system of internal control. Significant social, ethical and environment-related risks and opportunities which could impact on the group's short- and long-term value are identified, assessed and addressed appropriately. The group has in place effective systems for managing all significant risks and the board has received adequate information throughout the year in making this assessment. Further information on the group's management of social, ethical and environmental matters will be provided in its first separate report on corporate and social responsibility, due to be published during 2003.

The group's system of internal control is designed to manage rather than eliminate risk in achieving business objectives. While the system is subject to regular review and updating, it should be recognised that such systems can provide only reasonable, and not absolute, assurance against material misstatement or loss. During 2002, procedures were in place throughout the group to ensure compliance with the report of the Turnbull Committee.

Risk management
As recommended in the guidance on internal control issued by the Turnbull Committee, the group has in place a risk management working group, comprising senior executives and chaired by the Group Finance Director, for the purposes of identifying the major risks facing the group and formalising the group's risk objectives and risk management processes. The recommendations of the risk management working group are reviewed and updated annually and have been adopted by the board.

The group's overall risk management objective is to take such strategic and commercial risks so as to enable it to grow the business through a thorough understanding of the risks and responses required for success. The definition of risk for the group is "an uncertainty or event that could, unless effectively managed, significantly affect Associated British Ports Holdings PLC's ability to achieve its current or future objectives."

The group has identified four major risk management objectives:
- To ensure that the health and safety of its employees and other persons is not put at risk by its undertaking;
- To continue to avoid disasters or catastrophes by managing those physical and other risks that have the potential to significantly damage the financial position of the group, its reputation or its ability to provide services;
- To identify, assess and prioritise opportunities to grow the business having regard for the need to manage the group's commercial risks;
- In operating its business, to endeavour to meet the demands of trade while having due regard for the potential impact of its activities on the environment.

The group aims to manage risk wherever possible by embedding processes and ensuring controls to manage risk are inherent in day-to-day operations. To this end, monthly reports received by the Group Chief Executive from the operating units cover key aspects of the business such as commercial matters, health and safety issues, personnel issues, financial results and future business prospects.

These reports also comment on existing risks and specifically identify any emerging risks along with actions being taken to manage them. Risks such as health and safety and the environment are further monitored by written reports submitted to the board on a regular basis.

The Group Chief Executive, the Group Finance Director and senior operational and financial managers meet on a regular basis. These meetings allow for discussions of particular issues affecting each business unit, including their major risks.

The group maintains a comprehensive annual planning and management reporting system. A detailed annual budget is prepared in advance of each year and is supplemented by revised forecasts during the course of the year. In addition, a three-year strategic plan is updated annually. Actual financial results are reported monthly and compared to budget, revised forecasts and prior-year results. All of these reports are reviewed by the board for approval.

Comprehensive procedures provide for the appraisal, approval, control and review of capital expenditure. These are incorporated within clearly defined reporting lines and limits of authority.

The internal audit function supports the directors in assessing the effectiveness of internal controls at each business unit through a pre-agreed audit programme. Where weaknesses in controls are reported, corrective action is taken and, where appropriate, communicated to other operating units to encourage and enhance best practice around the group.

Every year, each operating unit completes a control self-assessment questionnaire that measures and assesses risk areas and principal controls. This questionnaire is part of the risk management process and is reviewed by internal audit. The results, which are presented to the Audit Committee, complement the existing internal and external audit procedures.

Compliance with the provisions of the Code
The board considers that the company has fully complied with the Code's provisions since 17 May 2002. Before that date, the company did not comply with B.1.7, which concerns directors' notice periods.

Remuneration report

Introduction
The directors confirm that this report has been drawn up in accordance with Schedule B of the Combined Code and Statutory Instrument – SI 2002/1986, 'The directors' remuneration report regulations 2002' issued by the Department of Trade and Industry in August 2002.

The Remuneration Committee comprises all non-executive directors and is currently chaired by George Duncan. The committee takes into account the views of the Group Chief Executive in determining the remuneration for other executive directors of the company and the directors of the subsidiary board of ABP. The Group Chief Executive does not attend any meetings of the committee at which his own remuneration is discussed. The functions of the Remuneration Committee are described in the corporate governance statement on page 64.

Remuneration policy
The group's remuneration policy is designed to attract, retain and motivate key senior executives with the relevant skills to achieve its business objectives and to align their interests with those of shareholders by recognising and rewarding performance. The committee aims to ensure that the remuneration packages for executive directors are competitive with other companies of similar size, activities and complexity. It reviews the total remuneration package and the balance of its various elements regularly. During the course of the year, the committee undertook a review which resulted in a proposal to shareholders to supplement the Executive Share Option Scheme with a new Long-Term Incentive Plan. In determining the appropriate levels of remuneration for executive directors, the committee takes independent advice from New Bridge Street Consultants. The use of external consultants and the choice of consultant is a matter reserved for the committee. The consultants appointed to provide advice on executive remuneration do not provide any other services to the group.

The remuneration package for executive directors incorporates a competitive basic salary, a performance-related annual cash bonus, share-related incentive schemes, pension and other benefits. In determining executive remuneration, the Remuneration Committee takes into account pay and employment conditions across the group. It aims to link a percentage of the overall package for the senior executives and executive directors to the group's short-and long-term business performance.

The board determines the remuneration for non-executive directors. The company maintains contact as necessary with its principal shareholders on remuneration matters.

Basic salary
The committee's objective is to ensure that the basic salary for each director is appropriate and competitive for the responsibilities involved. Base salaries are reviewed annually and any increase in the basic salary of directors is awarded only after taking into account individual performance, changes in responsibilities and external advice as to appropriate salary levels for each position.

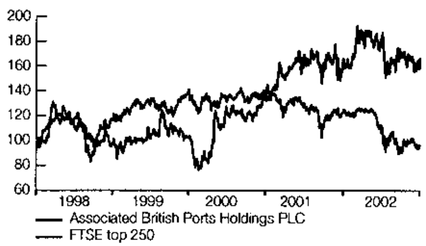
Performance-related bonus
A performance-related annual cash bonus scheme is open to senior management and is non-pensionable. The payment to executive directors for achievement of target is 30 per cent of basic salary, with up to a further 30 per cent of basic salary payable for exceptional outperformance of target. Under the scheme, senior management receive payment in the range of 10 to 20 per cent of basic salary for on-target performance and a further 10 to 20 per cent of basic salary for exceptional outperformance of target. Bonuses in the range of 5 per cent to 36 per cent are payable in respect of 2002.

Share-related incentives
Executive Share Option Scheme
The group operates a performance-related Executive Share Option Scheme to reward executive directors and senior management. The overall aim of this scheme is to align the interests of key executives with the group's objective of creating shareholder value in the longer term.

Options are issued annually at the share price prevailing at the date of issue. As payment is made at the date of exercise, no consideration is payable at the time of grant of these options.

Options may not be exercised unless and until the earnings per share target has been achieved. This target requires the percentage growth in the group's earnings per share to exceed the rate of inflation by at least three per cent per annum for a minimum period of three years. If the earnings per share target is not achieved at the end of the minimum period, it will be extended for a further year and again at the end of the fourth year. If the earnings per share target is not achieved by the end of the fifth year, the options will lapse. Options granted to the executive directors in 1999 vested during the year, as the actual growth of 31.3 per cent in the group's earnings per share over the three-year period from 1 January 1999, exceeded the 15.2 per cent growth required. In line with current market practice, the group continues to use earnings per share as the target for the remaining options held by executive directors and other senior managers on the basis that it is an indicator closely aligned to shareholder value.

The graph below sets out the group's total shareholder return (TSR) compared with the FTSE top 250 companies comparator group over the five-year period to 31 December 2002.



Long-Term Incentive Plan
As part of a wider review of executive directors' remuneration, the company reviewed its long-term incentive arrangements during 2002. One recommendation from this review was the introduction of a new Long-Term Incentive Plan for executive directors to strengthen the link between the most senior executives' remuneration and the long-term performance of the group. A resolution seeking shareholder approval for the introduction of this plan is being proposed at the Annual General Meeting on 15 April 2003.

Under the plan, executive directors may receive annual share awards of up to a maximum individual limit of 100 per cent of base salary per annum. In line with current best practice, the vesting of the shares will be based on the company's performance in terms of TSR, compared to a group comprising the FTSE companies ranked from 51 to 150 by market capitalisation, excluding companies in the financial, IT and telecommunications sectors. The exact list of companies will be based on the average market capitalisation of companies over three months prior to the beginning of the performance period. Each performance period will last three years and will start at the beginning of the financial year in which the award is made. TSR will be averaged over the six months prior to the start and end of the performance period. Thirty per cent of the shares will vest for attaining a median ranking; 100 per cent of the shares will vest if the company is ranked in the upper decile. There will be pro-rata vesting for performance between median and upper decile. No shares will vest for below-median ranking or unless real growth in earnings per share has been achieved over the performance period.

Executive directors will be required to retain shares worth 50 per cent of the post-tax gain made through the exercise of options until they hold shares with a value equivalent to their base salary.

The remuneration committee has chosen TSR as the performance criterion for future vestings of awards made under the Long-Term Incentive Plan because it believes it desirable to link part of the long-term remuneration to out-performing companies of a similar size.

Other share schemes
Subject to a minimum period of service, all UK employees, including executive directors, are eligible to participate in the ABP Share Incentive Plan (SIP) and the group's Savings-Related Share Option Scheme (SRSOS). Under the SIP, employees can elect to purchase shares out of their pre-tax and National Insurance salaries, up to a maximum of £125 per month. Shares purchased by employees are allotted to a trustee on a monthly basis. The allotted shares are held in trust for a period of five years prior to vesting.

Under the SIP, employees can also elect to be awarded free shares worth £250 annually. In addition, participants can receive further shares of up to a maximum value of £375 depending on the achievement by the group of agreed targets with regard to its annual pre-tax profits. Shares awarded under this part of the scheme are also held in trust for a period of five years prior to vesting.

Under the SRSOS, options are granted to employees at a price which is 20 per cent less than the market price at the date of grant. Employees can elect to save up to a maximum of £250 per month for a period of three or five years. At the end of the elected savings period, the employee can use the proceeds to acquire shares in the company at the option price. The company operates plans similar to the SRSOS for its employees in the USA.

Pension
The company pays executive directors a supplement calculated at 25 per cent of basic salary in lieu of pension arrangements.

Other benefits
Other benefits are provided in line with market practice. These include medical cover and a company car or cash alternative.

Service contracts
The notice period contained within the employment contracts of existing executive directors is one year. The board may, if necessary, consider initial contract periods in excess of one year in the recruitment of new executive directors. Any such contracts would revert to a one-year notice period on expiry of the initial notice period.

In the event of the company facing a claim for compensation for loss of office by a director, the level of compensation would be subject to mitigation if considered appropriate and legally sustainable. There are no provisions for pre-determined compensation in the service contracts of existing directors.

Audited information
The emoluments and share options information disclosed on the following pages, as required by Part 3 of Schedule 7A of the Companies Act 1985, has been audited.

Remuneration report

Emoluments

	Salary/fees 2002 £000	Performance-related bonus 2002 £000	Pension 2002 £000	Other benefits 2002 £000	Total 2002 £000	Salary/fees 2001 £000	Performance-related bonus 2001 £000	Pension 2001 £000	Other benefits 2001 £000	Total 2001 £000
Executive directors										
Richard Adam	237	89	59	15	400	209	77	52	14	352
Stuart Bradley (a)	–	–	–	–	–	22	–	–	–	22
Bo Lerenius (b)	403	150	101	17	671	380	103	95	14	592
James Shaw (c)	–	–	–	–	–	92	–	–	7	99
Total	640	239	160	32	1,071	703	180	147	35	1,065
Non-executive directors										
Aubrey Adams	38	–	–	–	38	38	–	–	–	38
Tim Bowdler	33	–	–	–	33	32	–	–	–	32
Stuart Chambers (d)	8	–	–	–	8	–	–	–	–	-
Peter Dean (e)	–	–	–	–	–	11	–	–	–	11
George Duncan	75	–	–	–	75	75	–	–	–	75
Derek Sach	40	–	–	–	40	40	–	–	–	40
Ross Sayers (f)	104	–	–	–	104	8	–	–	–	8
Andrew Simon	33	–	–	–	33	33	–	–	–	33
Sir Keith Stuart (g)	50	–	–	–	50	150	–	–	1	151
Total	381	–	–	–	381	387	–	–	1	388
Total directors' emoluments	1,021	239	160	32	1,452	1,090	180	147	36	1,453

(a) Stuart Bradley retired as a director on 24 April 2001.
(b) The highest-paid director during the year was Bo Lerenius.
(c) James Shaw resigned as a director on 30 June 2001. Under the terms of a Compromise Agreement, he is entitled to receive private medical insurance until 31 March 2004 at an estimated cost of £2,429.
(d) Stuart Chambers was appointed as a director on 15 October 2002.
(e) Peter Dean, who resigned as a director on 24 April 2001, has been retained as a consultant to advise the company on pension matters and received £15,000 (2001: £10,000) in respect of his services.
(f) Ross Sayers was appointed as a director on 16 October 2001 and as Chairman on 16 April 2002, following Sir Keith Stuart's retirement.
(g) Sir Keith Stuart retired from the board on 16 April 2002.
(h) Lord Crickhowell, who retired as a director on 28 April 1999, has been retained as a consultant to advise the company on parliamentary matters and received £15,000 (2001: £15,000) in respect of his services.

Directors' share options

Movements in the directors' holdings of options under both the Executive Share Option Scheme and the Savings-Related Share Option Scheme during the year are as follows:

Executive Share Option Scheme

	Options at 1 January 2002	Granted in year	Exercised in year (b)	Options at 31 December 2002 (a)	Date of grant	Option price	Date normally exercisable
Richard Adam	134,000	–	(134,000)	–	Nov 1999	297.00p	Nov 2002 to Nov 2009
	68,816	–	–	68,816	Sep 2000	311.00p	Sep 2003 to Sep 2010
	52,785	–	–	52,785	Sep 2001	400.00p	Sep 2004 to Sep 2011
	–	58,472	–	58,472	Sep 2002	419.00p	Sep 2005 to Sep 2012
	255,601	58,472	(134,000)	180,073			

Executive Share Option Scheme (continued)

	Options at 1 January 2002	Granted in year	Exercised in year (b)	Options at 31 December 2002 (a)	Date of grant	Option price	Date normally exercisable
Bo Lerenius	350,000	–	(350,000)	–	May 1999	284.00p	May 2002 to May 2009
	156,270	–	–	156,270	Sep 2000	311.00p	Sep 2003 to Sep 2010
	95,738	–	–	95,738	Sep 2001	400.00p	Sep 2004 to Sep 2011
	–	97,852	–	97,852	Sep 2002	419.00p	Sep 2005 to Sep 2012
	602,008	97,852	(350,000)	349,860			

(a) Options held at 31 December 2002 are only exercisable should the performance criteria described on page 66 be achieved.
(b) The aggregate gains made by directors on the exercise of options during the year totalled £712,145 (2001: £59,336). On 21 May 2002, Bo Lerenius exercised options over 180,032 shares at 284 pence per share. The market price on 21 May 2002 was 450 pence per share. On 23 May 2002, Bo Lerenius exercised options over a further 169,968 shares at 284 pence per share. The market price on 23 May 2002 was 442 pence per share. On 15 November 2002, Richard Adam exercised options over 134,000 shares at 297 pence per share. The market price on 15 November 2002 was 405 pence per share.

Savings-Related Share Option Scheme

	Options at 1 January 2002	Granted in year	Exercised in year	Options at 31 December 2002	Date of grant	Option price	Date normally exercisable
Richard Adam	3,799	–	–	3,799	Oct 2000	255.00p	6 months from Jan 2004
Bo Lerenius	3,799	–	–	3,799	Oct 2000	255.00p	6 months from Jan 2004

Directors' interests

Directors' beneficial, including family, interests in the share capital of the company as at 31 December 2002, as recorded in the register maintained by the company pursuant to Section 325 of the Companies Act 1985, are set out in the table below.

	Ordinary shares of 25p each		Ordinary shares of 25p each held by the trustees of the Employee Share Ownership Scheme	
	2002	2001	2002	2001
Richard Adam	**3,000**	3,000	**814**	488
Aubrey Adams	**20,000**	20,000	**–**	–
Tim Bowdler	**2,486**	2,486	**–**	–
Stuart Chambers	**–**	–	**–**	–
George Duncan	**8,000**	8,000	**–**	–
Bo Lerenius	**9,477**	1,400	**1,229**	1,318
Derek Sach	**15,000**	15,000	**–**	–
Ross Sayers	**10,000**	10,000	**–**	–
Andrew Simon	**5,000**	5,000	**–**	–

On 27 January 2003, 31 shares were allotted to the trustees of the SIP on behalf of Richard Adam and 31 shares were allotted on behalf of Bo Lerenius. There have been no other changes in total shareholdings by directors in the period between 31 December 2002 and 19 February 2003. None of the directors had any non-beneficial interest in the share capital of the company during the period to 31 December 2002 nor the period from the year end to 19 February 2003. The company's Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

By order of the board

Hywel Rees

Hywel Rees

Company Secretary
150 Holborn, London EC1N 2LR

19 February 2003

Independent auditors' report to the members of Associated British Ports Holdings PLC

We have audited the financial statements which comprise the group profit and loss account, the balance sheets, the group cash flow statement, the statement of group total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the operating and financial review and the corporate governance statement.

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

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

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

Opinion
In our opinion:
- The financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2002 and of the profit and cash flows of the group for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985;
- And those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

19 February 2003

Shareholder analysis

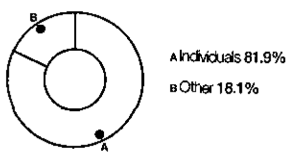
Ordinary shares of 25 pence each – by number of shares held

	Number of holders	%	Number of shares	%
1 – 1,000	4,812	43.1	2,515,035	0.8
1,001 – 2,000	1,990	17.8	3,021,962	0.9
2,001 – 4,000	1,802	16.1	5,419,100	1.6
4,001 – 20,000	2,013	18.0	16,285,843	5.0
20,001 – 400,000	444	4.0	40,310,158	12.3
400,001+	110	1.0	260,571,586	79.4
Total	**11,171**	**100.0**	**328,123,684**	**100.0**

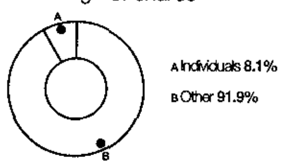
Ordinary shares of 25 pence each – by category of holder

	Number of holders	%	Number of shares	%
Individual	9,149	81.9	26,478,249	8.1
Bank or nominee	1,806	16.2	287,833,882	87.7
Other company	148	1.3	4,310,666	1.3
Insurance company	29	0.3	5,633,579	1.7
Investment trust	14	0.1	79,530	–
Other corporate body	14	0.1	780,502	0.3
Pension trust	11	0.1	3,007,276	0.9
Total	***11,171***	***100.0***	***328,123,684***	***100.0***

Percentage of shareholders



Percentage of shares



Substantial holdings

The following had notified substantial share interests as at 19 February 2003:

		Number of shares	% of issued ordinary capital
(i)	Threadneedle Asset Management	31,349,807	9.53
(ii)	M&G Investment Management	28,110,527	8.55
(iii)	Jupiter Asset Management Limited	26,076,971	7.93
(iv)	Deutsche Asset Management	19,391,195	5.90
(v)	Schroder Investment Management Limited	15,234,548	4.63
(vi)	Harris Associates LP	15,056,694	4.58
(vii)	Scottish Widows Investment Partnership	14,240,113	4.33
(viii)	Marathon Asset Management Ltd	13,426,153	4.08
(ix)	Aegon Asset Management	12,324,660	3.75
(x)	Legal & General Investment Management	10,107,512	3.07

Five-year summary

Group profit and loss account

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Group turnover					
Ports and transport - continuing operations	**361.8**	334.1	291.0	267.9	244.2
Ports and transport - discontinued operations	**27.9**	29.6	47.9	42.2	29.9
Ports and transport	**389.7**	363.7	338.9	310.1	274.1
Property investment	**9.3**	10.8	15.9	17.9	20.1
Property development	**30.8**	30.9	35.8	23.1	44.9
	429.8	405.4	390.6	351.1	339.1
Profit on ordinary activities before interest					
Ports and transport - continuing operations	**142.9**	137.6	128.6	119.3	115.6
Ports and transport - discontinued operations	**3.6**	3.0	7.3	7.6	5.4
Ports and transport	**146.5**	140.6	135.9	126.9	121.0
Property investment	**6.8**	8.0	12.6	15.0	16.7
Property development	**12.0**	13.0	11.5	8.2	6.8
Share of operating profit in associates	**10.5**	8.5	8.4	7.3	5.7
Total underlying operating profit*	**175.8**	170.1	168.4	157.4	150.2
Goodwill amortisation	**(1.6)**	(1.5)	(0.8)	(3.8)	(2.0)
Provision for restructuring	**(5.5)**	–	–	–	–
Exceptional items - other	**–**	–	(0.8)	–	–
Goodwill and fixed assets impairment	**–**	–	–	(80.2)	–
Total operating profit	**168.7**	168.6	166.8	73.4	148.2
Profit on disposal of discontinued operations	**7.4**	–	14.0	–	1.2
Profit on sale of fixed assets	**0.7**	0.6	2.2	3.3	1.2
Profit on ordinary activities before interest	**176.8**	169.2	183.0	76.7	150.6
Net interest payable					
Group	**(37.3)**	(39.9)	(45.8)	(44.9)	(40.8)
Associates	**(1.5)**	(1.0)	0.2	–	–
Interest capitalised	**1.1**	1.2	1.5	1.0	0.8
	(37.7)	(39.7)	(44.1)	(43.9)	(40.0)
Profit on ordinary activities before taxation	**139.1**	129.5	138.9	32.8	110.6
Underlying profit before taxation*	**138.1**	130.4	124.3	113.5	110.2

Group financial statistics

	2002	2001	2000	1999	1998
Earnings per share – basic	30.9p	27.8p	30.6p	0.1p	21.1p
Earnings per share – underlying*	30.4p	28.1p	26.3p	23.1p	21.0p
Dividend per share	14.75p	13.75p	12.75p	11.50p	10.25p
Net assets per share	308p	294p	285p	262p	271p
Net borrowings as a percentage of equity shareholders' funds	44.6%	53.1%	45.3%	59.9%	56.8%

* Before goodwill amortisation, provision for restructuring, exceptional items, goodwill and fixed asset impairment, profit on disposal of discontinued operations and profit on sale of fixed assets.
All comparatives have been restated for the effects of Financial Reporting Standard 19 - Deferred Tax (note 34).

Group balance sheet

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Fixed assets					
Intangible assets	**15.4**	23.9	23.3	10.4	72.4
Tangible operating assets	**834.0**	798.0	744.3	711.9	692.4
Tangible property assets	**568.8**	588.5	614.9	704.0	745.4
Investments	**50.2**	48.0	50.4	35.0	29.5
	1,468.4	1,458.4	1,432.9	1,461.3	1,539.7
Property developments and land held for sale	**38.3**	44.2	29.7	21.8	25.7
Net current assets, liabilities and deferred income	**(47.3)**	(35.3)	(49.7)	(36.2)	(30.1)
Net borrowings	**(450.1)**	(508.9)	(440.7)	(542.2)	(556.3)
Net assets	**1,009.3**	958.4	972.2	904.7	979.0
Capital and reserves					
Called-up share capital	**82.0**	81.6	85.2	86.2	90.5
Share premium account	**77.4**	70.9	63.1	57.7	53.5
Revaluation reserve	**627.9**	641.7	642.1	660.9	612.8
Other reserves	**37.0**	37.0	33.9	12.6	7.9
Profit and loss account	**185.0**	127.2	147.9	87.3	214.3
Equity shareholders' funds	**1,009.3**	958.4	972.2	904.7	979.0

Group cash flow

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	**199.1**	165.2	191.5	177.6	180.3
Dividends received from associated undertakings	**2.4**	3.6	2.0	1.5	2.8
Net interest paid	**(37.1)**	(39.9)	(46.6)	(44.4)	(36.4)
Taxation	**(25.7)**	(28.2)	(14.0)	(26.4)	(28.5)
Gross capital expenditure	**(76.7)**	(62.4)	(88.9)	(64.6)	(46.2)
Sales of fixed assets	**3.4**	2.1	75.0	64.5	17.7
Movement on investment in own shares	**1.3**	5.6	2.4	(2.6)	(2.8)
Free cash flow	**66.7**	46.0	121.4	105.6	86.9
Acquisitions and disposals	**29.1**	(5.5)	40.9	(2.4)	(119.5)
Equity dividends paid	**(46.6)**	(44.5)	(40.9)	(37.8)	(35.8)
Net cash inflow/(outflow) before financing	**49.2**	(4.0)	121.4	65.4	(68.4)
Issue of shares	**4.8**	5.6	3.9	3.7	3.6
Repurchase of shares	**–**	(68.3)	(18.4)	(54.2)	(80.7)
Borrowings on acquisition of subsidiary undertakings	**–**	–	(1.6)	–	(21.2)
Currency translation differences	**4.8**	(1.5)	(3.8)	(0.8)	–
Net increase/(decrease) in borrowings less cash	**58.8**	(68.2)	101.5	14.1	(166.7)
Net borrowings at 1 January	**(508.9)**	(440.7)	(542.2)	(556.3)	(389.6)
Net borrowings at 31 December	**(450.1)**	(508.9)	(440.7)	(542.2)	(556.3)

All comparatives have been restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34).

Notice of meeting

Notice is hereby given that the 21st Annual General Meeting (AGM) of Associated British Ports Holdings PLC will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Tuesday, 15 April 2003 at 12 noon for the following purposes:

Ordinary resolutions

Resolution 1
THAT the directors' report and the audited accounts for the year ended 31 December 2002 be received and adopted.

Resolution 2
THAT the remuneration report, as set out on pages 66 to 69 of the Annual Report & Accounts, be approved.

Resolution 3
THAT a final dividend of 8.25 pence per ordinary share of the company be declared.

Resolution 4
THAT Mr R J Adam be re-elected as a director.

Resolution 5
THAT Mr A J Adams be re-elected as a director.

Resolution 6
THAT Mr S J Chambers be re-elected as a director.

Resolution 7
THAT PricewaterhouseCoopers LLP be re-appointed auditors of the company (having previously been appointed by the board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the company.

Resolution 8
THAT the directors be authorised to set the remuneration of PricewaterhouseCoopers LLP as auditors.

Resolution 9
THAT the company be authorised to establish The Associated British Ports Long-Term Incentive Plan, a summary of the rules of which is set out in the appendix to the letter from the Chairman of the company to shareholders dated 11 March 2003, and the directors be authorised to:

(i) do all acts and things necessary to establish and carry it into effect;

(ii) vote and be counted in the quorum on any matter connected with the plan (except that no director may vote or be counted in the quorum in respect of his own participation) and any prohibition in the articles of association be relaxed.

Resolution 10
THAT the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) in substitution for any existing power to allot relevant securities (within the meaning of the said Section 80) up to an aggregate nominal amount of £27,409,096 (being the lesser of the unissued ordinary share capital and one-third of the issued share capital of the company) during the period expiring on the date of the AGM of the company to be held in 2004, and at any time thereafter, in pursuance of any offer or agreement made by the company before such expiry.

Special resolutions

Resolution 11
THAT, subject to the passing of resolution 10 above, the directors be empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the said previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:

(i) to the allotment of equity securities in connection with an offer of securities, open for acceptance for a period determined by the directors, by way of rights to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such ordinary shares or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the law of, or the requirements of, any regulatory body or any stock exchange in, any territory);

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £4,111,364 (being not more than five per cent of the issued ordinary share capital of the company);

and shall expire on the date of the next AGM of the company after the passing of this resolution save that, after such expiry, the directors may allot securities in pursuance of an offer or agreement made by the company before such expiry.

Resolution 12
THAT the company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange of up to a maximum aggregate amount equal to the lower of:

(i) 32.8 million ordinary shares of 25p each in the capital of the company (being 10 per cent of the company's issued ordinary share capital as at 19 February 2003);

(ii) 10 per cent of the company's issued ordinary share capital as at the date of passing of this resolution;

at a price per share of not less than 25p and not more than 105 per cent of the average of the middle- market quotations for such an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day of purchase; unless previously revoked or varied, such authority will expire at the conclusion of the AGM of the company to be held in 2004, save that the company may purchase ordinary shares at any later date where such purchase is pursuant to any contract or contracts made by the company before the expiry of this authority.

By order of the board

Hywel Rees

Hywel Rees
Company Secretary
150 Holborn
London EC1N 2LR

11 March 2003

The Register of Directors' Shareholdings will be available for reference at the commencement of and during the continuance of the AGM.

Members entitled to attend and vote at the above meeting are entitled to appoint one or more proxies to attend and on a poll to vote instead of them; a proxy need not be a member. To be effective, proxies must be lodged at Computershare Investor Services PLC, Registrars, The Pavilions, Bridgwater Road, Bristol, BS13 8FB, not later than 48 hours before the time of the meeting.

Legislation has now been passed which permits shareholders to appoint a proxy electronically. To submit a proxy form via the internet, shareholders will need an internet-enabled PC with Internet Explorer 4 or Netscape 4 or above. A shareholder reference number (SRN) and a Personal Identification Number (PIN), which are given on the proxy form, will also be needed to access the service.

Use of the electronic proxy appointment service is entirely voluntary. Shareholders may continue to submit their proxy card by post, if desired.

Pursuant to regulation 20 and schedule 4 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the Register of Members as at 12 noon on 13 April 2003 shall be entitled to attend or vote at the AGM in respect of the number of ordinary shares registered in their name at that time. Changes to entries on the Register of Members after 12 noon on 13 April 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Company information

Associated British Ports Holdings PLC
150 Holborn
London EC1N 2LR
T +44 (0) 20 7430 1177
F +44 (0) 20 7430 1384
pr@abports.co.uk
www.abports.co.uk

Associated British Ports
150 Holborn
London EC1N 2LR
T +44 (0) 20 7430 1177
F +44 (0) 20 7430 1384

AMPORTS
9240 Blount Island Blvd
Jacksonville, FL 32226
USA
T +1 904 751 4391
F +1 904 751 1712
www.amports.com

Board of directors
Non-executive directors
Ross Sayers (Chairman)[2,3]
George Duncan*[2,3]
Aubrey Adams[1,2,3]
Tim Bowdler[1,2,3]
Stuart Chambers[2,3]
Derek Sach[1,2,3]
Andrew Simon, OBE[1,2,3]

Executive directors
Bo Lerenius (Group Chief Executive)[3]
Richard Adam (Group Finance Director)

* Retires on 15 April 2003

1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nomination Committee

Secretary and registered office
Hywel Rees FCIS
150 Holborn
London EC1N 2LR
Registered in England No. 1612178

Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Brokers
Cazenove & Co. Ltd
12 Tokenhouse Yard
London EC2R 7AN

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Investment Bankers
Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Registrars
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
www.computershare.com

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

11 March 2003
2002 Annual Report & Accounts

15 April 2003
Annual General Meeting

1 May 2003
Payment of 2002 final dividend

June 2003
Trading statement – pre-2003 interim results

September 2003
Publication of 2003 interim results

November 2003
Payment of 2003 interim dividend

December 2003
Trading statement – pre-2003 full-year results

February 2004
2003 preliminary results

March 2004
2003 Annual Report & Accounts

Shareholder services
Share dealing service
The company's brokers, Cazenove & Co. Ltd, provide a simple, low-cost, postal share dealing service for the buying and selling of the company's shares.

Further information, including the necessary forms, can be obtained from Cazenove & Co. Ltd, Share Schemes Department, 3 Copthall Avenue, London EC2R 7BH.
T +44 (0)20 7606 1768

Share price information
Latest share price information can be obtained from the group's website (www.abports.co.uk), Ceefax, Teletext, and the Cityline service operated by the Financial Times.
T +44 (0)906 843 1675

Electronic communication
Shareholders wishing to receive communications from the company by e-mail should register on-line at www.computershare.com/register/uk

Enquiries
Administrative enquiries relating to the group's shares should, in the first instance, be directed to the Registrars.

Internet
This Annual Report & Accounts and other information about the group is available at www.abports.co.uk

Financial highlights

		2002	2001**	2000**
Profit and loss account				
Group turnover – continuing operations	£m	**401.9**	375.8	342.7
Underlying operating profit – continuing operations ports and transport*	£m	**142.9**	137.6	128.6
Total underlying operating profit – continuing operations*	£m	**172.2**	167.1	161.1
Exceptional items	£m	**2.6**	0.6	15.4
Underlying interest cover*	Times	**4.7**	4.3	3.8
Underlying profit before taxation*	£m	**138.1**	130.4	124.3
Profit before taxation	£m	**139.1**	129.5	138.9
Underlying earnings per share*	Pence	**30.4**	28.1	26.3
Basic earnings per share	Pence	**30.9**	27.8	30.6
Dividends				
Dividend per share	Pence	**14.75**	13.75	12.75
Underlying dividend cover*	Times	**2.0**	2.1	2.1
Cash flow statement				
Net cash inflow from operating activities including dividends received from associated undertakings	£m	**201.5**	168.8	193.5
Underlying operating profit cash conversion*	Percentage	**114.6**	99.2	114.9
Gross capital expenditure	£m	**76.7**	62.4	88.9
Free cash flow	£m	**66.7**	46.0	121.4
Repurchase of shares	£m	**–**	68.3	18.4
Balance sheet				
Net borrowings	£m	**450.1**	508.9	440.7
Gearing	Percentage	**44.6**	53.1	45.3
Net assets	£m	**1,009.3**	958.4	972.2
Net asset per share	Pence	**308**	294	285

* Before goodwill amortisation and exceptional items

** Restated for the effects of Financial Reporting Standard 19 – Deferred Tax (note 34)

- UK's largest and leading ports group
- No single type of cargo accounts for more than 10% of the group's UK ports' turnover
- Over 50% of the group's UK ports' business for 2003 is already under contract
- 21 ports provide good geographical spread of risk

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Earnings per share* up 8% year on year

Over the past three years we have grown earnings per share and dividends by 10% and 9% each year* respectively.

* Underlying earnings per share and compound growth rates

Associated British Ports Holdings PLC
150 Holborn
London EC1N 2LR
T +44 (0)20 7430 1177
F +44 (0)20 7430 1384

www.abports.co.uk