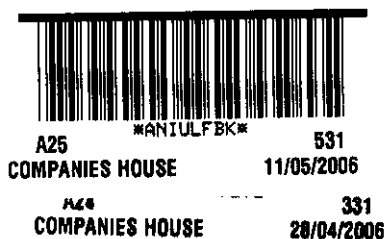




# A safe haven The UK's number one ports operator



# What's inside

## 2005 financial highlights IFC

<b>1. Who we are</b>	<b>01</b>
A short voyage around our business	02
Number one UK ports operator	04
Long-term, blue chip customers	06
Almost a quarter of the UK's seaborne trade	07
Our markets	08
Investment programme	14
Generating revenue from coal	16
Immingham Outer Harbour	18
Hull shortsea container terminal	20
Sizeable returns from smaller investments	22
<b>2. How we have performed</b>	<b>24</b>
Chairman's statement	26
Group Chief Executive's review of strategy	28
Operating and financial review	32
<b>3. How our results add up</b>	<b>50</b>
Group income statement	52
Balance sheets	53
Cash flow statements	54
Statement of recognised income and expense	55
Notes to the financial statements	56
<b>4. How we behave</b>	<b>98</b>
Board of directors	100
Operational management team	102
Statement of directors' responsibilities	104
Independent auditors' report	105
Directors' report	106
Corporate governance	108
Remuneration report	118
Shareholder analysis	129
Corporate social responsibility	130
Notice of meeting	134
Five-year summary	136
Company information	138
Glossary	140

### Growth through investment

We remain confident that our planned and potential investment opportunities provide a solid platform for future growth

### Our first extended business review

Satisfactory performance in 2005. Our capital efficiency is improving and we remain well placed to fund future growth

### Continuing to generate cash

Operations generated £192.1m of cash, representing 115% of group underlying operating profit\*\*

### Managing social responsibilities

Joint winner of i/sProShare best annual report award and elected as constituent of the Dow Jones Sustainability World Index

## UK market leader

We are the UK's number one ports operator, owning 21 ports handling almost a quarter of the country's seaborne trade

## Total shareholder return 2005 +28%

The significant progress achieved on our Humber projects will accelerate our growth during the second half of 2006

## Bottom line moves up

Group underlying operating profit***	+5%
Underlying pre-tax profit***	+2%
Underlying earnings per share**	+6%
Dividend per share	+6%

## How we are paid

Greater proportion of pay to be linked to performance

\* Prior year previously reported under UK GAAP, now reported under International Financial Reporting Standards (IFRS)

\*\* Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

\*\* Continuing operations

# Our investment position: steady as she grows

## 2005 financial highlights

### Revenue

Growth

### Underlying operating profit\*\*

Growth

### Reported operating profit

Growth

## Ports & transport – UK

£373.9m

+£8.5m

+2%

£151.3m

+£5.0m

+3%

£154.5m

+£56.9m

+58%

## Ports & transport – UK

revenue

+2%

■ 2004

■ 2005

## Ports & transport – UK

underlying operating profit\*\*

+3%

■ 2004

■ 2005

## Ports & transport – UK

- 90% of group underlying operating profit\*\*
- Revenue +2%
- Underlying operating profit\*\* +3%
- Construction work continued at Immingham on the new £27.5m roll-on/roll-off facility and the £59.5m extension to Humber International Terminal; both to become operational in the second quarter of 2006

- Government approval received for the development of a £30-35m shortsea riverside container terminal at the Port of Hull
- 6 new business wins in 2005, bringing the total since January 2000 to over 85
- £108.2m completed of the £400m+ 10-year investment programme announced in 2004

\* Prior year previously reported under UK GAAP, now reported under IFRS

\*\* Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

^ Continuing operations

# More investment. More growth. No surprises

Ports & transport – USA	Property – investment & development	Group
£37.5m	£23.5m	£434.9m
+£0.9m +2%	-£14.0m -37%	-£4.6m -1%
£4.3m	£12.0m	£167.6m
+£0.2m +5%	+£3.1m +35%	+£8.3m +5%
£4.3m	£12.3m	£171.1m
-£0.3m -7%	+£3.2m +35%	+£59.8m +54%

Group underlying profit before tax** +2%	Group underlying earnings per share** +6%	Group proposed dividend per share +6%
■ 2004	■ 2004	■ 2004
■ 2005	■ 2005	■ 2005

## Other highlights

- USA business delivered improved operating performance despite lower volumes
- Increased contribution from property activities due to improved sales mix
- Property disposals during the year of £15.6m; £220.1m of the £250m disposal target now complete
- Reduced contribution from associates as growth at Tilbury Container Services more than offset by lower volumes at Southampton Container Terminals
- Completed £50m of £205m share repurchase programme in 2005, bringing the total completed to £140.5m

## Group results

Underlying**	Reported
→ Group revenue -1%	→ Group revenue -1%
→ Group operating profit +5%	→ Group operating profit +54%
→ Profit before tax +2%	→ Profit before tax +65%
→ Earnings per share +6%	→ Basic earnings per share +73%
→ Dividend per share +6%	→ Dividend per share +6%

\* Prior year previously reported under UK GAAP, now reported under IFRS

† Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items Enil (2004: £51.4m)

‡ Continuing operations

**Whatever the economic climate, we keep on an even keel. Our strategy is to make long-term, low-risk investments, based on firm criteria. Our goal is steady growth, stretching far into the future**



# **A short voyage around our business**

**Ports & transport – UK****■ 90% of group underlying operating profit\*\***

We segment our business into four distinct areas. The biggest is our UK ports and transport business, which in 2005 accounted for 86.0 per cent of revenue and 90.3 per cent of group underlying operating profit.

We own 21 ports in the UK and are the market leader in our sector, handling nearly 135m tonnes of cargo in 2005. As the UK's largest ports operator, we benefit from having ports at prime locations in England, Scotland and Wales.

As well as excellent geographic coverage, our business is strengthened by the diverse mix of cargoes it handles and the breadth of origination and destination markets for these cargoes. In addition, we work with a wide range of customers, usually under long-term contracts. This means we can predict a large proportion of our annual revenues – for example, in 2006, approximately 53 per cent of turnover will come from existing customer contracts.

Typically, our UK ports and transport revenue is earned from:

- Ships' dues, from vessels berthing at our ports
- Goods' dues (also known as wharfage or cargo dues) levied on the tonnage of goods passing over our quays

- Handling services provided by our ports and charges to independent stevedores for working at our ports and hiring our equipment
- Income from terminals we run on behalf of our customers
- Charges for storage or warehousing of cargo passing through our ports
- Property rental and service income from the provision of land on our port estates
- Pilotage charges for guiding a vessel through an estuary or harbour area
- Conservancy charges for the maintenance of safe and navigable waterways
- Value-added transport-related services.

**Ports & transport – USA****■ 3% of group underlying operating profit\*\***

This business is much smaller than our UK business. In 2005, it contributed 8.6 per cent to revenue and 2.6 per cent to group underlying operating profit.

Revenues in the USA come from:

- Ships' dues, from vessels berthing at our facilities
- Goods' dues levied on the tonnage of goods passing over our quays
- Unloading and loading of vehicles
- Vehicle-processing, including receiving and inspection
- Vehicle-remediation works
- Charges for the storage of vehicles passing through our facilities.

**Property – investment and development****■ 7% of group underlying operating profit\*\***

With over 12,000 acres of land and seabed in the UK, effective management of our property assets is an important part of our success. Property investment income is derived from rental income from tenants on our port estates who do not use our port facilities. Proceeds generated from the disposal of surplus land and property are classified as property development income.

**Associates**

<b>Group's share of revenue</b>	<b>£53.0m</b>	
Growth	+£1.2m	+2%
<b>Group's share of underlying operating profit**</b>	<b>£6.5m</b>	
Growth	-£3.4m	-34%
<b>Group's share of retained profit**</b>	<b>£4.4m</b>	
Growth	-£2.1m	-32%

In addition to our own activities, we have interests in two UK container terminals. We own 49 per cent of Southampton Container Terminals, the second largest container terminal in the UK, and 33 per cent of Tilbury Container Services. The revenues of these businesses come from:

- Container handling
- Storage (including temperature-controlled cargoes)
- Ship-planning services
- Cargo inspection and consolidation.

\* Prior year previously reported under UK GAAP, now reported under IFRS

\*\* Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

^ Continuing operations

# Number one UK ports operator

Our ports handle around a quarter of the UK's seaborne trade – in 2005, that equated to nearly 135m tonnes of cargo

## ABP's 2005 tonnage by cargo

- Liquid bulks 42%
- Dry bulks 31%
- Containers, roll-on/roll-off and vehicles 21%
- Other general cargo 6%

## ABP's 2005 tonnage by business unit

- Hull & Goole 12%
- Grimsby & Immingham 41%
- Southampton 30%
- South Wales Ports 11%
- Shortsea Ports 6%

## Hull & Goole

Port Director, Matthew Kennerley

Revenue – up 2.0%

Strong growth in container traffic and coal imports. Increase in aggregates and cement volumes. Reduction in steel imports

## Grimsby & Immingham

Port Director, Nick Palmer

Revenue – up 2.2%

UK's number one port. Strong growth in coal imports, increase in steel exports. Reductions in roll-on/roll-off traffic and vehicle imports

## Southampton

Port Director, Doug Morrison

Revenue – down 1.1%

UK's number one cruise port. Increase in the number of cruise-ship calls and volumes of grain exports. Reduction in container volumes

## South Wales Ports

Port Director, John Fitzgerald

Revenue – up 7.5%

Strong growth in coal imports, increase in iron ore imports

## Shortsea Ports

Port Director, Matt Jukes

Revenue – up 3.9%

Growth in agribulk, aggregates and cement volumes

## ABP's 2005 passengers by type (000s)

- 2004
- 2005

#### Hull & Goole

1. Hull
2. Goole

#### Grimsby & Immingham

3. Grimsby
4. Immingham

#### Southampton

8. Southampton

#### South Wales Ports

11. Newport
12. Cardiff
13. Barry
14. Port Talbot
15. Swansea

#### Shortsea Ports

5. King's Lynn
6. Lowestoft
7. Ipswich
9. Teignmouth
10. Plymouth
16. Garston
17. Fleetwood
18. Barrow
19. Silloth
20. Ayr
21. Troon



# Long-term, blue chip customers

## Ports & transport – UK, revenue from customer contracts: maturity profile by number of contracts 2005

- 0-5 years 42%
- 6-10 years 24%
- 11-20 years 27%
- 21+ years 7%

## Ports & transport – UK, revenue from customer contracts: maturity profile by contract value 2005

- 0-5 years 35%
- 6-10 years 21%
- 11-20 years 32%
- 21+ years 12%

## More than 85 significant new contracts since 2000

## £179m invested in new contracts since 2000

## A selection of our customers

Aarhus United	Humber Timber Terminals
Ahlmark Lines	IAWS
Arkady Feed UK	International Power
Bacardi-Martini	Jewson
BAE Systems	K-Line
BHP Billiton	Knauf
BMW	Lafarge Aggregates
Bob Martin	Maxit Building Products
BP	North Sea Lumber
British Nuclear Fuels	NW Trading
Brittany Ferries	NYK Line
Caldaire Terminal	P&O Ferries
Canary Islands Fruit	PAL Line
Cargill	PD Port Services
Carnival UK	Rank Hovis
Carrs Milling	Red Funnel Group
Cat-UK Services Limited	Rix Shipping
Cefetra	RKL Timber
Celsa Steel UK	RMS Europe
Cemex	Rowlinson Timber
Centrica	Royal Caribbean International
CMA CGM	RWE Innogy
Conoco	Saga
Corus	Saint-Gobain
DFDS Tor Line	Samskip
Dow Corning	Scottish & Southern Energy
Drax Power	Sims Group
Duferco	Soufflet
EDF Energy	Stena Line
Eimskip	Stora Enso
E.ON	Tarmac
Ferryways N.V.	Texaco
Finnforest	Thomson Cruises
Finnlines	Total
Ford	Toyota
Foster Yeoman	TTS Shipping
Freightliner	UECC
Gleadell Agriculture	UPM Kymmene
Global Shipping Services	Volkswagen Group
Grimaldi Group	Vopak
Hanson Aggregates	Wallenius Wilhelmsen Logistics
Hargreaves Industrial Services	W. E. Dowds
HM Revenue & Customs	Yara
Höegh Autoliners	

# Almost a quarter of the UK's seaborne trade

Ports	Liquid bulks	Coal/coke	Iron ore	Agribulks	Other dry bulks	Forest products	Fresh produce	Other break bulks and general cargo	Containers	Roll-on/roll-off	Vehicles	Passengers	Cruise
<b>Hull &amp; Goole</b>													
Hull	●	●		●	●	●	●	●	●	●	●	●	●
Goole	●	●		●	●	●		●	●				
<b>Grimsby &amp; Immingham</b>													
Grimsby	●		●	●	●	●	●	●		●	●		
Immingham	●	●	●	●	●	●	●	●	●	●	●	●	
<b>Southampton</b>	●	●		●	●		●	●	●	●	●	●	●
<b>South Wales Ports</b>													
Barry	●				●	●		●					
Cardiff	●				●	●		●	●				
Newport		●		●	●	●		●	●				
Port Talbot	●	●	●	●	●			●					
Swansea	●	●		●	●	●	●	●	●	●		●	
<b>Shortsea Ports</b>													
Ayr		●		●	●	●		●					
Barrow	●				●	●		●					
Fleetwood	●						●			●		●	
Garston		●		●	●	●		●					
Ipswich	●			●	●	●	●	●	●	●			
King's Lynn	●			●	●	●		●					
Lowestoft				●	●	●		●					
Plymouth	●					●	●			●	●	●	●
Silloth	●			●		●							
Teignmouth				●	●	●		●					
Troon	●					●				●		●	
<b>2005 (million tonnes)</b>	56.4	20.4	11.3	4.6	6.0	2.9	0.3	4.7	11.5	14.5	2.2	n/a	n/a
<b>2004 (million tonnes)</b>	54.8	16.5	11.3	4.3	5.4	2.9	0.3	5.0	11.0	15.6	2.2	n/a	n/a

**We remain the market leader in Europe's largest ports market. Next year: no change. Future years: no change planned**

# Our markets

**Figure 1**  
ABP segmental analysis  
of activities

- UK ports & transport
- USA ports & transport
- Property

This section provides background information on the UK ports industry. Our analysis is based on the latest industry data published by the Department for Transport (DfT), which is for the year ended 31 December 2004, and looks at the composition of the UK ports industry, the demand for its facilities and services and ABP's position within this market.

ABP is the group's main operating subsidiary, and forms the core of the business segment which we classify as UK ports and transport for reporting purposes. It is the UK's largest ports operator with a portfolio of 21 ports spread around the country, serving diverse markets and customers. The group's ports accounted for 22.6 per cent of the overall volumes handled by all UK ports during 2004. ABP continues to be the market leader in the largest market for port facilities and services within Europe.

As illustrated in figure 1, our UK ports make the largest contribution to our revenues and underlying operating profit by far,

**Figure 2**  
ABP & top 20 UK ports



ABP & top 20 UK ports\* (million tonnes)

1	Grimsby & Immingham	57.6	Other ABP ports
2	Tees and Hartlepool	53.8	A. Troon
3	London	53.3	B. Ayr
4	Milford Haven	38.5	C. Sillloth
5	Southampton	38.4	D. Barrow
6	Forth	34.9	E. Fleetwood
7	Liverpool	32.2	F. Garston
8	Sulham Voe	23.9	G. Newport
9	Felixstowe	23.4	H. Swansea
10	Dover	20.8	I. Bary
11	Orkneys	17.9	J. Cardiff
12	Medway	14.5	K. Plymouth
13	Belfast	13.6	L. Teignmouth
14	Hull	12.4	M. Goole
15	Clyde	11.5	N. King's Lynn
16	Bristol	10.8	O. Lowestoft
17	Rivers Hull and Humber	9.2	P. Ipswich
18	Port Talbot	8.6	
19	Manchester	6.6	
20	Glensanda	5.2	

\* Source: DfT Transport Statistics Report Maritime Statistics 2004, being the latest available data on the UK ports market

# Sea cargoes – 95% of UK trade

compared to our other operating segments. Consequently, most of our net operating assets are invested in support of our activities in the UK ports market. The future prospects for our business are therefore closely linked to the future development of the UK ports industry.

## UK ports industry

The UK ports market comprises a large number of participants operating under a variety of ownership structures. In total, there are over 600 UK ports that hold statutory harbour authority powers; however, only about 20 per cent of these are commercial ports. Figure 2 on page 9 sets out the locations of the UK's top 20 ports.

In 2004, more than 97 per cent of total port volumes were handled by 51 major ports – defined by the DfT as ports with annual tonnage volumes in excess of 1m – plus four selected smaller ports. The top 20 ports accounted for more than 87 per cent of 2004 throughput. Figure 3 provides a summary of the characteristics associated with most successful major ports.

Unlike most other countries, the majority of the UK's major ports are privately owned. Otherwise, ports are either in municipal ownership, where the local authority owns the port infrastructure, or trust ownership, where the facility is operated by a trust established for this purpose. Figure 4 provides an analysis of the ownership of the UK's major ports by number of ports and by throughput volumes for 2004.

Table 1 provides details of the top ports operators in the UK and their 2004 volumes.

Due to the large number of participants, the UK ports industry is largely unregulated. Harbour Authorities (HAs) are usually

responsible for maintaining the basic infrastructure (e.g., depths of channel, lighting and buoyage) and providing safe navigation (e.g., through the provision of pilotage and vessel traffic services) within defined harbour limits. The HAs, which are often the port owner, are entitled to levy statutory charges in the form of conservancy and pilotage for providing these services. Except for these statutory aspects, the market for the provision of port facilities and services within the UK is not subject to formal price or service level regulation.

## Market for port services within the UK and its prospects

Due to its cost-effectiveness relative to air freight and the scale and versatility of port facilities available, sea freight is by far the preferred method of transport for non-time-sensitive, low-value international cargoes. This, coupled with the UK's position as an island, means that its ports represent a critical gateway to the rest of the world. Consequently, the market for port facilities and services within the UK is comfortably the largest such market within Europe.

**Figure 3**  
**ANATOMY OF A SUCCESSFUL MAJOR PORT**

- Close proximity to major shipping routes
- Long-term partnerships with customers
- Facilities for onward transportation of cargoes (good road and rail links)
- Proximity to destination or origination points for cargo
- Facilities capable of accommodating the largest vessels
- Port-side facilities to accommodate cargoes
- Efficiency of port services (e.g., pilotage, stevedoring and vessel traffic services)

**Figure 4**  
**UK major port ownership by number of ports and by throughput volumes\***

- Private quoted
- Private unquoted
- Trust ports
- Municipal ports

Table 1			
Name	Ports	(million tonnes)	Market share (%)
ABP	21 ports (see pages 5, 7 and 9)	129.3	22.6
Peel Holdings	Liverpool, Medway, Clyde, Heysham <sup>1</sup>	61.7	10.8
PD Ports	Tees and Hartlepool <sup>1</sup>	53.8	9.4
Port of London Authority	London <sup>1</sup>	53.3	9.3
Forth Ports	Forth, Tilbury, Dundee <sup>2</sup>	44.3	7.7
Milford Haven Port Authority	Milford Haven <sup>1</sup>	38.5	6.7
Hutchison Whampoa	Felixstowe, Thamesport, Harwich International <sup>1</sup>	27.7	4.8
Sullom Voe	Sullom Voe <sup>1</sup>	23.9	4.2
<b>Total</b>		<b>432.5</b>	<b>75.5</b>
<b>UK ports total<sup>1</sup></b>		<b>573.1</b>	<b>100.0</b>
Source:			
<sup>1</sup> DfT			
<sup>2</sup> Forth Ports PLC 2004 Annual Report & Accounts			

\* Source: DfT Transport Statistics Report Maritime Statistics 2004, the latest available data on the UK ports market

For ease of analysis, port traffic can be categorised into cargo traffic, which generates most of the revenue for operators, international ferry passengers and international cruise passengers. Cargo traffic is sub-divided into cargo categories; figure 5 provides details of the individual cargoes included within each cargo category. Table 2 sets out the volumes of cargo, international ferry passengers and cruise passengers handled by UK ports during the five years to 31 December 2004\*.

### Cargoes

The 573.1m tonnes of cargo handled by UK ports in 2004\* represented around 95 per cent of the UK's international trade. Around 44 per cent\* of 2004 traffic was made up of imports, 30 per cent was exports and the balance related to domestic volumes. The ongoing transition of the UK from a manufacturing to a services-led economy means that an increasing percentage of cargoes handled by UK ports relates to imported goods. Figure 6 provides an analysis of the UK's trade by source for the five years ended 31 December 2004.

The European Union (EU) is the UK's largest trading partner, accounting for 32 per cent of imports and 48 per cent of exports handled at UK ports. Figure 7 provides an analysis of the UK's seaborne imports and exports by trading partners.

Port volumes can be expected to be influenced by changes in the Gross Domestic Product (GDP) of a country. As economies become more developed, services and technology-led sectors tend to account for an increasing share of the GDP at the expense of more traditional sectors such as manufacturing and extractive industries. This shift to higher-value commodities means that output, or tonnes of trade, tend to grow at a slower rate than the GDP of countries subject to such a transition process. In addition, the actual growth of an individual cargo in any one year, or over a period of time, can be influenced by many other factors. These include increased internationalisation of trade, changes in exchange rates, changes in tariffs, depletion or discovery of resources, e.g., oil, and the relative

**Figure 5**  
**DfT CARGO CATEGORIES**

- Liquid bulks: liquefied gas, crude oil, oil products and other liquid bulk products
- Dry bulk: ores, coal, agricultural products and other dry bulk products
- Containers: freight units in excess of 20ft
- Roll-on/roll-off: road goods vehicles, passenger cars and buses, import or export vehicles, rail wagons, shipborne port-to-port trailers

**Figure 6**  
**UK port volumes by type**

- Imports
- Exports
- Domestic

**Figure 7**

- European Union
- Rest of Europe
- Africa
- America
- Asia
- Australasia
- Domestic

(million tonnes)	2004		2004	2004	2004	2003	2002	2001	2000
	market	ABP							
	position	share	ABP	market	market	market	market	market	market
<b>Cargoes</b>									
Liquid bulks	1	20.3%	54.8	269.4	262.5	273.1	276.8	293.6	
Dry bulks	1	30.5%	37.5	122.8	124.1	115.9	124.1	113.9	
Containers, roll-on/roll-off and vehicles	2	19.2%	28.8	149.9	139.7	138.9	135.9	137.8	
Other general cargo	1	26.5%	8.2	31.0	29.4	30.4	29.6	27.8	
<b>Total</b>	1	22.6%	129.3	573.1	555.7	558.3	566.4	573.1	
<b>Change</b>				3.1%	-0.5%	-1.4%	-1.2%	n/a	
<b>International ferry passengers (thousands)</b>	4	6.4%	1,652	25,799	26,523	28,726	27,753	28,517	
<b>Change</b>				-2.7%	-7.7%	3.5%	-2.7%	n/a	
<b>International cruise passengers (thousands)</b>	1	64.9%	524	807	723	572	496	487	
<b>Change</b>				11.6%	26.4%	15.3%	1.8%	n/a	

\* Source: DfT Transport Statistics Report Maritime Statistics 2004, the latest available data on the UK ports market

production efficiencies of a country's main trading partners.

Headline tonnage for the UK ports industry for the year ended 31 December 2004 was similar to that achieved in 2000. Within this overall position, a number of cargoes grew at a much faster rate, due to some of the reasons outlined above, while liquid bulk volumes declined. Tonnage developments experienced by the UK ports in recent years can be summarised as follows:

- The UK's ongoing transition towards a services-led, higher-value production economy continues to support growth in container volumes
- Growth in roll-on/roll-off volumes has been supported by increasing rationalisation and centralisation of production facilities coupled with roll-on/roll-off's status in Europe as the transport method of choice for finished goods

→ Growth in vehicle import/export volumes continues to be driven by the ongoing centralisation of production facilities by major manufacturers in Europe

→ Declining production of coal within the UK is contributing to the growth in dry-bulk imports, particularly in more recent years

→ Liquid bulk volumes have declined due to declining production levels of North Sea oil.

Figure 8 provides a summary of the different sources from which ports operators generate their revenues.

In assessing the impact of port volumes on ports operators, a number of additional factors should also be taken into account. These include:

- Changes in volumes of liquid bulks tend to have a minimal impact on port

revenue and profitability, since liquid bulks tend to be a relatively low-revenue commodity

→ Port revenues from cargoes such as containers and roll-on/roll-off are typically linked to units handled, rather than the total tonnage that these units represent

→ Ports operators often incorporate take or pay (minimum volume) guarantees into agreements, which require them to invest in dedicated facilities for a particular customer. This limits the impact on the financial performance of the operator should the volumes fall below the guaranteed level.

Figure 9 provides a summary of the factors that we expect to underpin future growth in port volumes.

Given the expected developments within the global economy, i.e., the continued shift of lower-value production to less developed countries, we expect the recent trends in UK ports volumes to continue for the foreseeable future. We expect cargo volumes per annum, excluding liquid bulks, to exhibit single-digit growth over the next few years, and growth for trades such as containers, roll-on/roll-off and coal to exceed the average growth.

**Figure 8**

#### **REVENUE SOURCES FOR OUR UK PORTS**

- Ships' dues or berthing and mooring fees (based on size of vessel)
- Goods' dues (based on tonnage passing over our quays)
- Handling operations (stevedoring revenues or fees paid by third-party stevedores)
- Terminal operations (revenue from operation of terminals for customers)
- Storage/warehousing (based on space occupied or time spent at port)
- Rental/estates (revenue from lease or tenancy agreements)
- Pilotage dues (based on size of vessel)
- Conservancy charges (based on size of vessel)

**Figure 9**

#### **FUTURE GROWTH DRIVERS**

- Seaborne transport remains the only viable method of transport for bulk cargoes
- Ongoing relocation of global production to less developed economies
- Continued development of ship and existing port facilities towards larger vessels, leading to further economies of scale
- Lack of locations suitable for developing new ports
- Significant barriers to entry for new entrants within the UK ports market

# International cruise volumes are sailing ahead

## International ferry passengers

The time required to travel from one point to another, together with the related cost, tend to be the key drivers behind the selection of transport mode by passengers. In contrast to cargo volumes, air travel therefore continues to be the method of choice for international passengers. In 2004, UK ports received 25.8m international passengers, representing 14.9 per cent of the overall market. International ferry passenger volumes have declined by 9.5 per cent over the past four years, due primarily to market share losses to low-cost air carriers, the abolition of duty free within the EU and the additional competition provided by the Channel Tunnel.

As the majority of the services offered by the low-cost airlines are concentrated in the south east, and because the Channel Tunnel is nearby, the Port of Dover, which accounts for 55.3 per cent of this market, and the Port of Harwich have experienced the largest declines in volumes. Table 3 provides details of the top five ferry passenger ports operators and their volume development over the past four years.

The market for international ferry passengers is expected to remain competitive, but the rates of market decline experienced by the UK's ferry operators over the past four years should moderate as new operator initiatives take effect and the overall market stabilises following the recent realignment.

## International cruise passengers

In addition, UK ports handled 0.8m cruise passengers in 2004. Cruise operators tend to look for locations that offer good airport connections and facilities to cater for pre- and post-cruise stays. In addition, the geographical location and land-side facilities and services offered are also

Table 3			
Operator	2004 passenger volumes (000s)	2000 passenger volumes (000s)	Change (%)
Dover	14,275	16,078	(11.2)
Portsmouth	3,077	3,176	(3.1)
Holyhead	2,262	2,518	(10.2)
Harwich	1,085	1,335	(18.7)
Hull*	910	930	(2.2)

\* ABP-owned

important for ports to be selected for cruise calls. ABP's Port of Southampton is the UK's premier cruise port and accounted for 64.9 per cent of international cruise passengers using UK ports in 2004. Figure 10 sets out the development of international cruise passenger volumes for UK ports and ABP's share of these volumes since 2000.

Cruise continues to be one of the major growth areas of the tourism industry. The UK is the number two source market for cruise passengers after North America. The cruise passenger volume of 807,000 handled by the UK's ports in 2004 represents an increase of 65.7 per cent on 2000. In the medium term, this market is expected to continue to grow on the back of increased investment by cruise operators, the popularity of cruising with younger passengers and increased demand for shorter cruises.

**Figure 10**  
International cruise passenger volumes from the UK (thousands)

- Southampton
- Other ports

# Short-term investment. Long-term income

## UK ports & transport growth since 2000\*

\* 2000 to 2004 continuing operations before goodwill amortisation and exceptional items under UK GAAP; 2005, before increase in fair value of investment properties and exceptional items under IFRS

## Five-year total shareholder return

- ABPH
- FTSE top-250
- FTSE transport
- FTSE 100

Our simple strategy of developing the core business through organic growth has delivered significant growth for our UK ports and transport business and excellent returns for our shareholders over the past six years. Since early 2000, we have invested over £179m in more than 85 significant new customer agreements. Supported by this investment, the core UK ports and transport business has increased its underlying operating profit by 32 per cent.

Looking forward, we intend to continue with our focus on organic growth through investment in new business supported by long-term customer agreements capable of meeting our 15 per cent internal rate of return hurdle.

## £400m+ investment programme

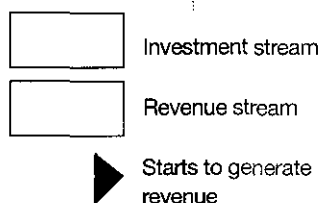
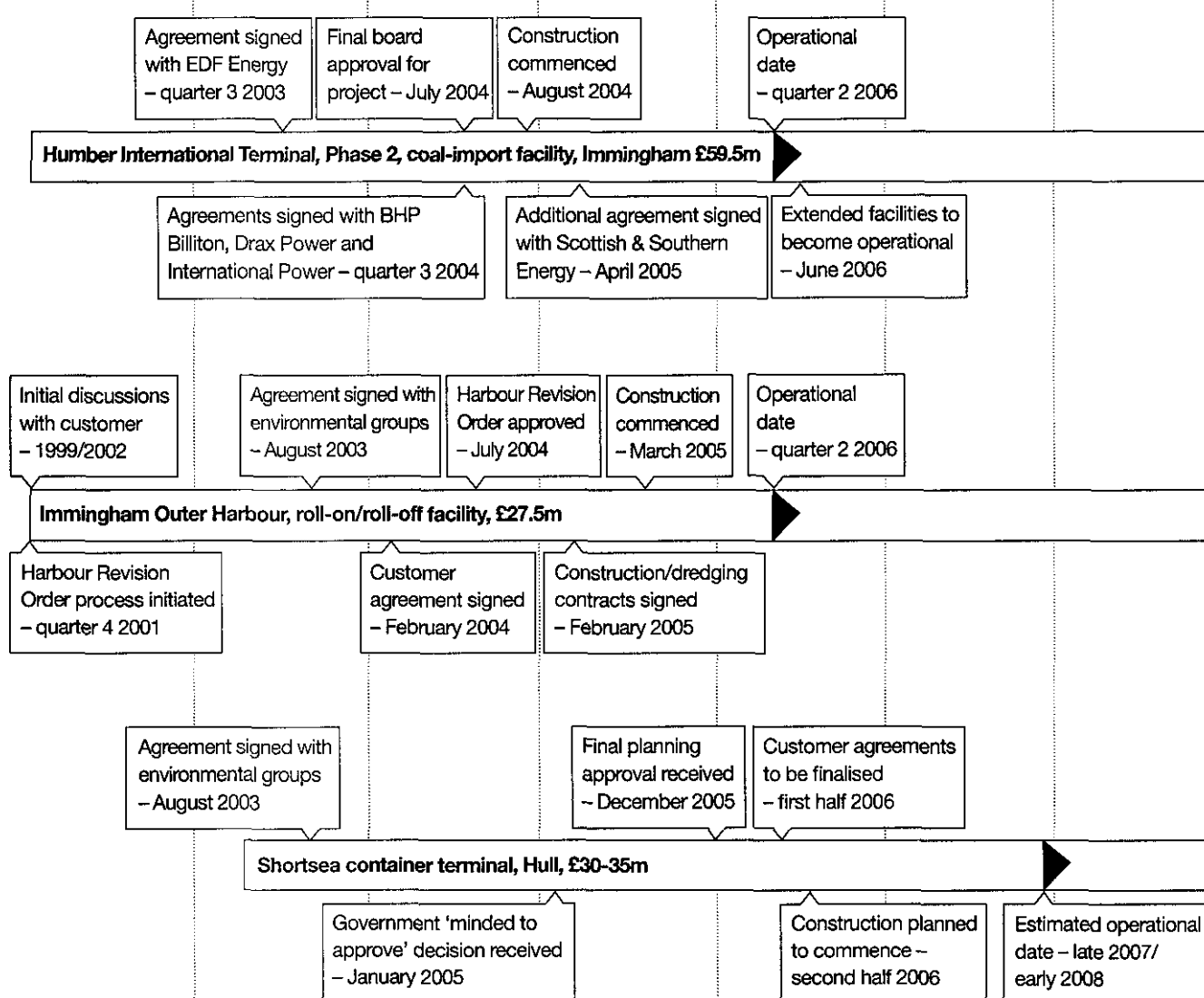
In 2004, we announced plans to undertake a 10-year £400m+ investment programme in our core UK ports and transport business. This programme includes the development of four major facilities on the Humber to accommodate the expected growth in trades such as coal, containers and roll-on/roll-off (see market report on

pages 8 to 13). Key components of this programme include:

- The development of a £59.5m deep-sea coal import facility for the UK electricity generation market at Immingham (see pages 16 and 17)
- The development of a £27.5m roll-on/roll-off facility for DFDS Tor Line, also at Immingham (see pages 18 and 19)
- The development of a £30-35m shortsea container terminal at Hull (see pages 20 and 21)
- The potential development of a £55-110m shortsea coal import facility, also at Hull
- Potential investments of between £20-40m per annum in new revenue-earning projects at our UK ports (see pages 22 and 23).

As at the end of 2005, we had completed £108.2m of our £400m+ investment programme. We remain confident that our planned and potential investment opportunities provide a solid platform for the future growth of the core UK ports and transport business and increased future returns for our shareholders.

2002 2003 2004 2005 2006 2007 2008



**Our long-term  
agreement supporting  
ABP's investment in  
Humber International  
Terminal, Phase 2, is  
a valuable part of our  
fuel supply strategy**

*Peter Emery, Production Director, Drax Group plc*

# Humber International Terminal: generating revenue from coal

During 2005, the group made excellent progress with the construction of its new deep-water coal-import facility, Humber International Terminal, Phase 2, at the Port of Immingham. The £59.5m project – the largest-ever investment undertaken by the group – continues to be on schedule and on budget. This development will accommodate the strong growth in volumes of coal imported into the UK and is backed by long-term agreements with five customers. The new facility will be capable of handling 9.5m tonnes per annum of imported coal and is due to become operational in the second quarter of 2006. Here we highlight some of the factors that are contributing to the success of this project and its benefits for our stakeholders.

## **Diverse supplier base working as a team**

The project management for this development was undertaken in-house. The creation of the new terminal involves a 220-metre extension of the existing jetty, which is being equipped with rail-mounted cranes and associated hoppers, together with the related conveyors and

infrastructure. The terminal will also provide storage facilities, which have been equipped with two stacker reclaimers capable of stacking coal at 5,300 tonnes per hour and a stockyard with a capacity of up to 750,000 tonnes of coal. The complexity of the build has required over 100 contracts with local and international suppliers. Teamwork and close co-operation between the group and its suppliers from as far away as South Africa have been key in ensuring the project is delivered on schedule and on budget.

## **Incorporating environmental best practice**

The terminal build is being undertaken with the environment as a key consideration at each stage. In consultation with the Environment Agency, we are installing automatically operated pollution-control systems that include water cannons and sprinkler systems. We are also creating settlement ponds that will allow us to recycle the water used in order to control pollution. In addition, to separate the terminal from other activities, we are

constructing an embankment that will house some 1,500 young conifers. The terminal's new rapid-rail load-out system will enable most of the coal to be transported away by rail, ensuring that the port remains the number one rail port in the UK.

## **Meeting the needs of our customers**

*"At Drax Power Station we consume up to 10m tonnes of coal each year. We source our coal from a variety of suppliers from both domestic and international markets. A steady, secure supply of coal of the right quality and at the right price is essential to our operations and our long-term agreement supporting ABP's investment in Humber International Terminal, Phase 2, is a valuable part of our fuel supply strategy."*  
**Peter Emery, Production Director, Drax Group plc**

## **Facts and figures**

**£59.5m** is the cost of the terminal, being built by around  
**150** people at any one time over the  
**24** months it is taking to build, for  
**5** quality customers, so that approximately  
**150** coal-laden vessels can call at Immingham each year, to be loaded on some  
**130** trains every week, to bring in up to  
**9.5** million tonnes of coal per annum, which is enough coal to generate over  
**7%** of the UK's electricity needs.

## **Immingham coal volumes (million tonnes)**

# **We are delighted with ABP's investment in these new facilities**

**Jens Nielsen, Managing Director, DFDS Tor Line PLC**

# Immingham Outer Harbour: £27.5m ro-ro terminal imminent

During 2005, the group has also continued to make good progress with its development of a major new roll-on/roll-off (ro-ro) terminal at Immingham Outer Harbour. The group's £27.5m investment in this project is its largest to date in a ro-ro facility. The development will increase capacity at the Port of Immingham both in terms of berth capacity and landside storage. The new berths will provide much needed room for expansion of the port's ro-ro trades by facilitating improved scheduling and reduced turnaround times and by accommodating larger vessels. The development is being undertaken in partnership with DFDS Tor Line, which has entered into a 25-year agreement with the group and is investing an additional £7.5m in the project. Here we highlight some of the factors that are contributing to the success of this project and its benefits for our stakeholders.

## Ground-breaking agreement on environmental mitigation

Works required to develop this facility included the dredging of some 54 acres of mudflats to facilitate access and mooring of vessels and the installation of new berthing dolphins and linkspans. Given the size and scope of areas

impacted by this development, we undertook detailed social and environmental-impact studies prior to the submission of our planning application. In order to mitigate the impact of these dredging works, we worked closely with English Nature, RSPB, The Lincolnshire Wildlife Trust, The Yorkshire Wildlife Trust and the Environment Agency. Under a ground-breaking agreement, we are creating new areas at Chowdermess and Welwick of 30 and 133 acres, respectively, which will provide a varying habitat of intertidal mud, saltmarsh and grasslands.

## Putting safety first

Both of the group's developments at Immingham are benefiting from our commitment to high standards of health and safety. In addition to incorporating external advice on health and safety matters into the design and development of the facilities, construction work at each site has been managed under the close supervision of a dedicated safety manager. All works are being managed in accordance with the Construction (Design and Management) Regulations 1994 and we are ensuring that our contractors and sub-contractors maintain good housekeeping while on site.

## Supporting our customers and communities

*"The Port of Immingham, also the location of our UK head office, plays an important part in our business by facilitating round-the-clock, seven-days-a-week services to Germany, Benelux, Sweden, Norway and Denmark. Our volumes from Immingham have continued to grow in recent years and we are delighted with ABP's investment in these new facilities, as these should allow us to increase our volumes by introducing larger vessels and a growing number of new third-party ro-ro shipping lines. We also expect this growth to lead to the creation of an extra 150 jobs."*

**Jens Nielsen, Managing Director,  
DFDS Tor Line PLC**

## DFDS Tor Line roll-on/roll-off volumes at Immingham (thousand units)

**£27.5m** is ABP's investment in Immingham Outer Harbour, under a 25-year agreement between ABP and DFDS Tor Line, which will provide **150** new jobs needed to work an extra **3** ships berthed at any one time and **18** vessels using the terminal every week, which will have deep-water channels with **24**-hour access.

**I am satisfied that,  
overall, the project will  
bring significant benefits  
to the city and to the  
region as a whole**

**Derek Twigg MP, Parliamentary Under-Secretary,  
Department for Transport**

# Hull shortsea container terminal

## Larger. Faster. Deeper

### Background

The group's existing container-handling terminal at Hull was originally developed in the 1970s. This facility comprises a 300-metre quay and offers a secure 17-acre terminal with storage facilities. The terminal, which is subject to lockgate restrictions, is currently operated under licence by PD Port Services and offers services to Continental Europe and Scandinavia. In 2005, this facility handled over 240,000 twenty-foot equivalent units (TEUs) of containers for customers including Geest North Sea Line, the United Baltic Corporation, Bulcon, Finnlines and OOCL, among others. To support anticipated growth in shortsea container volumes, the group commenced planning towards the development of a new riverside shortsea container terminal in 1996 and submitted a planning application for this development in 2000.

### Current status

Following a planning process that lasted five years, in December 2005 the government gave its final approval for the group's proposed new shortsea container terminal, which is expected to be developed at a cost of between £30-35m. The group is in the advanced stages of discussing agreements

with potential customers. Specifications and plans to develop this facility are complete and construction will commence as soon as a customer agreement is in place. We expect the new facility to be operational in late 2007 or early 2008. The commissioning of the new facility will also allow the Port of Hull to continue to grow its forest products trade because it will release capacity from the existing facility.

### The new facility

The group's investment will facilitate the development of a 411-metre quay that will allow the port to accommodate larger container vessels than can currently be handled. The facility will also be equipped with state-of-the-art gantry cranes and will benefit from an efficient storage yard configuration. The elimination of lockgate restrictions will mean that the new terminal can handle container vessels with much improved marine access and significantly decreased turnaround times. The overall container capacity is expected to double to 500,000 TEUs per annum.

### Growth in shortsea container volumes

Over the past four years, container volume throughput at the existing facility has grown by over 55 per cent. This growth

and our confidence in the future commercial prospects are underpinned by the following factors:

- The Port of Hull is well integrated with the UK's road network and can provide access to a market of 40 million people within the UK in under four hours
- Potential future capacity constraints at the UK's southern container ports are leading operators to consider shortsea feeder services into regional ports such as Hull
- Increased road haulage costs, coupled with congestion delays, make shortsea shipping an increasingly more attractive option, because it facilitates the shipping of goods closer to their origination and destination points.

*"I am satisfied that, overall, the project will bring significant benefits to the city and to the region as a whole. I am also happy that the project's likely impacts on nature conservation sites will be adequately compensated for by the creation of replacement habitat on the Humber estuary."*

**Derek Twigg MP,  
Parliamentary Under-Secretary,  
Department for Transport**

### Container volumes at Hull (thousand TEUs)

After **55%** growth in container volumes at Hull in recent years, ABP will invest **£30-35m** to help develop a **411-metre** quay, to facilitate container vessels with potential draughts of up to **10.5 metres**, with overall container capacity increasing by **100%** to **500,000 TEUs** per annum.

**We are pleased to have reached this further agreement with ABP, which forms part of our company's strategy of being able to offer our customers dedicated, first-class facilities on both the east and west coasts of the UK**

Colin Littler, Managing Director, NW Trading Ltd

# Sizeable returns from smaller investments

In addition to its major projects, the group invests in a range of smaller customer-driven developments that continue to provide an important source of growth for our core business. Over the past five years, investment in such projects has averaged around £40m per annum. Details of a selection of the smaller projects undertaken during 2005 are provided below.

## Port: Newport

Scheme: Purchase of mobile plant and machinery

Cost: £0.4m

Lead time: 5 months

Completion date: September 2005

Description: Investment of £0.4m in a range of handling equipment on the back of a term agreement with Arkady Feed Ltd.

## Port: Southampton

Scheme: Construction of a second multi-storey car terminal

Cost: £4.2m

Lead time: 9 months

Completion date: October 2005

Description: Construction of a second multi-storey car terminal to accommodate the growth in the port's deep-sea car trade.

## Port: Immingham

Scheme: Construction of an agribulk handling and distribution facility

Cost: £1.7m

Lead time: 6 months

Completion date: January 2006

Description: Construction of a specialist agribulk handling and distribution facility for IAWS Fertilisers (UK) Limited.

## Port: Immingham

Scheme: Construction of a tug-mooring facility

Cost: £0.6m

Lead time: 11 months

Completion date: April 2006

Description: Construction of a mooring facility on the back of a 17-year agreement with Adsteam Humber Limited.

## Port: Goole

Scheme: Provision of a new biomass bulk-handling facility

Cost: £0.9m

Lead time: 10 months

Completion date: May 2006

Description: Construction of a 3,200 sq m biomass bulk-handling facility on the back of a 10-year agreement with Caldaire Terminal Limited.

## Port: Goole

Scheme: Construction of a dry-bulks complex

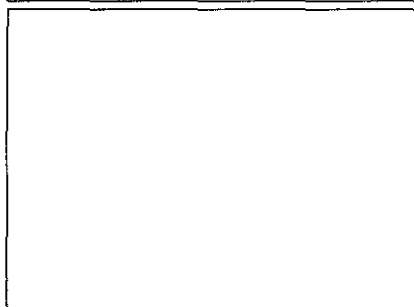
Cost: £1.4m

Lead time: 11 months

Completion date: July 2006

Description: Construction of a 6,000 sq m dry bulks complex after signing a 10-year agreement with NW Trading Ltd.

Significant new capital expenditure-backed projects secured since 2000



Annual growth capital expenditure (excluding major Humber projects) – £m

# How we have performed

**33% growth in dividend  
per share over the last 5 years**

---

**2005 Underlying earnings per share\***

---

+6%

**2005 Dividend per share**

---

+6%

## Contents

---

### **Chairman's statement 26**

"Subject to the development of the overall economic environment, the group is well positioned to deliver higher growth in its UK ports business during the second half of 2006." **Chris Clark**

### **Group Chief Executive's review of strategy 28**

"I am optimistic about the future. The river terminals on the Humber will accelerate our growth during the second half of 2006, extending our UK market leadership and creating even more value for our shareholders." **Bo Lerenius**

### **Operating and financial review 32**

"The directors have recommended a final dividend of 9.75 pence per share; this would make a total dividend for the year of 17.0 pence per share, an increase of 6.3 per cent on 2004." **Richard Adam**

\* Prior year previously reported under UK GAAP, now reported under IFRS; before increases in fair value of investment property and exceptional items; continuing operations

# **I am pleased to report that the group achieved a satisfactory operating performance and made significant progress on its major Humber projects during 2005**

Against a background of challenging economic conditions, our core UK ports and transport business performed well and once again continued to grow. Underlying pre-tax profit for the group increased by 2 per cent to £132.3m (2004\*: £130.2m) and underlying earnings per share increased by 6 per cent to 31.6 pence (2004\*: 29.8 pence).

## **Results**

Our core UK ports and transport business contributed £151.3m to underlying operating profit in 2005, an improvement of 3 per cent on the previous year (2004\*: £146.3m). Our much smaller USA ports and transport business increased its contribution by 5 per cent to £4.3m (2004\*: £4.1m), despite the departure of a customer from the terminal at Benicia, California during the second half of 2004. Profit from property investment activities of £5.3m was similar to last year (2004\*: £5.4m). Profit from property development increased to £6.7m (2004\*: £3.5m), which was due primarily to the disposal of some surplus land at the Port of Garston. Overall, these performances resulted in a 5 per cent increase in the group's underlying operating profit to £167.6m (2004\*: £159.3m).

**Chris Clark**  
Chairman

\* Prior year previously reported under UK GAAP, now reported under IFRS

Net interest payable increased by 12 per cent to £39.7m (2004\*: £35.6m), due to the increase in borrowings associated with the group's ongoing share repurchase programme, its investment in the *Humber projects* and the impact of increased bank base rates.

The group's share of profit from continuing associated undertakings contributed £4.4m to pre-tax profit (2004\*: £6.5m), as throughput increased at Tilbury Container Services but declined at Southampton Container Terminals.

Underlying pre-tax profit, which excludes the change in fair value of investment properties and exceptional items, increased by 2 per cent to £132.3m (2004\*: £130.2m). The review of the group's investment property portfolio led to an increase in carrying values of £3.5m (2004\*: £3.4m) and there were no exceptional items in the year (2004\*: £51.4m charge). Consequently, pre-tax profit amounted to £135.8m (2004\*: £82.2m).

The group's tax charge for the year was £35.9m (2004\*: £22.1m) and represented an underlying effective tax rate, excluding associates, of 28.1 per cent (2004\*: 28.0 per cent). Basic earnings per share from continuing and discontinued operations, which in 2004 was impacted by various exceptional costs, amounted to 32.7 pence (2004\*: 18.9 pence).

#### Business highlights

The group's £400m+, 10-year investment plan for our UK ports remains on track. At the Port of Southampton, the group has invested £4.2m in the construction of a second multi-storey car terminal to facilitate the expected growth in vehicle volumes. This facility became operational in October 2005. A £5m investment in the redevelopment of facilities at the Port of Teignmouth is progressing as planned and is due to become operational in 2006.

The two major facilities under construction at the Port of Immingham, which represent a combined investment of £87m, continue to progress on schedule. These facilities will become operational during the second quarter of 2006.

In addition, the group received final planning approval in December 2005 for its proposed £30-35m shortsea riverside container terminal development at the Port of Hull. We remain confident about the commercial prospects for this development and expect it to become operational towards the end of 2007 or early 2008.

#### Dividend

The directors recommend a final dividend of 9.75 pence per share (2004: 9.00 pence per share), which makes a total of 17.00 pence per share (2004: 16.00 pence per share) for the year. If approved by shareholders, the final dividend will be paid on 28 April 2006 to those who are on the register at 31 March 2006.

#### Share repurchases

The group continued to repurchase shares under its ongoing £205m share repurchase programme. During 2005, 10.2 million shares were repurchased at an average price of 490 pence per share, before costs. This takes the total number of shares repurchased since the start of the programme in 2004 to 30.5 million at an average price of 460 pence per share, before costs. As at 31 December 2005, £140.5m had been returned to shareholders under this programme and the group remains well positioned to complete the remainder of this programme within the next two-and-a-half years.

#### Board of directors

Doug Morrison was appointed to the board as an executive director on 26 April 2005. Doug, who has accumulated 37 years of experience in the ports industry in a variety of roles within the group, is the Port Director for the Port of Southampton.

Following the Annual General Meeting on 26 April 2006, Aubrey Adams and Andrew Simon will retire as non-executive directors, having served 9 and 11 years on the board, respectively. The board and I would like to wish them well and thank them for their valuable contribution towards the development of the group over the past decade.

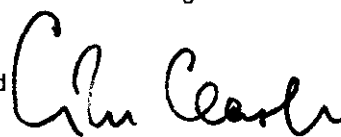
I am delighted that Russell Edey and Simon Melliss have agreed to join the board as non-executive directors from 1 March 2006. Russell is currently a senior adviser at Rothschilds and has been a non-executive member of a wide variety of boards over the past 17 years. Simon is on the board of Hammerson Plc, where he has been Group Finance Director for the past 11 years.

Following the Annual General Meeting on 26 April 2006, Russell Edey will succeed Aubrey Adams as Senior Independent Director.

#### Prospects

The group continues to benefit from the competitive advantage of the many long-term contracts with quality customers that it has secured over recent years.

We remain confident that the first two of the group's planned major growth projects on the Humber will become operational, and start contributing to operating profit, in the second quarter of 2006. This leads the board to believe that, subject to the development of the overall economic environment, the group is well positioned to deliver higher growth in its UK ports business during the second half of 2006.



**Chris Clark**  
Chairman  
22 February 2006

\* Prior year previously reported under UK GAAP, now reported under IFRS

## **Group Chief Executive's review of strategy**

**Our long-term growth strategy is working. The exciting developments on the Humber will accelerate our growth during the second half of 2006**

**ABP continues to be the market leader in the UK ports industry. Our competitive position is unrivalled and we have the best risk spread in the sector. Our 21 ports are located in prime strategic positions around the UK. Our customer base is well diversified and stable.**

Our business model is strong because of these factors and because of the opportunity we have to grow the business organically. Due to the demand that exists for port facilities at our locations and our financial strength, we are able to secure long-term contracts with customers that deliver an internal rate of return of 15 per cent or more.

Given the economic environment that prevailed for much of the second half of 2005, this year's 3 per cent increase in underlying operating profit in the UK ports business is satisfactory. New projects becoming operational during the year accounted for around two-thirds of this growth, with the rest coming from existing business. We signed six new contracts with major customers during the year equating to £20m of capital investment, including one £15m contract relating to the extension of the Humber International Terminal project, taking the total number of contract wins since 2000 to over 85. In addition, since the year end, we have signed a further contract that will involve £4.8m of capital investment. These new projects will start contributing to operating profit when they become operational and provide a strong foundation for our future growth.

What is more, we expect our growth rate to increase during the second half of 2006 once the two new riverside terminals on the Humber are operational and start

contributing to operating profit. Construction of the £27.5m roll-on/roll-off facility and the £59.5m extension to Humber International Terminal, the UK's premier coal import facility, is proceeding well. Both projects will become operational in the second quarter of 2006.

Looking further ahead, we are now concentrating on our third major project on the Humber, a £30-35m shortsea container terminal at Hull that is expected to become operational towards the end of 2007 or early in 2008. We received final approval from the government for this scheme at the end of 2005 and are now finalising discussions with customers to operate this facility under long-term agreements. Beyond this, potential exists for further development opportunities on the Humber, which we are continuing to explore. In particular, we are looking at developing a shortsea coal terminal at Hull. This project could involve an investment of £55-110m, depending on who operates the terminal. Subject to government approval and customer demand, we aim for this facility to become operational around 2009.

We continue to look at ways of growing value-added services, such as stevedoring and warehousing, that we offer at our ports. As reported in our 2004 results, ABP Connect, our value-added services business, lost a major roll-on/roll-off customer at Immingham in the second half of 2004. In order to mitigate the impact of the reduced business volumes caused by the loss of this customer, ABP Connect was restructured at the end of 2004 to achieve cost savings of £4.5m per year, which have been fully realised in 2005. Furthermore, the decision was taken during 2005 to integrate ABP Connect into the core UK ports business.

Our USA business has signed a new contract with Toyota, which will effectively begin in 2006. This replaces business lost in Benicia, California, during the second half of 2004, which has resulted in reduced volumes of business this year. We keep looking for opportunities to grow this business without major capital investment.

We continue to manage our substantial landholdings actively and have completed £20.1m of the additional £50m target that we set for non-core property and land disposals at the end of 2004. Cumulative proceeds from the disposal of non-core property and land that is not required for port use stood at £220.1m at the end of 2005.

As our growth strategy is delivering, we have no plans at present to change it. We will continue to focus on growing the UK business organically by investing in core activities and selling off non-core assets. We monitor strategy to ensure that it is serving our business goals and remain alert to new opportunities. While we would never completely rule out acquisitions, this is not how we intend to grow the business in the near future. We believe that we can deliver greater returns to shareholders by maximising the potential that exists within our business.

We keep our capital structure under review with a view to maximising value for our shareholders. Our share repurchase programme remains on track, with £50m of shares repurchased in 2005. By the year end, £140.5m of the £205m programme had been completed. Our investment in the core UK ports and transport business and ongoing share repurchase programme have benefited our capital structure. At 59.1 per cent, gearing is now within our target range of 50 to 70 per cent.

# Our strategy versus performance

There were a number of changes to our operational management team during the year. We welcomed on board two new faces – home-grown talent that exemplifies our policy of recruiting from within wherever possible. After Doug Morrison took up his post as the new Port Director for Southampton, Matthew Kennerley, 39, became Port Director for Hull & Goole. Matt Jukes, 34, was appointed Port Director for the Shortsea Ports, in succession to John Fitzgerald, who moved to the position of Port Director for our South Wales Ports. These changes were brought about by the retirement of two Port Directors: Andrew Kent retired as Port Director for the Port of Southampton after 35 years with ABP; John Copping, Port Director South Wales, took early retirement for personal reasons. Andrew and John contributed greatly to the development of ABP and I thank them both for their support and loyalty.

I also wish to thank our employees for the considerable contribution they make towards our success. We continue to look at ways of increasing their participation in our business. This year, for the first time since 1997, we undertook a formal survey of employee views on a range of issues. We will use the results to build on what we are good at and address any development areas.

Despite the recent improvements in our overall UK accident-incident rate, tragically, one fatality did occur on our premises during 2005. This is currently the subject of an investigation by the appropriate authorities. Our health and safety performance remains of paramount importance. On a positive note, I am pleased that our accident-incident rate in the UK of 9.3 per thousand employees was the lowest we have ever achieved and exceeded our target of 12 or fewer

## Invest £400m+ over 10 years

A. Three new river terminals to be operational on the Humber by 2007 involving investment of some £120m, of which £87m already committed with the ongoing construction of two new river terminals at Immingham

B. Seek government approval for a fourth river terminal on the Humber – level of investment to depend on use and specification

C. Continue to invest in opportunities at all of our ports to meet the needs of existing and new customers

## On track

A. Two new river terminals at Immingham involving investment of £87m to be operational during the second quarter of 2006. Final planning approval received for a £30-35m shortsea container terminal development at Hull

B. Development of a £55-110m shortsea coal import facility at Hull currently under evaluation

C. Six new business wins in 2005, against which we are investing £20m, taking the total number of wins since early 2000 to over 85. Excluding the Humber projects, £37.1m of growth capital expenditure in 2005

## Sell non-core land and property

Achieve additional £50m target from disposal of non-core property and land, bringing total proceeds to £250m since early 2000

## On track

£220.1m of cumulative proceeds generated from sales of non-core property and land to 31 December 2005

## Buy back shares

Complete £205m share repurchase programme

## On track

£140.5m of the £205m share repurchase programme completed by 31 December 2005

per thousand employees. Under different local reporting requirements our USA business also met its target of 50 or fewer recordable injuries in 2005, improving its performance from 64 in 2004 to 49 in 2005. Yet there can be no room for complacency and the challenge we face now is to sustain this improvement.

I am optimistic about the future. The river terminals on the Humber will accelerate our growth during the second half of 2006,

extending our UK market leadership and creating even more value for our shareholders.

Thank you for your continued support.



**Bo Lerenius, CBE**  
Group Chief Executive  
22 February 2006

## **Operating and financial review**

**This year has seen  
satisfactory growth in  
our core UK ports and  
transport business.  
Our capital efficiency  
is improving and we  
remain well placed to  
fund our future growth**

**Richard Adam  
Group Finance Director**

# Operating profit\*<sup>#^</sup> up 5%

The principal activities of the group comprise the provision of innovative and high-quality port facilities and related services to ship and cargo owners and other users of seaports in the UK and USA. The group employs more than 3,000 people based at port locations in the UK and USA. The group owns and operates 21 general cargo ports within the UK and provides vehicle import and export and processing services at five port locations in the USA. It also provides 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. Further details on the group's core UK ports and transport business are set out on pages 2 to 7.

## Business description

A detailed description of the market for ports services within the UK, which includes information on its structure, regulation and recent and expected trends, is set out on pages 8 to 13. Details of the group's strategic development in recent years and its strategy for the future are discussed in the Group Chief Executive's review of strategy on pages 28 to 31.

## Development and performance in 2005

### Group overview

Notwithstanding a challenging economic background, overall the group achieved a satisfactory operating performance and made significant progress against its capital expenditure programme during 2005.

Group revenue declined by 1.0 per cent to £434.9m (2004: £439.5m), as growth achieved by the group's ports and transport activities was offset by reduced

	2005 £m	2004* £m	Change from 2004 %
Ports & transport – UK	151.3	146.3	3.4
Ports & transport – USA	4.3	4.1	4.9
Property investment	5.3	5.4	(1.9)
Property development	6.7	3.5	91.4
<b>Underlying operating profit**</b>	<b>167.6</b>	<b>159.3</b>	<b>5.2</b>
Increase in fair value of investment properties	3.5	3.4	2.9
Exceptional items	–	(51.4)	n/a
<b>Group operating profit*</b>	<b>171.1</b>	<b>111.3</b>	<b>53.7</b>

revenue from its property activities. However, as set out in table 1, underlying operating profit increased by 5.2 per cent to £167.6m (2004\*: £159.3m). This improvement in underlying operating performance was supported by the continued growth of the group's core UK ports and transport business and a greater contribution from its property activities, which benefited from a much improved sales mix in 2005.

Net interest payable increased by 11.5 per cent to £39.7m (2004\*: £35.6m) and the group's share of profit from continuing associated undertakings contributed £4.4m to pre-tax profit (2004\*: £6.5m).

Underlying pre-tax profit and earnings per share from continuing operations, both of which exclude the change in fair value of investment properties and exceptional items, increased by 1.6 per cent to £132.3m (2004\*: £130.2m) and 6.0 per cent to 31.6 pence (2004\*: 29.8 pence), respectively. The review of the group's investment property portfolio led to an increase in carrying values of £3.5m (2004\*: £3.4m) and there were no

exceptional items in the year (2004\*: £51.4m charge). Consequently, pre-tax profit amounted to £135.8m (2004\*: £82.2m).

The group's tax charge for the year amounted to £35.9m (2004\*: £22.1m) and represented an underlying effective tax rate, excluding associates, of 28.1 per cent (2004\*: 28.0 per cent). Basic earnings per share from continuing and discontinued operations, which in 2004 was impacted by the exceptional costs detailed in note 3 to the financial statements on page 60, amounted to 32.7 pence (2004\*: 18.9 pence).

A proposed final dividend of 9.75 pence per share (2004: 9.00 pence) represents an increase of 8.3 per cent, bringing the total dividend per share for 2005 to 17.00 pence (2004: 16.00 pence), an increase of 6.3 per cent.

A detailed segmental analysis of the group's business is provided in note 2 to the financial statements on page 59. The operating performance of each business segment is discussed in more detail on the following pages.

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

^ Continuing operations

# Operating and financial review

## Ports & transport – UK

With 21 strategically located ports, the group remains the largest and leading ports operator in the UK. As the UK ports and transport business accounts for 86.0 per cent of the group's revenue and 90.3 per cent of continuing underlying operating profit, respectively, it is very much the key driver of the group's overall performance. Information on recent developments in the UK ports market and the group's competitive position within this market is provided on pages 8 to 13.

During 2005, cargo volumes handled by the group's UK ports increased by 4.3 per cent to 134.8m tonnes (2004: 129.3m tonnes). Table 2 on page 35 provides an analysis of the changes in the group's 2005 UK ports volumes by cargo category compared with 2004.

The group benefited from underlying volume growth across many of its trades. Significant developments in individual cargo volumes included the following:

- Liquid bulks: increased volumes for imports of crude and exports of petroleum products
- Dry bulks: coal volumes increased by 23.6 per cent. Demand for imported coal remained strong as domestic production was insufficient to meet demand and energy consumption remained high. Agribulk volumes increased following an improved harvest, which, coupled with a weak comparator for 2004, resulted in growth of 7.0 per cent. Aggregates and cement imports also increased

→ Containers: while the group's shortsea container volumes continued to grow, deep-sea volumes at Southampton were below the previous year due to the loss of a service in the second half of 2004 and some de-stocking activity within the retail sector

→ Roll-on/roll-off and vehicles: volumes were lower than in 2004 due to the previously reported departure of a customer from the Port of Immingham in the second half of 2004

→ Other general cargo: volumes were impacted by a reduction in the volume of steel imports during the second half of 2005.

Table 3 on page 35 provides an analysis of the changes in the group's 2005 UK passenger volumes compared with 2004.

The majority of the group's international ferry passenger volumes relate to the North Sea routes operating from the Port of Hull. In keeping with recent years, these volumes remained fairly stable during 2005. Supported by the recent investments at the Port of Southampton, the group's 2005 international cruise passenger volumes increased by 32.4 per cent. The group remains confident about the growth prospects for this market. Domestic cruise and ferry passenger volumes relate mainly to the Troon to Larne service operated by P&O following the closure, in October 2004, of the Troon to Belfast service previously operated by SeaCat Ferries. As a result of this closure and the competitiveness of low-cost airline

operators, domestic ferry passenger volumes decreased by 22.3 per cent.

The UK ports and transport business remains the primary focus of the group's activities (see table 4 on page 35 for a summary of its 2005 performance). Supported by growth across key cargoes and returns from recent investments, the business increased revenue by 2.3 per cent to £373.9m (2004: £365.4m). This, combined with the full-year effect of the pre-emptive cost-reduction measures implemented in 2004 to mitigate the anticipated decline in roll-on/roll-off volumes following the departure of Cobelfret in October 2004, and lower congestion charges (demurrage costs) in relation to imported coal handled at the Port of Immingham, led to a 3.4 per cent increase in underlying operating profit to £151.3m (2004\*: £146.3m).

The group has achieved consistent growth in its UK ports and transport business by applying a strategy of targeted investment, generating new business through the securing of long-term contracts with quality customers. In 2005, six new long-term customer contracts were won, with the group committing £20m of new revenue-related capital expenditure, including £15m in respect of the expansion of the Humber International Terminal project. In addition, since the year end, the group has signed a further contract that will involve an additional £4.8m of capital investment. These new contracts will only contribute to the group's results once they become operational, but nevertheless underpin the group's future growth prospects.

\* Prior year previously reported under UK GAAP, now reported under IFRS

# UK ports business<sup>\*#^</sup> up 3%

**Table 2**  
Changes in ABP's UK port volumes

	2005 Million tonnes	2004 Million tonnes	Change from 2004 %
<b>Cargo</b>			
Liquid bulks	56.4	54.8	2.9
Dry bulks	42.3	37.5	12.8
Containers, roll-on/ roll-off and vehicles	28.2	28.8	(2.1)
Other general cargo	7.9	8.2	(3.7)
<b>Total tonnage</b>	<b>134.8</b>	<b>129.3</b>	<b>4.3</b>

Following the group's decision to integrate the activities of ABP Connect within its UK ports, this business unit is no longer reported separately. The activities previously reported by ABP Connect are now reported through the Port of Grimsby & Immingham and the Port of Southampton.

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

## Hull & Goole

Revenue increased by 2.0 per cent. Strong growth in container traffic, aggregates and cement volumes and coal imports was partly offset by a reduction in steel exports and the group's decision to reduce its stevedoring activities at Hull.

At Hull, the group continued to invest in storage facilities on the back of increasing cargo volumes supported by long-term customer agreements. A £1.1m investment in an expanded timber terminal for Finnforest UK – which is already one of Hull's major customers – became operational at the end of September. The

**Table 3**  
Changes in ABP's UK passenger volumes

	2005 Number 000s	2004 Number 000s	Change from 2004 %
International ferry passengers	1,643	1,652	(0.5)
International cruise passengers	694	524	32.4
Domestic cruise and ferry passengers	310	399	(22.3)

facility is backed by a 10-year agreement, following Finnforest's decision to relocate its manufacturing and processing operations to the port. A £1.7m investment in a 6,200 sq m dry-bulk complex, following a 10-year agreement with NW Trading Ltd, also became operational in December.

In December, the group received final planning approval for its £30-35m shortsea riverside container terminal development at the Port of Hull. The group is currently in the final stages of discussing agreements with customers for this development and it is anticipated that the new facility will become operational either towards the end of 2007 or early in 2008.

Goole also secured a number of new customer contracts in 2005. A £0.6m investment in oil-storage tanks for Kerfoot Group became operational in February. Another £0.6m investment, this time in developing the existing timber-handling facilities for Global Shipping Services, was completed in June. A £1.3m project to surface a 9,000 sq m storage area became operational in July, supporting the return of Seawheel's Rotterdam-to-Goole container service handled by RMS Europe. An

**Table 4**  
Ports & transport – UK

	2005 £m	2004* £m	Change from 2004 %
Revenue	373.9	365.4	2.3
Underlying operating profit <sup>†</sup>	151.3	146.3	3.4

agreement has been reached with Caldaire Terminal Ltd to provide a new £0.9m biomass bulk-handling facility. The facility is expected to become operational by May 2006. A £1.4m investment in a 6,000 sq m dry-bulk complex, following a 10-year agreement with NW Trading, is also expected to become operational in July 2006.

At Humber Estuary Services, which discharges our statutory duty as Competent Harbour Authority for the Humber Estuary, £1.9m was approved to upgrade the fleet of pilot launches.

## Grimsby & Immingham

Revenue increased by 2.2 per cent. Strong growth was generated in coal imports and steel export volumes also increased. However, as anticipated, there were reductions in vehicle import volumes, roll-on/roll-off traffic and the associated stevedoring activity.

In January, the group secured a new customer, Ferryways NV, for its roll-on/roll-off facility at Immingham. This new business, combined with the cost-reduction measures implemented in 2004,

\* Prior year previously reported under UK GAAP, now reported under IFRS

† Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

<sup>^</sup> Continuing operations

# Operating and financial review

mitigated the effects of lower volumes. The group made significant progress with its two major projects at the Port of Immingham. In February, the development of Immingham Outer Harbour was announced, following a 25-year agreement with DFDS Tor Line. This £27.5m investment will create a new riverside terminal for roll-on/roll-off traffic, which will become operational during the second quarter of 2006.

Construction of a major extension to Humber International Terminal is also on schedule. This £59.5m investment in a second deep-water terminal will create a specialist coal-importing facility to meet the demand from the UK's electricity supply industry. It is backed by agreements with BHP Billiton, Drax Power, EDF Energy, International Power and Scottish & Southern Energy. With an annual handling capacity of 9.5m tonnes, the new facility will strengthen Immingham's status as the UK's premier port for coal imports. This extended facility will also become operational during the second quarter of 2006.

An £8.8m programme to upgrade and expand container-handling equipment at ABP Exxtor Terminal at Immingham was completed in September with the delivery of a new 40-tonne gantry crane and two rubber-tyred gantry cranes. This investment has increased container-handling capacity at Immingham by more than 90 per cent. Other developments at Immingham include a £0.5m import facility for Whitemountain Roadstone, which was completed in May, a £1.7m upgrade of the port's existing coal-handling equipment and storage facilities, which became

operational in November, and a £0.6m investment in the development of a tug-mooring facility. This project is backed by a 17-year agreement with Adsteam Humber Limited and is due to become operational in April 2006.

In addition, a £1.7m handling and distribution centre, which has been developed on the back of a 10-year agreement with IAWS Fertilisers (UK) Limited, became operational in January 2006.

## Southampton

Revenue decreased by 1.1 per cent. Cruise business continued to grow, with 234 calls during the year (2004: 203) and a record 702,000 passengers passing through the port (2004: 533,000). Grain exports recovered, but there was a decrease in container volumes due to de-stocking activity within the UK retail sector and the loss of a service in the second half of 2004.

The £0.5m extension to the City Cruise Terminal was completed in April, ahead of the cruise industry's summer season. A second multi-deck car terminal became operational in October. This £4.2m investment is enhancing the continued growth in the port's deep-sea car trade, where there has been a substantial increase in volumes handled since the first multi-deck car terminal became operational in 2002. Hams Hall Railfreight Terminal, which is now reported as part of Southampton, saw the completion of a £1.0m expansion programme in March, enabling the terminal to handle increasing volumes of containers.

## South Wales Ports

Revenue increased by 7.5 per cent as strong growth in coal imports and increased volumes for iron ore imports were partially offset by a reduction in steel volumes.

A £1.4m investment in additional steel-handling facilities at the Port of Newport was completed in June, following a 25-year agreement with long-standing customer W. E. Dowds. Also at Newport, a £0.4m investment in handling equipment, supported by a term agreement with Arkady Feed Ltd, became operational in September. At the Port of Swansea, a £1.7m warehouse and distribution facility for RKL Plywood Ltd, which has also chosen Swansea as the location for its UK headquarters, became operational in December.

## Shortsea Ports

Revenue increased by 3.9 per cent, as a result of the recovery in agribulk exports coupled with growth in imports of aggregates and cement.

The group is investing £5.0m to redevelop the Port of Teignmouth, which is supported by long-term agreements with Mole Valley Farmers, Civil & Marine Slag Cement and WBB Minerals. These works are progressing on schedule and it is expected that the redevelopment will be completed in June 2006. As a result of associated environmental benefits, the development has benefited from a Freight Facilities Grant of £1.0m from the Department for Transport. This funding is to support the transportation of cement by sea from Port Talbot in South Wales to markets in Devon and Cornwall, once the project is completed.

# USA ports business<sup>\*#^</sup> up 5%

Table 5 Ports & transport – USA			
	2005	2004*	Change from 2004 %
Vehicle volumes (000s)	539	602	(10.5)
Revenue (£m)	37.5	36.6	2.5
Underlying operating profit (£m)*	4.3	4.1	4.9

At Fleetwood, an extended agreement with the Swedish ferry service company Stena Line Ltd has secured the continuation of its service between Fleetwood and Larne, Northern Ireland. Under the agreement, the group is investing £0.7m in ramp-improvement works. Also on the west coast, a £0.8m investment in a new handling facility for Maxit Building Products Ltd at the Port of Garston became operational in May.

## Ports & transport – USA

The group's USA ports and transport operation comprises six vehicle-processing terminals located at five port locations on the east and west coasts. These facilities are operated by AMPORTS, the group's principal USA subsidiary. They offer a range of services to USA and international vehicle manufacturers engaged in the import or export of vehicles. Business volumes are linked to the sales of vehicles by manufacturers and the rate at which AMPORTS acquires new business. Table 5 summarises the performance of these operations during 2005.

As a result of the decision in 2004 by a customer to relocate its activities from the Port of Benicia, vehicle volumes reduced by 10.5 per cent to 539,000 units.

Table 6 Property investment			
	2005 £m	2004*	Change from 2004 %
Revenue	7.8	7.9	(1.3)
Underlying operating profit*	5.3	5.4	(1.9)

However, due to an improved sales mix, revenue from AMPORTS' ports and transport operations (which exclude property investment income) increased by 2.5 per cent to £37.5m (2004: £36.6m). Underlying operating profit, which also benefited from the positive effect of a number of cost-efficiency initiatives, increased by 4.9 per cent to £4.3m (2004\*: £4.1m). During the second half of 2005, the group secured a new contract with Toyota to replace the volumes lost at Benicia. Shipments under this new agreement commenced in January 2006.

## Property investment

The group's property investment activities consist of income generated from tenants on its port estates who do not make use of its port facilities. As the group continues to sell non-operational port-located property, it expects income from this source to decline over the medium term. Table 6 provides a summary of the group's 2005 performance in relation to its property investment activities.

Revenue of £7.8m (2004: £7.9m) and underlying operating profit of £5.3m (2004\*: £5.4m) from property investment activities remained similar to last year because a greater proportion of sales

Table 7 Property development			
	2005 £m	2004*	Change from 2004 %
Revenue	15.7	29.6	(47.0)
Underlying operating profit*	6.7	3.5	91.4

made during 2004 and 2005 related to surplus land that was non-income producing.

## Property development

The group's long-established programme of exploiting the potential of non-core property at its ports continues. The timing and scope of prospective disposals has become more difficult to predict over the years, particularly given the increasingly protracted and complex planning requirements that need to be satisfied prior to a disposal. The financial performance of the group's property development activities for 2005 is summarised in table 7.

At £15.7m (2004: £29.6m), revenue from property development activities was substantially lower than last year. However, underlying operating profit increased by 91.4 per cent to £6.7m (2004\*: £3.5m), reflecting a much improved sales mix. Significant property development transactions in 2005 included the sale of some surplus land at the Port of Garston. The group has now achieved £220.1m of its extended target of £250m from non-core property and land disposals.

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

^ Continuing operations

# Operating and financial review

## Associates

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

Both SCT, which is located at ABP's Port of Southampton, and TCS, at the Port of Tilbury, engage in container-handling activities. SCT is the second-largest container terminal operator in the UK and handles a significant percentage of the UK's trade with the Far East. The performance of the group's associates for 2005 is summarised in table 8.

Container throughput at TCS increased by 15.3 per cent to 423,000 units as a result of the new business added on the back of recent capacity expansion. However, de-stocking activity within the UK retail sector and the loss of a service in the second half of 2004 meant that container units handled at SCT decreased by 4.6 per cent to 1,375,000.

This led to the group's share of revenue from continuing associated undertakings increasing to £53.0m (2004: £51.8m). However, as a result of reduced revenue from higher margin ancillary activities and increases in local authority business rates, the group's share of profit from continuing associated undertakings decreased by 32.3 per cent to £4.4m (2004\*: £6.5m).

## Net interest payable

Net interest payable increased by £4.1m to £39.7m (2004\*: £35.6m). This was due to increased borrowings associated with the group's share repurchase programme, its investment in the two major Humber projects and higher underlying bank base

Associates – continuing operations	2005	2004*	Change from 2004 %
Throughput (000s of twenty-foot equivalent units)	1,798	1,808	(0.6)
Group's share of revenue from associates (£m)	53.0	51.8	2.3
Group's share of underlying operating profit in associates' (£m)	6.5	9.9	(34.3)
Group's share of net interest costs in associates (£m)	(0.5)	(0.5)	–
Group's share of taxation in associates (£m)	(1.6)	(2.9)	44.8
Group's share of profit in associates (£m)	4.4	6.5	(32.3)

rates of interest. Net borrowings increased by £95.8m to £561.8m (2004\*: £466.0m) as the group spent £50.4m on share repurchases, including costs, and £50.5m on its Humber projects during 2005.

The group's variable rate debt continues to be denominated in sterling and US dollars. The positive impact from the group's refinancing of its facilities towards the end of 2004 was more than offset by higher UK and USA base rates of interest; the Bank of England base rate for 2005 averaged 4.6 per cent (2004: 4.4 per cent), while the US Federal Funds rate averaged 3.2 per cent (2004: 1.3 per cent). As the group's additional borrowings were financed through variable rate debt, which carries a lower rate of interest than the group's fixed rate debt, the group's overall underlying average rate of interest decreased to 7.7 per cent (2004\*: 8.0 per cent). Underlying interest cover decreased slightly to 4.2 times (2004\*: 4.5 times).

## Increase in fair value of investment properties

A significant proportion of the group's non-current assets are accounted for by its investment property portfolio. In accordance with the requirements of

IAS 40, Investment Property, the fair value for this portfolio is reviewed by a qualified surveyor on an annual basis. As a result of the review conducted as at 31 December 2005, the group has recorded £3.5m (2004\*: £3.4m) in its income statement in respect of the increase in fair value of investment properties.

## Exceptional items

There were no exceptional items in 2005 (2004\*: £51.4m). The net exceptional charge recorded in 2004 included £44.9m in relation to the government's rejection of the group's planning application for the Dibden Terminal development and a charge of £7.0m in relation to the group's cost-reduction initiatives net of a profit of £0.5m in relation to the final receipt of insurance proceeds in respect of damage to a pier in the USA.

## Taxation

The underlying tax charge for the year of £35.9m (2004\*: £34.6m) equates to an underlying effective tax rate of 28.1 per cent, close to the 28.0 per cent effective tax rate for 2004\*. 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

\* Prior year previously reported under UK GAAP, now reported under IFRS

\* Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

# Earnings per share<sup>\*#^</sup> up 6%

group operates. This is because the group benefits from the utilisation of brought-forward capital losses against its UK property sales. The group's share of taxation of associated undertakings reported within its share of profits from associated undertakings amounted to £1.6m (2004\*: £2.9m).

The exceptional tax credit recorded in 2004 in relation to the £51.4m of exceptional items amounted to £12.5m.

## Earnings per share

Underlying earnings per share from continuing operations, before the increase in fair value of investment properties and exceptional items, increased by 6.0 per cent to 31.6 pence per share (2004\*: 29.8 pence per share). Underlying earnings per share from continuing and discontinued operations increased by 5.7 per cent to 31.6 pence per share (2004\*: 29.9 pence per share). The group's underlying earnings per share benefited from both the growth achieved by its operations and the reduction in the weighted average number of shares resulting from the share repurchase programme.

Basic earnings per share from continuing and discontinued operations, which includes the impact of the increase in fair value of investment properties and in 2004 was impacted by £51.4m of exceptional items, increased by 73.0 per cent to 32.7 pence per share (2004\*: 18.9 pence per share).

## Discontinued operations

There were no discontinued operations during 2005. However, on 17 May 2004,

the group sold its 45 per cent interest in The Cardiff Bay Partnership to Norwich Union Life and Pensions Limited for a cash consideration of £15.8m. The Cardiff Bay Partnership contributed £0.4m to the group's profit from associated undertakings in the period to 17 May 2004.

## Dividend and returns to shareholders

In determining the level of dividend in any one period, the directors pay particular attention to the group's underlying earnings per share and underlying dividend cover. Based on the group's performance for the year, the directors have recommended a final dividend of 9.75 pence per share; this would make a total dividend for the year of 17.00 pence per share, an increase of 6.3 per cent on 2004.

Underlying dividend cover of 1.9 times is the same as for the previous year.

During the year, the group also returned £50.0m (excluding costs) to shareholders by repurchasing 10.2m shares at an average price of 490 pence per share as part of its ongoing £205m share repurchase programme.

## Return on capital employed

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

The group's underlying return on capital employed improved by 0.4 percentage points to 11.2 per cent (2004\*: 10.8 per cent). Given the significant progress to date, future improvements in the return on capital employed are

expected to be modest. Nonetheless, the group remains committed to this approach going forward.

## Cash flow

The group's business model generates strong operating cash flow. Figure 1 illustrates the consistency and strength of its cash generation and the high level of conversion of operating profit into cash during the five years to 31 December 2005.

The group continued to monitor and manage its working capital commitments closely. At 114.6 per cent, underlying operating cash conversion from underlying group operating profit was, once again, in excess

**Figure 1**  
**Cash generation 2001 to 2005**

- Cash generated from operations
- ◆ Group underlying operating profit

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

^ Continuing operations

# Operating and financial review

**Figure 2**

Analysis of 2005 free cash flow\*:

Inflow	£193.6m
Outflow	£185.4m

## Inflow – £m

- Cash generated from operating activities £192.1m
- Other £1.5m

## Outflow – £m

- Gross capital expenditure £113.2m
- Net interest £41.3m
- Tax £30.9m

\* Net cash from operating activities less net cash outflow from investing activities excluding acquisitions and disposals

of 100 per cent. Cash generated from operations totalled £192.1m for the year, compared to £212.1m in 2004\*. Free cash flow of £8.2m was £87.7m below the 2004\* level of £95.9m, reflecting primarily the group's £50.5m investment in its two major capital projects on the Humber and the £17.2m sale of non-core property in Cardiff in 2004, which was not repeated in 2005.

Given the group's commitment to growing the business through investment in its operations, capital expenditure represents the most significant use of its cash flow. Gross capital expenditure increased significantly to £113.2m (2004: £57.5m), primarily as a result of the significant progress made with the group's strategic growth projects on the Humber.

There are two elements to the group's capital expenditure: maintenance or infrastructure expenditure and revenue-earning capital projects. Maintenance expenditure during 2005 was, once again, below the level of depreciation and the group aims to maintain this performance in 2006. By contrast, the only restriction the group places on revenue-earning capital projects is that they earn an internal rate of return on investment of at least 15 per cent. The group does not intend to enter into any major speculative investments.

Revenue-earning capital expenditure amounted to £87.6m (2004: £37.4m). As many of these new projects will become operational in the near future, their impact on the results for 2005 was not significant. Revenue-earning capital expenditure incurred during 2005 included £31.6m of further capital expenditure on Phase 2 of Humber International Terminal at Immingham, £18.9m on the development

of the £27.5m roll-on/roll-off riverside terminal, also at Immingham, £3.7m on the development of the second multi-storey car park at Southampton and £2.4m on the redevelopment of port facilities at Teignmouth.

At the end of 2005, the group had completed £108.2m of the £400m+, 10-year revenue-related capital investment programme announced in 2004. Following the government's recent approval of the group's proposed £30-35m shortsea container terminal development at Hull and the group's plans to explore the development of a £55-110m fourth new riverside terminal at the Port of Hull, the group is well positioned to complete its £400m+ investment programme within the next eight years.

## Share price

The group's share price closed at 587 pence on 31 December 2005, an increase of 23.6 per cent for the year. The group's total shareholder return for the year was 27.7 per cent, compared to 21.7 per cent for the FTSE top-250, 20.8 per cent for the FTSE 100 and 27.8 per cent for the FTSE transport sector. The transport sector's outperformance against the wider indices was partly due to a re-rating of port operators following continued strong interest in infrastructure assets, recovery in airline stocks and merger and acquisition activity in the logistics and international container ports sectors. The group also outperformed the FTSE 100, FTSE top-250 and FTSE transport sector over a five-year comparative period. During 2005, the share price ranged from a low of 452.0 pence in April 2005 to a high of 600.5 pence in December 2005. See figure 3 for a full analysis.

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Total shareholder return 2005 +28%

Figure 3  
2005 Total shareholder return – %

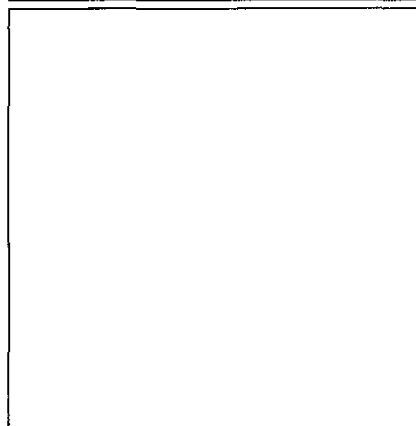


Table 9

Summary of balance sheet as at 31 December	2005 £m	2004* £m	Change %
Property, plant and equipment	947.8	852.2	11.2
Port-related investment property	501.6	496.1	1.1
Other property assets	71.0	70.2	1.1
	1,520.4	1,418.5	7.2
Investment in associates	38.8	36.6	6.0
Property developments and land held for sale	15.3	23.8	(35.7)
Net retirement benefit asset	3.9	31.2	(87.5)
Deferred tax liabilities	(77.3)	(82.5)	6.3
Other	11.3	(0.4)	n/a
	1,512.4	1,427.2	6.0
Net borrowings	(561.8)	(466.0)	(20.6)
Net assets	950.6	961.2	(1.1)
Net assets per share	315p	310p	1.6
Gearing	59.1%	48.5%	n/a

## Financial position

### Balance sheet

The group's balance sheet remains strong and the ongoing share repurchase programme has continued to improve capital efficiency. The group's balance sheet position as at 31 December 2005 is summarised in table 9.

### Property, plant and equipment, port-related investment property and other property assets

The group owns and operates 21 ports around the UK and offers vehicle-processing services from five port locations in the USA. Consequently, a majority of its capital is invested in port infrastructure and investment property located at its port facilities. Fair values for the group's investment property portfolio are reviewed annually, while property, plant and equipment is carried in the balance sheet at cost or previous balance sheet valuation if transferred from another category. During 2005, the group's capital invested in property, plant and equipment increased by £95.6m, primarily due to the progress

made on its major growth projects at its Humber ports. The increase of £6.3m in its port-related investment property and other property assets included a gain of £3.5m which resulted from the review of fair values conducted as at 31 December 2005, net additions of £3.4m and net transfers to other categories of £2.0m.

### Retirement benefits

The group's major retirement benefits scheme is a defined benefits scheme – the Associated British Ports Group Pension Scheme. The defined benefits section of this scheme was closed to new members in April 2002. The group accounts for retirement benefits in accordance with IAS 19 – Employee Benefits. During 2005, in relation to all its schemes, the group recorded £9.8m for current service cost and recognised net finance income of £5.3m within its operating profit. As a result of the actuarial assumptions not having been borne out during 2005, the group also recognised an actuarial loss of £25.1m within its statement of group total recognised income and expense. This

loss arose as the better than expected return on assets of £41.1m was more than offset by increased liabilities associated with the adoption of updated mortality tables (£24.7m) and with a 60 basis point decrease in the discount rate applied to liabilities (£41.5m). Full details of all of the group's retirement benefit plans are provided in note 16 on pages 70 to 75.

### Net borrowings and gearing

As a result of the group's increased capital expenditure and share repurchase programme, net borrowings increased by £95.8m to £561.8m (2004\*: £466.0m). Consequently, gearing as at 31 December 2005 increased to 59.1 per cent (2004\*: 48.5 per cent). Net borrowings comprise £295.0m of outstanding eurobonds, £260.9m of balances outstanding under the group's £600m revolving credit facility, £6.8m of obligations under finance leases and net cash after deducting other short-term borrowings of £0.9m.

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Operating and financial review

## Changes in net assets

Net assets decreased by £10.6m to £950.6m and represented 315 pence per share (2004\*: 310 pence per share). The decrease in shareholders' funds comprises:

- Increase of £4.8m relating to the issue of ordinary shares during the year
- Increase of £99.9m in respect of the profit for the year
- Increase of £1.4m in respect of currency translation gains on the retranslation of the group's USA net assets
- Increase of £3.2m in relation to share-based payment costs recorded in the income statement
- Decrease of £49.7m representing dividends paid during the year
- Decrease of £19.7m due to net actuarial losses recognised in relation to the group's pension scheme (£17.6m) and the group's share of associated undertakings' pension schemes (£2.1m)
- Decrease of £50.4m due to share repurchases made during the year
- Decrease of £0.1m reflecting the group's share of associated undertakings' loss in relation to cash flow hedges.

## Accounting standards and policies

### International Financial Reporting Standards (IFRS)

In accordance with EU regulations, the group adopted IFRS with effect from 1 January 2005. Prior to its adoption of IFRS, the group prepared its financial statements under UK Generally Accepted Accounting Principles (UK GAAP). All comparatives within these financial statements have been restated for the group's adoption of IFRS. A reconciliation of the impacts arising

from the group's adoption of IFRS on its 2004 results was published on 24 June 2005 and is available from the group's website [www.abports.co.uk](http://www.abports.co.uk). The adoption of IFRS increased the group's 2004 basic earnings per share from continuing and discontinued operations by 1.0 pence per share and reduced its profit before taxation by £0.8m. A summary of these changes is provided in note 33 to the financial statements on pages 93 to 97.

### Significant accounting policies

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

The investment property portfolio is the group's second largest asset by value. Its policy is to undertake internal valuations annually and independent external valuations at least once every five years. The portfolio was valued at £572.6m as at 31 December 2005 by the group's internal surveyors.

A full actuarial valuation of the group's main defined benefit pension scheme was last carried out as at 31 December 2003. As at 31 December 2005, the group's actuary

reviewed the valuation of this scheme in accordance with the requirements of IAS 19, Employee Benefits. Under IAS 19, this scheme had a marginal surplus of assets over liabilities of £7.1m at the end of 2005. Valuations of retirement benefit schemes require an element of judgement in terms of the assumptions applied; although the directors have taken advice from the scheme actuary on the determination of these assumptions, there can be no certainty that these will be borne out in the future.

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

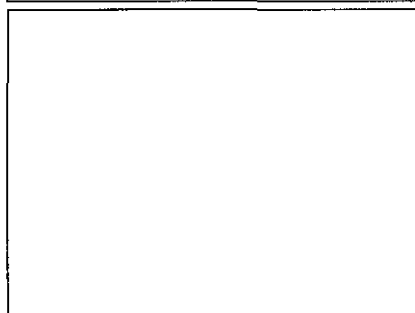
### Capital structure and share repurchases

The group finances its business with a mixture of shareholders' funds, long-term debt capital, committed bank borrowings, short-term borrowings and finance and operating leases. The group manages its capital structure with a view to maximising shareholder value and to ensure that it has the resources and the capacity to meet its operational requirements and to facilitate the execution of its strategy. The group's current strategy is to develop its core UK ports and transport business through investment in organic growth projects in support of long-term customer agreements. It is the group's intention that

\* Prior year previously reported under UK GAAP, now reported under IFRS

# £140m of £205m share repurchase programme completed

**Figure 4**  
Cumulative amount spent on share repurchases since 1 January 2000 – £m



**Figure 5**  
Maturity profile of committed borrowing facilities – £m

- Bank debt
- Finance leases
- Bonds

any funds surplus to the execution of this strategy would be returned to shareholders.

In keeping with its strategy, the group announced share repurchase programmes totalling £205m during 2004. To date, the group has completed £140.5m of this programme by repurchasing 30.5m shares at an average price of 460 pence per share, before costs. Figure 4 sets out the cumulative amount of share repurchases undertaken by the company since 1 January 2000 and demonstrates the commitment of the company to returning surplus capital to shareholders. Once the current share repurchase programme is completed, the group will have returned over £300m to shareholders since the beginning of 2000.

The group's ongoing policy is to maintain its overall gearing between 50 and 70 per cent, as it considers that this range provides a good balance between the minimisation of its overall cost of capital and risk for its equity holders and the flexibility to pursue strategic investment projects. The 59.1 per cent gearing ratio as at 31 December 2005 leaves the group well placed to fund its planned capital expenditure programme for its core UK ports business and future share repurchases.

## Treasury policies and liquidity

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

## Liquidity risk

The group's policy is to retain its gearing at a level such that it is readily able to access additional debt funding to meet all of its foreseeable requirements at a reasonable cost. In addition, contractual borrowing facilities are maintained at a level that is forecast to provide a reasonable surplus beyond the future needs of the group. In November, the group re-priced and extended the maturity of its existing £600m revolving credit facility. The amended facility now expires in 2011 and provides the group with improved pricing. As at 31 December 2005, the group had £339.1m of undrawn committed bank facilities (2004: £431.0m).

Liquidity risk is further managed by varying the maturities of outstanding debt obligations and by sourcing the overall debt requirement from a variety of lenders. Figure 5 provides the maturity profile of the group's existing committed debt facilities. Liquidity risk is also mitigated by ensuring that covenants take into account the group's expected performance and debt requirements for the foreseeable future.

Taking the group's bank facilities together with its existing £295m of outstanding eurobonds and strong operating cash flow generation, the group is well placed to fund the development of its core UK ports business and share repurchase programme.

## Interest rate risk

Risks arising from changes in interest rates are managed by maintaining an appropriate balance between fixed and floating-rate debt. At the end of the year, 52.8 per cent of the group's borrowings were fixed (2004\*: 61.9 per cent). As at 31 December 2005, the group's fixed-rate

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Operating and financial review

debt was primarily represented by its £295m of outstanding eurobonds, which carry a fixed coupon. In addition, the group uses derivative instruments, such as interest rate swaps, when appropriate to hedge against changes in interest rates and to adjust the balance between fixed and floating-rate debt.

## Foreign exchange risk

The group's UK operations accounted for 91.0 per cent of its 2005 revenue and its USA business accounted for the remaining 9.0 per cent. Both the UK and the USA businesses invoice their customers and settle their expenses in their respective local currencies. Accordingly, currency exposure arising from transactions being settled in other currencies tends to represent the exception rather than the rule. Where such exceptions are significant, any related exposure is managed through forward currency contracts.

Movements in the sterling/US dollar exchange rate have the potential to impact the translation of profits generated by the USA business and the value of the group's USA interests, as represented by net assets. The group's policy is to hedge a proportion of its balance sheet translation risk using US dollar-denominated borrowings or other appropriate instruments. Due to the uncertainty attached to profit forecasts and the timing of any remittances to the UK, the group does not hedge its profit translation exposure. It does not speculate in foreign currency.

The average sterling exchange rate used to translate US dollar profits was US\$1.8207 (2004: US\$1.8328). The year-end exchange rate used to translate US dollar assets and

liabilities was US\$1.7180 (2004: US\$1.9190).

## Credit risk

In common with other companies, the group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. The group mitigates this risk by selecting only counterparties with an investment-grade credit rating. Exposure to counterparties is also reviewed on a regular basis to avoid any excessive reliance on a single counterparty.

## Performance management

Figure 6 on page 45 provides a summary of the group's value creation drivers and the key performance indicators used to manage these drivers. Details on the group's strategy are provided in the Group Chief Executive's review of strategy on pages 28 to 31. Summary details on risks, uncertainties, resources and key relationships are set out on pages 43 to 49. For further background details on the group's risks and uncertainties please see its website [www.csr.abports.co.uk](http://www.csr.abports.co.uk).

## Risks and uncertainties

The successful execution of the group's strategy and the attainment of its objectives are contingent upon the effective management of risks and uncertainties that could affect its business activities. The group's risk management activities are undertaken by a risk management working group that is responsible for formalising its risk objectives and policies, the identification of the major risks it faces and the implementation of risk management processes. The risk management working group reports to the Audit Committee. The

group's embedded risk management processes, which are described on pages 113 to 114, take into account the significance of any potential social, environmental and ethical issues that could have an impact on the group's short- and long-term objectives. They enable the board to receive information on all significant risks and facilitate the formulation of effective responses on a timely basis. Some of the group's more significant risks, together with details on its monitoring procedures and performance indicators, are discussed below.

## Management of health and safety performance

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

The group manages this risk through the enforcement of rigorous policies and procedures that are backed by a strong commitment from the board and designed to achieve continuous improvement. Components of the group's risk management systems include the clear allocation of management responsibility at group and business unit level, strict enforcement and independent review and monitoring of policies and procedures, well-developed policies and targets on training and education, clear procedures for dealing with contractors and monitoring and reporting of health and safety performance. Further details on the group's

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Low-risk strategy

**Figure 6**  
**Value creation drivers and key performance indicators**

## Strategy

**Three new terminals to be operational on the Humber by the end of 2007. Seek government approval for a fourth terminal on the Humber.**  
Progress monitored and reported by management (see pages 28 to 31).

**Organically develop core UK ports business through investment in revenue-earning projects.**  
Number of new customer contracts monitored and reported (see pages 28 to 31).  
Non-revenue-earning capital expenditure monitored and maintained below depreciation (see pages 39 to 40).

**Achieve additional £50m target from disposal of non-core property.**  
Proceeds from non-core disposals monitored and reported (see page 37).

**Complete £205m share repurchase programme**  
Amount of shares repurchased monitored and reported (see page 43).

## Risks and uncertainties

**Management of health and safety performance**  
Targets set and progress monitored and reported for reportable/recordable injuries per thousand employees (see pages 44 and 46). Targets set and progress monitored on health and safety training for employees (see pages 44 and 46).

**Management of environmental matters**  
Targets set and progress monitored and reported for emissions, resource use and waste management (see page 46). Externally reported targets set to manage specific projects and issues; progress updates provided in annual CSR reports.

**Management of social and community issues**  
Performance monitored through participation in external indices (see pages 46 and 47). Targets set and progress monitored and reported for cash and in-kind contributions made to charitable and community-related initiatives (see pages 46 and 47).

**Impact from competitor activities**  
Investment in new projects linked to long-term agreements. Number of significant new customer agreements and investment in new customer agreements monitored and reported (see page 47).

**Availability of planning approvals for future developments**  
Planning applications monitored closely by management for each project (see page 47).

**Potential impacts from terrorism incident or other accidents**  
Managed through maintenance of contingency plans in accordance with regulations where applicable (see page 47).

**Other key operating risks**  
Managed through embedded processes and controls (see pages 47 and 48).

## Resources and key relationships

**Employee relations and human capital management**  
Staff turnover and sickness rates monitored and reported (see page 48). Gender representation monitored and reported (see page 48). Employee perception surveys implemented to help develop future strategies (see page 48).

**Contracted revenue streams**  
Percentage of contracted revenues monitored and reported (see pages 48 and 49).

**Market-leading and diversified core business**  
Revenue by cargo monitored and use of multiple ports promoted amongst customers (see page 49).

**Key customers**  
Key customer relations managed closely by local and group management (see page 49).

**Financial strength**  
Capital structure, gearing and undrawn committed facilities monitored and maintained within specified targets (see page 49).

**Financial strength (continued)**  
Policies implemented to manage credit, liquidity and other treasury risks (see pages 43 and 44).

**Strength of asset base**  
Managed through internal controls and processes (see page 49 and pages 112 to 114).

**Other stakeholder relations**  
Regular reporting of performance to all stakeholders. Formal and informal dialogue maintained with all significant stakeholders (see page 49).

## Operating performance

**Increase in profit generated from the core UK ports and transport business**  
Operating profit growth for the UK ports and transport reported (see pages 34 to 37).

**Improvement in return on capital employed**  
Return on capital employed monitored and reported (see page 39).

**Improvement in earnings per share**  
Earnings per share growth monitored and reported (see page 39).

**Increased returns to shareholders**  
Share repurchases, dividends and total shareholder returns monitored and reported (see pages 39 to 43).

# Operating and financial review

Table 10			
Health and safety performance	2005	2004	Change %
Fatal accidents to employees/contractors* (number)	–	–	–
Reportable injuries per thousand employees – UK (number)	9.3	14.0	(33.6)
Recordable injuries – USA (number)	49	64	(23.4)
Percentage of employees provided with accredited training	89%	80%	n/a

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

development of its health and safety performance and initiatives during 2005 are provided in the corporate social responsibility (CSR) summary on pages 130 to 133 and will be included in its annual CSR report, which is due to be published in May 2006. Progress against the group's primary performance indicators is detailed in table 10.

Although the group did not suffer any fatalities involving its employees and contractors, one fatality, which involved a crew member from a visiting vessel, did occur on its premises during 2005. This is currently the subject of an investigation by the appropriate authority. The group's incidence rate of reportable injuries for UK employees declined to 9.3 per thousand employees and was below its target set at the beginning of the year of 12 or less per thousand employees. The majority of the incidents involved slips, trips or falls. The improvement on the prior year and against target reflects the group's recent initiatives and its continued focus on this area. The number of recordable injuries for the group's USA business decreased to 49 (2004: 64). This performance was also ahead of the group's target of reducing its USA recordable injuries to 50 or fewer.

The group continues to provide appropriate accredited health and safety training to all of its employees. At the end of 2005, the percentage of UK employees provided with

accredited training was 89 per cent (2004: 80 per cent), against a long-term target of 95 per cent. Every employee within the group's UK and USA businesses continues to be set the objective of improving health and safety performance.

## Management of environmental matters

The UK port estates comprise over 12,000 acres of seabed and land. The group's obligations in relation to environmental stewardship represent a potential risk in terms of potential for non-compliance with regulations; furthermore the group's stewardship practices could impact future planning applications. In operating its business to meet the demands of the country's trade, the group has in place policies and procedures that are designed to ensure that its activities are conducted with due regard for their potential impact on the environment. The group's sustainable development team has developed and implemented a management framework to ensure that environmental aspects relevant to our business are identified, assessed and managed appropriately. Further details on the group's management of environmental matters are provided in the CSR summary on pages 130 to 133 and will be detailed in its 2005 CSR report. Table 11 on page 47 provides details of the group's progress during 2005 against its more significant environmental indicators.

The group sets targets on resource consumption in order to increase the efficiency of its operations and to minimise their impact on the environment. The group continued to implement a range of initiatives to improve resource efficiency and its 2005 performance on CO<sub>2</sub> emission and electricity consumption was ahead of its target on a like-for-like basis (see page 132). However, the group's performance on water consumption was below target, primarily due to an undetected leak at one of its ports, which was rectified during the year. In addition, the sustainable development team made good progress on a range of initiatives against which it had set targets at the beginning of 2005, further details of which will be provided in the CSR report.

## Management of social and community issues

The group remains committed to ensuring that its business units are a positive influence on their local communities. The group relies on its communities to provide it with an appropriately skilled work force and looks to work with them in developing proposals for the further development of its facilities.

Social and community matters are managed proactively on a business unit and corporate basis. All major developments are subject to a detailed social impact analysis and community integration remains a key priority for all business units. The group's social and community initiatives are focused on education, charities, arts sponsorship, civic organisations and local partnerships and the provision of free access to its facilities where practical and appropriate. The group assesses its performance by reference to participation in external indices and, in

\* Prior year previously reported under UK GAAP, now reported under IFRS

# UK reportable injuries down 34%

addition, aims to contribute 0.2 per cent of its pre-tax profit to social and community-related initiatives. Table 12 provides details of the group's 2005 performance in relation to social and community matters. During 2005, the group's cash and in-kind contributions amounted to 0.32 per cent of its underlying pre-tax profit, once again exceeding its target of 0.20 per cent. The group also improved its position in the *Corporate Responsibility Index* to joint 74th from 98th.

Further details on social and community-related initiatives and investment are provided in the CSR summary on pages 130 to 133 and will be included in the group's 2005 CSR report.

## Impact from competitor activities

All of the group's ports and terminals are subject to competition from facilities operated under a variety of ownership structures. The group maintains regular dialogue with its current and potential customers and aims to further mitigate competition risk by building long-term contractual relationships with its key customers and developing facilities and services to meet their requirements. In 2005, the group entered into six significant new revenue-earning agreements which will involve the investment of £20m.

## Availability of planning approvals for future developments

The success of the group's future strategy of developing its core UK ports and transport business through organic investment is dependent partly upon the availability of appropriate planning approvals. The group recently secured final approval for the development of a third river terminal on the Humber; however, given the complexity of the

Table 11 Environmental performance			
	2005	2004	Change %
CO <sub>2</sub> emissions (tonnes)*	92,921	100,203	(7.3)
Electricity consumption (million kWh)*	87.9	92.0	(4.5)
Water consumption (million litres)*	1,802.8	1,720.4	4.8
Third-party waste managed (cubic metres)	54,503	32,972	65.3
*The group's target for CO <sub>2</sub> emissions, electricity consumption and water consumption was to maintain these at 2004 levels on a like-for-like basis compared with revenue			

process and the legislation governing planning approvals, there is no certainty as to the costs and timeframes attached to the availability of future approvals. The group has significant past experience in developing successful planning applications and all planning applications are closely managed by multi-disciplinary project teams and the senior management team.

## Potential impacts from terrorism or other accidents

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

## Other key operating risks

### Trade volumes

While over 53 per cent of the group's UK ports business over the next year is secured by customer contracts, significant changes in volumes handled by the UK ports could impact operating performance. Overall, volume changes are broadly linked to changes in the UK's Gross Domestic Product, although this does not necessarily hold true at individual cargo level.

Table 12 Social and community performance			
	2005	2004	Change %
Total cash and in-kind contributions (percentage of pre-tax profit)	0.32%	0.21%	n/a
Ranking in BITC Corporate Responsibility Index	Joint 74th	98th	n/a

## Operating costs

Increases in overall costs that the group is unable to pass on to its customers can be expected to impact its future financial performance. During the year, the group has been working with its advisers and the UK valuation office to ensure that increased costs associated with the proposed changes to the local authority business rating regime applicable to UK ports are minimised. It is currently anticipated that these changes will be implemented on a phased basis and will lead to an increase in the group's cost base. The group intends to recover these increased costs from its customers where possible.

Although they represent a relatively small proportion of the group's overall cost base, electricity and fuel costs incurred by the group in 2005 were significantly higher than in 2004. Further increases in these costs will add to the group's cost base.

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

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Operating and financial review

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

## Capital expenditure projects

The group continues to progress its first two riverside terminals on the Humber. The facilities are expected to contribute to the group's growth from the second half of 2006. Any unforeseen delays in bringing these facilities into operation could impact the group's performance for 2006 and beyond. Looking further ahead, the efficient management of the group's remaining projected capital expenditure will impact on the value the group is able to deliver to its shareholders in the medium and long term.

## Property

The group's ongoing disposal of non-core property means that income generated from property investment activities can be expected to decrease over the medium term as further disposals are completed. The timing of profits generated through property sales is always difficult to predict and the potential for such disposals is normally contingent upon obtaining satisfactory planning consents. The process related to obtaining planning consents has the potential to impact the timing and the income generated from future property disposals.

## Resources and key relationships

The group's core UK ports and transport business generates 86.0 per cent of group revenue and 90.3 per cent of continuing underlying operating profit. The group's prospects and its ability to deliver

returns to shareholders are therefore closely linked to the performance of its UK ports and transport business. The group believes that its core business benefits from many characteristics that position it to deliver sustainable future returns. Key resources and relationships that could influence the group's future performance are discussed below.

## Employee relations and human capital management

During 2005, on average the group employed 3,030 people, of whom 2,490 worked within its UK businesses. As an infrastructure-based provider of services, the success of the group's business is dependent on its employees, who have a direct impact on the delivery of services to customers as well as on the efficient running of its operations. The quality and effectiveness of the management of the group's people is therefore critical to the attainment of its business objectives. Furthermore, industrial action by the group's employees could affect its ability to provide facilities and services to its customers. The group is committed to the development of its employees and manages industrial relations by maintaining an ongoing dialogue and constructive relationships with employees, and where appropriate, their representatives.

Components of the group's personnel resources strategy include commitments to the highest possible standards of health and safety, equal opportunities, employee development, clear and fair terms of employment, access to information and the provision of market-competitive salaries and benefits, as well as the maintenance of effective relationships with unions and contractors. The group uses a range of

indicators to assist it with the management of its employees. Table 13 on page 49 sets out the group's performance in relation to the management of its employees during 2005. The group's sickness and absenteeism rate improved during 2005. The group intends to further review its absence-management practices during the coming year.

The group's objective is to monitor and benchmark data to ensure that it is in line with industry norms; exceptions are identified and addressed through the implementation of specific initiatives to promote best practice and improve performance. The group also monitors the ethnic diversity of its employees and is committed to ensuring that all segments of its communities have the opportunity to participate in and contribute towards the success of its business. To further promote the participation of its employees in the development of its business, the group undertook an employee survey, in conjunction with Best Companies, towards the end of 2005. The results from this survey, together with further information on the above and other additional indicators, will be reported in the group's annual CSR Report, due to be published in May 2006.

## Contracted revenue streams

In order to ensure that it is able to earn an appropriate return on capital invested in customer-driven schemes, the group enters into long-term agreements that normally include minimum annual revenue commitments from customers. These agreements not only enable the group to invest in the development of infrastructure to provide its customers with security over the availability of facilities, but also provide the group with secure and predictable

\* Prior year previously reported under UK GAAP, now reported under IFRS

# Sickness and absenteeism down 8%

Table 13

Human capital management	2005	2004	Change %
Sickness and absenteeism rate	3.1%	3.2%	n/a
	7.0 days	7.6 days	
	per employee	per employee	(7.9)
Annual appointments as a percentage of headcount	17.9%	23.0%	n/a
Annual leavers as a percentage of headcount	17.4%	24.9%	n/a
Annual compulsory redundancies as a percentage of headcount	1.3%	2.3%	n/a
Female employees as a percentage of headcount	14.4%	14.8%	n/a

future revenues. As at the end of 2005, over 53 per cent of revenues budgeted for the group's UK ports business are expected to be earned from customer agreements.

## Market-leading and diversified core business

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

## Key customers

A list of some of the group's more significant customers is provided on page 6. Although no single customer accounts for more than 10 per cent of the group's operating profit, like all businesses, the group's future success is dependent upon the maintenance and development of its relations with current and potential customers. The group works closely with its customers to develop new facilities and services to meet their requirements and senior management manages key customer relations at both corporate and business unit level.

## Financial strength

The group continues to adopt a conservative approach towards the composition of its capital structure in order to ensure that its investors are not exposed to excessive risk and that it retains flexibility in the execution of its strategy. In addition, the strength and stability of its cash flows should further underpin the group's ability to deliver returns to shareholders. With gearing at 59.1 per cent and committed undrawn facilities of £339.1m as at 31 December 2005, the group is well placed to fund the development of its business and to complete its share repurchase programme.

## Strength of asset base

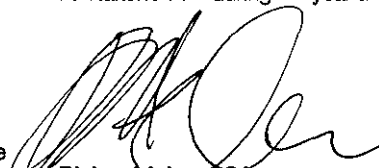
The group's business is underpinned by quality assets located in prime locations. As at 31 December 2005, £1.5bn of its capital was represented by property, plant and equipment and investment property.

Through its Audit Committee, the group maintains a system of internal controls to identify, evaluate and manage the significant risks it faces in order to safeguard its assets. Details of those controls are provided within the corporate governance statement on pages 112 to 114.

## Other stakeholder relations

Good relations with its stakeholders are critical to the successful future development of the group's business. The group places a great deal of emphasis on maintaining regular dialogue with and on the communication of its performance to all stakeholders. The group publishes an annual CSR report that details its performance to its wider stakeholder audience. It has continued to develop its reporting in this area by appointing ERM to verify its CSR performance independently from 2005 onwards. Details on the group's management of relations with shareholders are provided in the corporate governance statement on page 114. The group endeavours to ensure that its communications with stakeholders are informative, relevant and meet the highest standards of transparency. In this regard, the group was delighted with the independent recognition given to its 2004 annual report.

The group's 2004 annual report was selected as the joint best report by a non-FTSE 100 company at the 2005 *ifsProShare* awards and shortlisted as one of four candidates for the best annual report award at the 2005 Accountancy Age Awards and one of three candidates for the 'Building Public Trust Award' at the 2005 PricewaterhouseCoopers awards. The group aims to continue to build on this progress and develop its relations with all of its stakeholders during the year ahead.



Richard Adam FCA  
Group Finance Director  
22 February 2006

\* Prior year previously reported under UK GAAP, now reported under IFRS

# How our results add up

## Our accounts

- UK ports & transport underlying operating profit\* £151.3m (2004\*: £146.3m)
- Group underlying operating profit\*\* £167.6m (2004\*: £159.3m)
- Group underlying profit before tax\*\* £132.3m (2004\*: £130.2m)
- Group underlying earnings per share\*\* 31.6p (2004\*: 29.8p)
- Dividend per share 17.0p (2004: 16.0p)

## UK ports & transport underlying operating profit\*\*

+3%

## Group underlying operating profit\*\*

+5%

## Group underlying profit before tax\*\*

+2%

## Contents

Group income statement	52
Balance sheets	53
Cash flow statements	54
Reconciliation of net cash flow to movement in net borrowings	54
Statement of recognised income and expense	55
Notes to the financial statements	56

\* Prior year previously reported under UK GAAP, now reported under International Financial Reporting Standards (IFRS)

\*\* Before increase in fair value of investment properties £3.5m (2004: £3.4m) and exceptional items £nil (2004: £51.4m)

† Continuing operations

# Group income statement

for the year ended 31 December

	Note	2005 £m	2004* £m
<b>Continuing operations</b>			
Group revenue	2	434.9	439.5
Cost of sales		(210.2)	(222.3)
Gross profit		224.7	217.2
Administrative expenses	3	(57.1)	(109.3)
Increase in fair value of investment properties	14	3.5	3.4
Group operating profit	2	171.1	111.3
Analysed between:			
Group operating profit before increase in fair value of investment properties and exceptional items		167.6	159.3
Increase in fair value of investment properties	14	3.5	3.4
Exceptional items – administrative expenses	3	–	(51.4)
Interest payable and similar charges	4	(40.2)	(35.9)
Interest receivable and similar income	4	0.5	0.3
Share of profit in associated undertakings	15	4.4	6.5
Profit before taxation	2,5	135.8	82.2
Analysed between:			
Profit before taxation before increase in fair value of investment properties and exceptional items		132.3	130.2
Increase in fair value of investment properties	14	3.5	3.4
Exceptional items – administrative expenses	3	–	(51.4)
Taxation	7	(35.9)	(22.1)
Profit for the year from continuing operations		99.9	60.1
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	8,15	–	0.4
Profit attributable to equity shareholders	27	99.9	60.5
<b>Earnings per share</b>			
From continuing operations			
Basic	10	32.7p	18.8p
Diluted	10	32.5p	18.7p
From continuing and discontinued operations			
Basic	10	32.7p	18.9p
Diluted	10	32.5p	18.8p

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 profit attributable to equity shareholders amounted to £93.9m (2004: £73.3m).

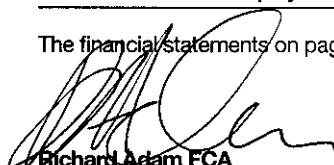
\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Balance sheets

as at 31 December

		Group		Company	
	Note	2005 £m	2004* £m	2005 £m	2004* £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	11	14.5	14.5	-	-
Intangible assets	12	1.0	1.2	-	-
Property, plant and equipment	13	947.8	852.2	-	-
Investment property	14	572.6	566.3	-	-
Investments	15	38.8	36.6	144.7	282.9
Retirement benefit assets	16	7.1	34.4	-	-
Trade and other receivables	17	3.5	-	-	-
Deferred tax asset	24	-	-	0.5	0.2
		1,585.3	1,505.2	145.2	283.1
<b>Current assets</b>					
Property developments and land held for sale	18	15.3	23.8	-	-
Trade and other receivables	17	93.5	87.1	744.0	512.5
Cash and short-term deposits	19	6.7	7.3	-	-
		115.5	118.2	744.0	512.5
<b>Total assets</b>		<b>1,700.8</b>	<b>1,623.4</b>	<b>889.2</b>	<b>795.6</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Financial liabilities – borrowings	20	(7.6)	(4.4)	(6.8)	(1.9)
Trade and other payables	22	(69.1)	(72.3)	(3.4)	(7.5)
Current tax liabilities		(25.0)	(22.3)	-	-
Provisions	23	(1.2)	(5.1)	-	-
		(102.9)	(104.1)	(10.2)	(9.4)
<b>Non-current liabilities</b>					
Financial liabilities – borrowings	20	(560.9)	(468.9)	(554.5)	(462.6)
Retirement benefit obligations	16	(3.2)	(3.2)	-	-
Deferred tax liabilities	24	(77.3)	(82.5)	-	-
Provisions	23	(5.8)	(3.3)	-	-
Other non-current liabilities	25	(0.1)	(0.2)	-	-
		(647.3)	(558.1)	(554.5)	(462.6)
<b>Total liabilities</b>		<b>(750.2)</b>	<b>(662.2)</b>	<b>(564.7)</b>	<b>(472.0)</b>
<b>Net assets</b>		<b>950.6</b>	<b>961.2</b>	<b>324.5</b>	<b>323.6</b>
<b>Shareholders' equity</b>					
Share capital	26	75.4	77.6	75.4	77.6
Share premium account	27	95.4	91.0	95.4	91.0
Revaluation reserve	27	684.9	682.3	-	-
Other reserves	27	33.8	26.7	31.2	26.3
Retained earnings	27	61.1	83.6	122.5	128.7
<b>Total shareholders' equity</b>		<b>950.6</b>	<b>961.2</b>	<b>324.5</b>	<b>323.6</b>

The financial statements on pages 52 to 97 were approved by the board of directors on 22 February 2006.



Richard Adam FCA  
Group Finance Director

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Cash flow statements

for the year ended 31 December

		Group		Company	
	Note	2005 £m	2004* £m	2005 £m	2004* £m
<b>Cash flows from operating activities</b>					
Cash generated from operations	28	192.1	212.1	45.6	138.0
Interest paid		(41.7)	(36.2)	(38.8)	(34.8)
Interest received		0.4	0.3	-	-
Taxation		(30.9)	(28.5)	-	-
<b>Net cash from operating activities</b>		<b>119.9</b>	<b>147.7</b>	<b>6.8</b>	<b>103.2</b>
<b>Cash flows from investing activities</b>					
Dividends received from associated undertakings		-	3.9	-	-
Sale of associated undertakings	8	-	15.7	-	-
Sale of subsidiary undertakings		-	(0.1)	-	-
Proceeds from sale of property, plant and equipment		1.5	1.8	-	-
Purchase of intangible assets		(0.2)	(0.4)	-	-
Purchase of property, plant and equipment		(108.7)	(52.2)	-	-
Purchase of investment property		(4.3)	(4.9)	-	-
<b>Net cash outflow from investing activities</b>		<b>(111.7)</b>	<b>(36.2)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Dividends paid		(49.7)	(50.2)	(49.7)	(50.2)
Increase in short-term deposits		(3.7)	-	-	-
Increase in borrowings		88.0	35.6	88.1	35.9
Repayments of obligations under finance leases		(4.1)	(3.8)	-	-
Repurchase of shares		(50.4)	(95.5)	(50.4)	(95.5)
Proceeds from issue of share capital		4.8	6.7	4.8	6.7
<b>Net cash outflow from financing activities</b>		<b>(15.1)</b>	<b>(107.2)</b>	<b>(7.2)</b>	<b>(103.1)</b>
<b>(Decrease)/increase in cash and cash equivalents during the year</b>		<b>(6.9)</b>	<b>4.3</b>	<b>(0.4)</b>	<b>0.1</b>
Cash and cash equivalents at 1 January		7.3	3.1	(1.9)	(2.0)
Effect of foreign exchange rate changes		0.1	(0.1)	-	-
<b>Cash and cash equivalents at 31 December</b>	28	<b>0.5</b>	<b>7.3</b>	<b>(2.3)</b>	<b>(1.9)</b>

## Reconciliation of net cash flow to movement in net borrowings

for the year ended 31 December

		Group		Company	
	Note	2005 £m	2004* £m	2005 £m	2004* £m
(Decrease)/increase in cash and cash equivalents during the year		(6.9)	4.3	(0.4)	0.1
Increase in short-term deposits		3.7	-	-	-
Increase in borrowings		(88.0)	(35.6)	(88.1)	(35.9)
Repayments of obligations under finance leases		4.1	3.8	-	-
<b>Increase in net borrowings resulting from cash flows</b>		<b>(87.1)</b>	<b>(27.5)</b>	<b>(88.5)</b>	<b>(35.8)</b>
Change in interest payable		(4.7)	-	(4.5)	-
Currency translation differences		(4.0)	2.9	(3.8)	2.7
<b>Change in net borrowings during the year</b>		<b>(95.8)</b>	<b>(24.6)</b>	<b>(96.8)</b>	<b>(33.1)</b>
Net borrowings at 1 January		(466.0)	(441.4)	(464.5)	(431.4)
<b>Net borrowings at 31 December</b>	20	<b>(561.8)</b>	<b>(466.0)</b>	<b>(561.3)</b>	<b>(464.5)</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Statement of recognised income and expense

for the year ended 31 December

	Note	Group		Company	
		2005 £m	2004* £m	2005 £m	2004* £m
Actuarial loss relating to net retirement benefit assets	16	(25.1)	(1.4)	–	–
Deferred tax associated with actuarial loss relating to net retirement benefit assets	24	7.5	0.4	–	–
Share of associated undertakings' actuarial (loss)/gain relating to net retirement benefit liabilities		(2.1)	0.4	–	–
Share of associated undertakings' loss in relation to cash flow hedges		(0.1)	–	–	–
Currency translation differences on foreign currency net investments	27	1.4	(0.5)	–	–
<b>Net income and expense recognised directly in equity</b>		<b>(18.4)</b>	<b>(1.1)</b>	<b>–</b>	<b>–</b>
Profit attributable to equity shareholders		<b>99.9</b>	<b>60.5</b>	<b>93.9</b>	<b>73.3</b>
<b>Total recognised income and expense for the year attributable to equity shareholders</b>		<b>81.5</b>	<b>59.4</b>	<b>93.9</b>	<b>73.3</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 1. Accounting policies

### Basis of preparation

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

In accordance with EU regulations, the group adopted IFRS with effect from 1 January 2005 and has restated prior year comparatives to reflect its adoption of IFRS, unless otherwise stated. Prior to the adoption of IFRS, the group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

The group published a statement on the impacts arising from its adoption of IFRS on 24 June 2005. This statement is available from the group's website at [www.abports.co.uk](http://www.abports.co.uk) and has been summarised in note 33.

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

plant and equipment, investment property, property developments and land held for sale, taxation and employee benefits.

The following exemptions permitted by IFRS 1 First Time Adoption of International Financial Reporting Standards have been adopted in the preparation of the group's opening balance sheet under IFRS:

- IFRS 2 Share-based Payment has been applied to all equity grants unvested at 31 December 2004 and not restricted to grants made after 7 November 2002
- IFRS 3 Business Combinations has been applied prospectively from 1 January 2004. Goodwill arising on acquisitions made prior to this date has been frozen as at 31 December 2003 and is subject to periodic impairment reviews
- Operational land acquired prior to 1 January 1999 has been retained at the 31 December 1998 valuation. Additions subsequent to this date are recorded at cost or at the previous balance sheet value for items transferred from other categories
- Cumulative actuarial gains and losses in relation to the group's pension schemes have been recognised in equity at the date of transition
- The group adopted IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2005. As permitted by IFRS 1, First Time Adoption of International Financial Reporting Standards, 2004 comparatives have not been restated for these standards.

### Basis of consolidated financial statements

The consolidated financial statements include the accounts of the company, all of

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

### Critical accounting policies

The company's management considers the following to be the most important accounting policies in the context of the group's operations.

### Revenue and profit recognition

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

### Property, plant and equipment

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

Finance costs directly attributable to the construction of major additions to non-current assets are capitalised as part of the cost of those assets.

**1. Accounting policies** (continued)

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

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

**Investment property**

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

**Property developments and land held for sale**

Property developments and land held for sale are stated at the lower of cost (or transfer value, if transferred from non-current assets) and net realisable value.

Transfers of property from property developments and land held for sale to non-current assets are made at the lower of cost and estimated net realisable value as at the date of transfer.

**Taxation**

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

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

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available to facilitate the realisation of such assets.

**Employee benefits**

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

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

**Other accounting policies****Business combinations and goodwill**

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

**Other intangible assets**

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

# Notes to the financial statements

## 1. Accounting policies (continued)

### Share-based payment

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

### Foreign currencies

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

The income statements of foreign subsidiary undertakings are translated into sterling at average rates for the year; balance sheets are translated into sterling at the rates of exchange ruling at the balance sheet date.

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

### Leased assets

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

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

### Cash and cash equivalents

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

### Financial instruments

The group's risk management policies are detailed in the operating and financial review on pages 43 to 44.

Non-interest bearing trade and other receivables are recorded at fair value and subsequently reviewed for impairment. Interest-bearing trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment.

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

Non-interest bearing trade and other payables are recorded at fair value and subsequently reviewed for impairment. Interest-bearing trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

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

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

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

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

Gains or losses on the qualifying part of net investment hedges are recognised in equity; the ineffective portion of such gains or losses is recognised in the income statement.

Gains and losses on derivative instruments not qualifying for hedge accounts are taken to the income statement.

## 2. Segmental analysis

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

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

Secondary segmental information is based on geographic location, as the group has activities in the UK and USA.

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

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

There are immaterial sales between business segments. Segment assets include intangible assets, property, plant and equipment, investment property, investments and trade and other receivables and property developments and land held for sale. Segment liabilities include trade and other payables and provisions. Capital expenditure comprises the balance sheet additions for property, plant and equipment, investment property and intangible assets.

	UK £m	USA £m	2005 Total £m	UK £m	USA £m	2004* Total £m
<b>Continuing operations</b>						
<b>Group revenue</b>						
Ports & transport	373.9	37.5	411.4	365.4	36.6	402.0
Property investment	6.2	1.6	7.8	6.3	1.6	7.9
Property development	15.7	–	15.7	29.6	–	29.6
<b>Group revenue</b>	<b>395.8</b>	<b>39.1</b>	<b>434.9</b>	<b>401.3</b>	<b>38.2</b>	<b>439.5</b>
<b>Group operating profit</b>						
Ports & transport	151.3	4.3	155.6	146.3	4.1	150.4
Property investment	3.9	1.4	5.3	4.0	1.4	5.4
Property development	6.7	–	6.7	3.5	–	3.5
<b>Underlying operating profit</b>	<b>161.9</b>	<b>5.7</b>	<b>167.6</b>	<b>153.8</b>	<b>5.5</b>	<b>159.3</b>
Increase in fair value of investment properties <sup>1</sup>	3.5	–	3.5	3.4	–	3.4
Exceptional items – administrative expenses (note 3) <sup>1</sup>	–	–	–	(51.9)	0.5	(51.4)
<b>Group operating profit</b>	<b>165.4</b>	<b>5.7</b>	<b>171.1</b>	<b>105.3</b>	<b>6.0</b>	<b>111.3</b>
Net interest payable			(39.7)			(35.6)
Share of profit in associated undertakings <sup>2</sup>			4.4			6.5
<b>Profit before taxation</b>			<b>135.8</b>			<b>82.2</b>
Taxation			(35.9)			(22.1)
<b>Profit for the year from continuing operations</b>			<b>99.9</b>			<b>60.1</b>
<b>Discontinued operations</b>						
Share of profit in associated undertakings <sup>3</sup>			–			0.4
<b>Profit attributable to equity shareholders</b>			<b>99.9</b>			<b>60.5</b>

<sup>1</sup> Increase in fair value of investment properties comprised £3.2m (2004: £3.2m) in relation to the group's ports and transport segment, £0.2m (2004: £0.4m) in relation to the group's property investment segment and £0.1m (2004: decrease of £0.2m) in relation to group's property development segment. Exceptional items incurred in 2004 relate to the group's ports and transport segments.

<sup>2</sup> Continuing share of profit in associated undertakings relates to the group's UK ports and transport segment.

<sup>3</sup> Discontinued share of profit in associated undertakings for 2004 relates to the group's UK property segments.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 2. Segmental analysis (continued)

	31 December 2005			31 December 2004*		
	UK £m	USA £m	Total £m	UK £m	USA £m	Total £m
<b>Segment assets</b>						
Total operating assets						
Ports & transport	1,486.9	54.3	1,541.2	1,382.9	48.1	1,431.0
Property investment	58.6	11.8	70.4	60.7	10.6	71.3
Property development	22.1	-	22.1	28.4	-	28.4
Share of associated undertakings <sup>1</sup>	38.8	-	38.8	36.6	-	36.6
	1,606.4	66.1	1,672.5	1,508.6	58.7	1,567.3
<b>Segment liabilities</b>						
Total operating liabilities						
Ports & transport	(64.3)	(5.0)	(69.3)	(68.4)	(4.4)	(72.8)
Property investment	(0.4)	-	(0.4)	(0.7)	-	(0.7)
Property development	(6.4)	-	(6.4)	(7.3)	-	(7.3)
	(71.1)	(5.0)	(76.1)	(76.4)	(4.4)	(80.8)
Net operating assets before group items	1,535.3	61.1	1,596.4	1,432.2	54.3	1,486.5
Group items						
Goodwill			14.5			14.5
Net borrowings			(561.8)			(466.0)
Retirement benefit assets			7.1			34.4
Retirement benefit obligations			(3.2)			(3.2)
Net liabilities			(102.4)			(105.0)
<b>Net assets</b>			950.6			961.2
<b>Total capital expenditure</b>						
Ports & transport	116.4	2.8	119.2	59.1	2.1	61.2
<b>Total depreciation and amortisation</b>						
Ports & transport	29.2	2.2	31.4	27.8	2.3	30.1

<sup>1</sup> Share of associated undertakings relates to the group's UK ports and transport segment.

## 3. Exceptional items

Exceptional items, included within administrative expenses, totalled £nil (2004\*: £51.4m). In 2004, the group recorded a £44.9m charge within administrative expenses in relation to the government's rejection of its planning application for the development of Dibden Terminal. In addition, the group recorded a £7.0m restructuring charge in relation to a review of its cost base and a profit arising from the final receipt of £0.5m relating to an insurance claim resulting from a damaged pier in the USA.

The exceptional tax credit arising from the above items totalled £nil (2004\*: £12.5m, comprising a £10.7m credit for the Dibden Terminal costs, a £1.9m credit for the restructuring charge and a charge of £0.1m relating to the sale of property, plant and equipment).

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**4. Net interest payable**

	2005 £m	2004* £m
Eurobonds	28.0	28.0
Bank loans and overdrafts	10.7	6.7
Finance leases	0.9	1.2
Amortisation of borrowing costs	0.4	0.6
Other	1.7	–
Less: finance costs capitalised on payments for fixed assets (note 13)	(1.5)	(0.6)
<b>Interest payable and similar charges</b>	<b>40.2</b>	<b>35.9</b>
Interest receivable and similar income	(0.5)	(0.3)
<b>Net interest payable</b>	<b>39.7</b>	<b>35.6</b>

The Bank of England base rate is used as the basis for calculating finance costs capitalised on payments for fixed assets. These finance costs are capitalised as they are directly attributable to the construction of certain major additions to fixed assets.

**5. Profit before taxation**

Profit before taxation is stated after charging/(crediting):

	2005 £m	2004* £m
Depreciation (note 13)		
Owned property, plant and equipment	29.2	27.6
Leased property, plant and equipment	2.0	2.0
Amortisation of intangible assets	0.2	0.5
(Profit)/loss on disposal of non-current assets	(0.6)	0.2
Other operating lease rentals payable		
Plant and equipment	3.6	4.0
Property	5.8	5.8
Repairs and maintenance expenditure on property, plant and equipment	13.3	12.1
Trade receivables impairment	0.7	1.0
Restructuring costs	–	7.0
Net exchange difference on foreign currency borrowings less cash and short-term deposits	0.2	–
Auditors' remuneration		
Audit services – statutory audit	0.4	0.3
Audit – related to regulatory reporting	0.1	–
Tax services – advisory services	0.1	0.1

Non-audit services in excess of specified limits require pre-approval by the Audit Committee. Included in auditors' remuneration above is £56,000 (2004: £52,000) in respect of the audit of the company. In addition to the above services, PricewaterhouseCoopers LLP acted as auditor to the group's main defined benefits scheme – The Associated British Ports Group Pension Scheme. The appointment of auditors to the group's pension schemes and the fees paid in respect of those audits are agreed by the trustees of each scheme, who act independently from the management of the group. The aggregate fees paid to the group's auditors for audit services to the pension schemes during the year were £29,000 (2004: £28,000).

Profit before taxation is stated after charging £0.1m (2004: £nil) for breaches of Section 3 of the Health and Safety at Work, etc. Act 1974.

**6. Directors and employees**

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

Full details of directors' emoluments, including shareholdings and options, are shown in the remuneration report on pages 126 to 128.

Staff costs are analysed as follows:

	2005 £m	2004* £m
<b>Staff costs</b>		
Wages and salaries	83.0	82.5
Social security costs	7.7	7.6
Pension costs (note 16)	4.5	2.4
	<b>95.2</b>	<b>92.5</b>

Employees by business segment are analysed as follows:

	2005 Number	2004 Number
UK monthly average number of persons employed	2,490	2,530
USA monthly average number of persons employed	540	562
<b>Total monthly average number of persons employed</b>	<b>3,030</b>	<b>3,092</b>

The monthly average number of persons employed in the ports and transport segment was 3,008 (2004: 3,069), in the investment property segment was 13 (2004: 14) and in the property development segment was 9 (2004: 9).

Key management compensation is analysed as follows:

	2005 £m	2004* £m
<b>Key management compensation</b>		
Salaries and short-term employee benefits	3.0	2.9
Post-employment benefits	0.4	0.4
Termination benefits	0.3	0.2
Share-based payments	0.5	0.4
	<b>4.2</b>	<b>3.9</b>

Key management includes the board of directors of the company and the group's principal subsidiaries in the UK and the USA, Associated British Ports and AMPORTS Inc.

## 7. Taxation

	2005 £m	2004* £m
<b>Analysis of charge in year</b>		
<b>Current tax</b>		
Continuing operations	33.8	24.1
<b>Deferred tax</b>		
Continuing operations	2.1	(2.0)
<b>Taxation</b>	<b>35.9</b>	<b>22.1</b>

Current tax charge for 2005 included £nil (2004: £nil) in relation to prior year items.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**7. Taxation (continued)**

	2005 £m	2004* £m
<b>Tax on items charged to equity</b>		
Current tax credit on share-based payments	0.4	–
Deferred tax credit on share-based payments	0.7	1.0
Deferred tax credit on actuarial loss	7.5	0.4

Taxation for the year is lower (2004: lower) than the standard rate of taxation in the UK (30.0%). The differences are explained below:

	2005 £m	2004* £m
<b>Profit before taxation</b>	<b>135.8</b>	<b>82.2</b>
Profit before taxation multiplied by standard rate of corporation tax in the UK of 30.0% (2004: 30.0%)	40.7	24.7
Effects of:		
Impact of exceptional items	–	2.9
Permanent differences	0.9	(0.7)
Share of profit in associated undertakings	(1.3)	(2.0)
Increase in fair value of investment properties	(1.1)	(1.0)
Property disposals	(3.3)	(1.8)
<b>Total tax charge for the group</b>	<b>35.9</b>	<b>22.1</b>

**8. Discontinued operations**

On 17 May 2004, the group sold its 45 per cent interest in The Cardiff Bay Partnership to Norwich Union Life and Pensions Limited for a cash consideration of £15.8m. The Cardiff Bay Partnership contributed £0.4m to the group's share of profit in associated undertakings in the period to 17 May 2004. The net proceeds of £15.7m, after taking into account costs of £0.1m, were broadly in line with the net book value of the group's interest in The Cardiff Bay Partnership.

**9. Dividends**

	2005 £m	2004* £m
<b>Amounts recognised in equity as distributions to equity holders in the year:</b>		
Final dividend paid for the year ended 31 December 2004 of 9.00p (2003: 8.50p) per ordinary 25p share	27.7	28.1
Interim dividend paid for the six months ended 30 June 2005 of 7.25p (2004: 7.00p) per ordinary 25p share	22.0	22.1
<b>Total amounts recognised as equity distributions during the year</b>	<b>49.7</b>	<b>50.2</b>
<b>Amounts not recognised in equity as distributions to equity holders at the year end:</b>		
Final dividend for the year ended 31 December 2005 of 9.75p (2004: 9.00p) per ordinary 25p share	29.4	27.9
<b>Amounts not recognised in equity as distributions to equity holders at the year end</b>	<b>29.4</b>	<b>27.9</b>

If approved, the final dividend for the year ended 31 December 2005 would be payable on 28 April 2006 to shareholders on the register at the close of business on 31 March 2006.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 10. Earnings per share

The calculation of the earnings per share is based on 305.1m (2004: 320.9m) 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, which excludes the effects of changes in fair value of investment properties and exceptional items, 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 the increase in fair value of investment properties and exceptional items, together with attributable taxation.

Reconciliation of profit used for calculating basic and underlying earnings per share:	Profit		Earnings per share	
	2005 £m	2004* £m	2005 p	2004* p
<b>Profit attributable to equity shareholders – continuing and discontinued operations – basic earnings per share</b>	<b>99.9</b>	<b>60.5</b>	<b>32.7</b>	<b>18.9</b>
Discontinued operations	–	(0.4)	–	(0.1)
<b>Profit attributable to equity shareholders – continuing operations – basic earnings per share</b>	<b>99.9</b>	<b>60.1</b>	<b>32.7</b>	<b>18.8</b>
Increase in fair value of investment properties	(3.5)	(3.4)	(1.1)	(1.1)
Exceptional items – administrative expenses (note 3)	–	51.4	–	16.0
Attributable tax (note 3)	–	(12.5)	–	(3.9)
<b>Profit attributable to equity shareholders – continuing operations – underlying earnings per share</b>	<b>96.4</b>	<b>95.6</b>	<b>31.6</b>	<b>29.8</b>
Discontinued operations	–	0.4	–	0.1
<b>Profit attributable to equity shareholders – continuing and discontinued operations – underlying earnings per share</b>	<b>96.4</b>	<b>96.0</b>	<b>31.6</b>	<b>29.9</b>
Reconciliation of weighted average number of shares used for calculating basic and diluted earnings per share:	Number of shares		Earnings per share	
	2005 m	2004 m	2005 p	2004* p
<b>A) Continuing operations</b>				
Weighted average number of shares – basic earnings per share	305.1	320.9	32.7	18.8
Dilution arising from share option schemes	2.2	2.0	(0.2)	(0.1)
<b>Weighted average number of shares – diluted earnings per share</b>	<b>307.3</b>	<b>322.9</b>	<b>32.5</b>	<b>18.7</b>
<b>B) Discontinued operations</b>				
Weighted average number of shares – basic earnings per share	305.1	320.9	–	0.1
Dilution arising from share option schemes	2.2	2.0	–	–
<b>Weighted average number of shares – diluted earnings per share</b>	<b>307.3</b>	<b>322.9</b>	<b>–</b>	<b>0.1</b>
<b>C) Continuing and discontinued operations</b>				
Weighted average number of shares – basic earnings per share	305.1	320.9	32.7	18.9
Dilution arising from share option schemes	2.2	2.0	(0.2)	(0.1)
<b>Weighted average number of shares – diluted earnings per share</b>	<b>307.3</b>	<b>322.9</b>	<b>32.5</b>	<b>18.8</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**11. Goodwill**

	2005 £m	2004* £m
Cost and net book value		
At 1 January	14.5	14.5
<b>At 31 December</b>	<b>14.5</b>	<b>14.5</b>

The group's goodwill balance relates to its ports and transport activities and is reviewed for impairment annually on a value in use basis. The group assesses impairment by reference to a comparison between the present value of forecast future cash flows and the carrying value (including goodwill) of the relevant business unit. Forecast cash flows are based on the business unit's three year plan and are projected forward for a further 27 years using growth rates of between 3 and 5 per cent. The group expects its business units to remain operational for at least the duration of the projection period used. The discount rate applied to future cash flows was 7.3% (2004: 7.8%).

**12. Intangible assets**

	2005 £m	2004* £m
Group acquired intangible assets		
<b>Cost</b>		
At 1 January	3.5	3.2
Additions	–	0.4
Exchange adjustments	0.1	(0.1)
<b>At 31 December</b>	<b>3.6</b>	<b>3.5</b>
<b>Amortisation</b>		
At 1 January	2.3	1.8
Charge for year	0.2	0.5
Exchange adjustments	0.1	–
<b>At 31 December</b>	<b>2.6</b>	<b>2.3</b>
<b>Net book value</b>		
At 1 January	1.2	1.4
<b>At 31 December</b>	<b>1.0</b>	<b>1.2</b>

All intangible assets above relate to purchased computer software. They have finite lives and are being amortised over periods between 3 years and 5 years on a straight-line basis. All amortisation is charged to administrative expenses.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 13. Property, plant and equipment

	Operational land £m	Buildings £m	Dock structures, quays and dredging £m	Floating craft £m	Plant and equipment £m	Assets in the course of con- struction £m	Total £m
<b>2005</b>							
<b>Cost or valuation</b>							
At 1 January 2005*	367.7	122.6	369.7	46.4	171.8	46.8	1,125.0
Additions	–	7.2	14.2	1.1	10.2	82.3	115.0
Transfers within property, plant and equipment	0.1	5.9	18.2	0.3	2.7	(27.2)	–
Transfers from property developments and land held for sale	7.9	–	–	–	–	–	7.9
Transfer from/(to) investment property (note 14)	2.1	(2.8)	–	–	–	(0.3)	(1.0)
Disposals	–	–	(7.1)	–	(4.0)	–	(11.1)
Exchange adjustments	1.5	1.9	2.4	–	0.3	0.3	6.4
<b>At 31 December 2005</b>	<b>379.3</b>	<b>134.8</b>	<b>397.4</b>	<b>47.8</b>	<b>181.0</b>	<b>101.9</b>	<b>1,242.2</b>
<b>Depreciation</b>							
At 1 January 2005*	–	29.2	127.4	24.5	91.7	–	272.8
Transfers within property, plant and equipment	–	(0.3)	0.1	0.1	0.1	–	–
Transfer from/(to) investment property (note 14)	–	(0.5)	–	–	–	–	(0.5)
Charge for year	–	5.5	12.7	2.9	10.1	–	31.2
Disposals	–	–	(7.1)	–	(3.8)	–	(10.9)
Exchange adjustments	–	0.8	0.9	–	0.1	–	1.8
<b>At 31 December 2005</b>	<b>–</b>	<b>34.7</b>	<b>134.0</b>	<b>27.5</b>	<b>98.2</b>	<b>–</b>	<b>294.4</b>
<b>Net book value</b>							
At 31 December 2004*	367.7	93.4	242.3	21.9	80.1	46.8	852.2
<b>At 31 December 2005</b>	<b>379.3</b>	<b>100.1</b>	<b>263.4</b>	<b>20.3</b>	<b>82.8</b>	<b>101.9</b>	<b>947.8</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

## 13. Property, plant and equipment (continued)

	Operational land £m	Buildings £m	Dock structures, quays and dredging £m	Floating craft £m	Plant and equipment £m	Assets in the course of con- struction £m	Total £m
<b>2004*</b>							
<b>Cost or valuation</b>							
At 1 January 2004*	364.2	120.0	359.3	45.5	165.9	60.1	1,115.0
Additions	–	2.9	6.6	0.6	6.8	39.2	56.1
Transfers within property, plant and equipment	–	1.7	6.4	0.3	6.3	(14.7)	–
Transfers from property developments and land held for sale	0.1	–	–	–	–	–	0.1
Transfer from/(to) investment property (note 14)	4.3	0.3	–	–	–	(1.7)	2.9
Write-off of fixed assets (note 3)	–	–	–	–	(0.6)	(36.0)	(36.6)
Disposals	–	(1.2)	(1.2)	–	(6.4)	–	(8.8)
Exchange adjustments	(0.9)	(1.1)	(1.4)	–	(0.2)	(0.1)	(3.7)
<b>At 31 December 2004*</b>	<b>367.7</b>	<b>122.6</b>	<b>369.7</b>	<b>46.4</b>	<b>171.8</b>	<b>46.8</b>	<b>1,125.0</b>
<b>Depreciation</b>							
At 1 January 2004*	–	25.1	117.0	21.5	87.6	–	251.2
Transfer from/(to) investment property (note 14)	–	–	–	–	–	–	–
Charge for year	–	5.3	11.0	3.0	10.3	–	29.6
Disposals	–	(1.1)	(0.1)	–	(5.9)	–	(7.1)
Exchange adjustments	–	(0.1)	(0.5)	–	(0.3)	–	(0.9)
<b>At 31 December 2004*</b>	<b>–</b>	<b>29.2</b>	<b>127.4</b>	<b>24.5</b>	<b>91.7</b>	<b>–</b>	<b>272.8</b>
<b>Net book value</b>							
At 31 December 2003*	364.2	94.9	242.3	24.0	78.3	60.1	863.8
<b>At 31 December 2004*</b>	<b>367.7</b>	<b>93.4</b>	<b>242.3</b>	<b>21.9</b>	<b>80.1</b>	<b>46.8</b>	<b>852.2</b>

All property, plant and equipment is stated at cost with the exception of operational land. Operational land is included at valuation as at 31 December 1998, as permitted under IFRS 1 First Time Adoption of International Financial Reporting Standards, or, if transferred from property assets after 31 December 1998, at the carrying value at the last balance sheet date prior to transfer. The group's operational land and buildings held at 31 December 1998 were valued as at that date on the basis of existing-use value in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors. The valuations were carried out by independent valuers Healey & Baker, International Real Estate Consultants. The total valuation amounted to £507.5m, of which £326.7m was apportioned to land, representing an excess of £291.2m over its historical book cost at that date. The net book values for property, plant and equipment are reported net of government grants received of £10.6m (2004: £10.4m).

Operational land, buildings and dock structures are held freehold with the exception of short leasehold properties with an historic net book value of £1.9m (2004: £1.2m).

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 13. Property, plant and equipment (continued)

Floating craft includes assets held under finance leases with a book cost and accumulated depreciation at 31 December 2005 totalling £nil (2004: £30.5m) and £nil (2004: £15.9m), respectively. The depreciation charge for the year included £1.7m (2004: £1.7m) in respect of assets held under finance leases. These leases expired towards the end of the year.

Plant and equipment includes assets held under finance leases with a book cost and accumulated depreciation at 31 December 2005 totalling £3.1m (2004: £3.1m) and £1.3m (2004: £1.0m), respectively. The depreciation charge for the year includes £0.3m (2004: £0.3m) in respect of these assets. Such assets include improvements to certain facilities operated by the group's US subsidiary and some marine vessels operated by its UK ports and transport business. The remaining terms for these leases range from 7 to 17 years.

The cost of property, plant and equipment includes £5.5m (2004: £4.9m) of cumulative finance costs capitalised. The capitalisation rate used is the group's marginal borrowing cost, which is linked to the Bank of England's base rate.

## 14. Investment property

	Port-related investment properties £m	Other investment properties £m	Land at ports held for development £m	Total £m
<b>2005</b>				
<b>At valuation</b>				
At 1 January 2005	496.1	52.0	18.2	566.3
Additions	3.2	–	1.0	4.2
Transfers within investment property	0.1	–	(0.1)	–
Transfers to property developments and land held for sale	(1.3)	(0.4)	(0.8)	(2.5)
Transfers from/(to) property, plant and equipment (note 13)	1.0	0.2	(0.7)	0.5
Disposals	(0.7)	(0.1)	–	(0.8)
Exchange adjustments	–	1.1	0.3	1.4
	498.4	52.8	17.9	569.1
Surplus on revaluation (note 27)	3.2	0.2	0.1	3.5
<b>At 31 December 2005</b>	<b>501.6</b>	<b>53.0</b>	<b>18.0</b>	<b>572.6</b>
<b>Historic cost at 31 December 2005</b>	<b>196.4</b>	<b>24.3</b>	<b>7.5</b>	<b>228.2</b>
<b>2004*</b>				
At 1 January 2004*	492.1	54.6	23.6	570.3
Additions	4.7	–	–	4.7
Transfers within investment property	1.4	(2.0)	0.6	–
Transfers to property developments and land held for sale	(1.3)	(0.4)	(1.1)	(2.8)
Transfers (to)/from property, plant and equipment (note 13)	(4.0)	–	1.1	(2.9)
Write-off of fixed assets (see note 3)	–	–	(5.6)	(5.6)
Exchange adjustments	–	(0.6)	(0.2)	(0.8)
	492.9	51.6	18.4	562.9
Surplus on revaluation (note 27)	3.2	0.4	(0.2)	3.4
<b>At 31 December 2004*</b>	<b>496.1</b>	<b>52.0</b>	<b>18.2</b>	<b>566.3</b>
<b>Historic cost at 31 December 2004*</b>	<b>194.6</b>	<b>21.7</b>	<b>6.2</b>	<b>222.5</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**14. Investment property (continued)**

Investment properties, other than those in the course of construction, have been valued on the basis of market value in accordance with the Appraisal and Valuation Standards issued by The Royal Institution of Chartered Surveyors. The valuations were carried out as at 31 December 2005 by Phillip Williams FRICS, Group Property Director, Associated British Ports. The open market valuation adopted represents the fair value of the group's investment property portfolio and takes into account the condition of each property, the strength of covenant and the term of any lease agreement. Investment properties in the course of construction are stated at cost, including interest and other net outgoings, with the exception of underlying land, which is included at carrying value before construction commenced. Costs of £nil (2004: £0.2m) in respect of these properties are included in the carrying value of port-related investment properties. The cost of investment property assets includes £0.3m (2004: £0.3m) of cumulative finance costs capitalised.

Rental income generated from the group's investment property portfolio amounted to £55.2m (2004: £51.8m) and related operating expenses amounted to £5.7m (2004: £4.7m). Direct operating expenses relating to vacant property are considered to be immaterial.

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

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

	Group		Company	
	2005	2004*	2005	2004*
	£m	£m	£m	£m
Not later than one year	52.4	53.3	-	-
More than one year but not more than five years	132.9	151.7	-	-
More than five years	544.4	566.2	-	-
	729.7	771.2	-	-

**15. Investments**

	Group	Company
	2005	2005
	Interest in associated undertakings	Interest in subsidiary undertakings
	£m	£m
At 1 January 2005*	36.6	282.9
Share of profit for the year	4.4	-
Actuarial loss relating to group's share of net pension liabilities of associated undertakings	(2.1)	-
Cash flow hedge taken directly to equity in associated undertakings	(0.1)	-
Investment in subsidiary undertakings	-	2.1
Intra-group disposals in year	-	(140.3)
<b>At 31 December 2005</b>	<b>38.8</b>	<b>144.7</b>

Investments in group undertakings are stated at cost. Associated undertakings are accounted for under the equity method of accounting. A list of the company's principal subsidiary and associated undertakings is set out in note 32.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 15. Investments (continued)

Summarised information in respect of the group's associated undertakings is set out below:

	2005 £m	2004* £m
<b>Continuing operations</b>		
Revenue	53.0	51.8
Expenses	(46.5)	(41.9)
Share of operating profit in associated undertakings	6.5	9.9
Share of net interest costs in associated undertakings	(0.5)	(0.5)
Share of taxation in associated undertakings	(1.6)	(2.9)
<b>Share of profit in associated undertakings</b>	<b>4.4</b>	<b>6.5</b>
Non-current assets	132.7	121.9
Current assets	24.2	31.3
Current liabilities	(40.6)	(37.8)
Non-current liabilities	(32.1)	(37.1)
Net assets	84.2	78.3
<b>Share of net assets in associated undertakings</b>	<b>38.8</b>	<b>36.6</b>
<b>Discontinued operations</b>		
Revenue	-	0.9
Expenses	-	(0.1)
Share of operating profit in associated undertakings	-	0.8
Share of net interest costs in associated undertakings	-	(0.4)
<b>Share of profit in associated undertakings</b>	<b>-</b>	<b>0.4</b>

## 16. Pension commitments

### A. Description of plans

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. The defined benefit section of this scheme was closed to new members with effect from 6 April 2002. New members joining this scheme from 6 April 2002 are offered membership of a defined contributions section which at 31 December 2005 constituted less than 1.0 per cent of the total asset value. The group also provides defined contribution arrangements, makes contributions to three industry-wide defined benefit schemes and has unfunded retirement benefit arrangements in respect of former employees. Except for unfunded retirement benefit arrangements, the assets of the group's pension schemes are held in trust funds independent of its finances.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**16. Pension commitments (continued)****B. Summary****(i) Profit and loss account**

The total pension charge included in the group income statement was as follows:

	2005 £m	2004* £m
Defined benefits scheme and unfunded retirement benefit arrangements (note 16C)	8.1	6.4
Defined contribution arrangements (note 16D)	1.4	1.1
Industry-wide schemes (note 16E)	0.3	0.2
Gross pension costs	9.8	7.7
Finance income	(5.3)	(5.3)
<b>Net pension charge recognised within operating profit (note 6)</b>	<b>4.5</b>	<b>2.4</b>

**(ii) Balance sheet**

The retirement benefit assets and obligations as at 31 December were:

	2005 £m	2004* £m
Retirement benefit assets	7.1	34.4
Retirement benefit liabilities	(3.2)	(3.2)
<b>Net retirement benefit asset</b>	<b>3.9</b>	<b>31.2</b>

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

The most recent formal valuation of the Associated British Ports Group Pension Scheme was carried out as at 31 December 2003. The valuation of the liabilities detailed below has been derived by projecting forward the position as at 31 December 2003. It was performed by an independent actuary, Hewitt, Bacon & Woodrow. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit method. In accordance with IAS 19, the present value of pension liabilities has been determined by discounting pension commitments (including an allowance for salary growth) using a AA corporate bond yield.

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

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 16. Pension commitments (continued)

### C. Defined benefits scheme and unfunded retirement benefit arrangements (continued)

#### (i) Assumptions

The major financial assumptions used by the actuary as at 31 December were as follows:

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

	2005 %	2004* %
Inflation	2.75	2.75
Rate of increase in pensionable salaries	4.25	4.25
Rate of increase for pensions in payment	2.75	2.75
Rate of increase for deferred pensions	2.75	2.75
Discount rate	4.70	5.30
Expected return on plan assets	6.10	6.20

The mortality assumption used in determining the group's expected pension liabilities is based on the standard actuarial tables PA 92, projected forwards to 2025 with the "Short Cohort" adjustment applied. Based on these tables, life expectancies from age 65 are estimated as being 20.1 years for males and 22.7 years for females. Mortality rates applied have been increased by 25 per cent to reflect the nature of the scheme's membership and its past experience.

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

#### (ii) Operating profit

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

	2005 £m	2004* £m
Current service cost	(8.1)	(6.4)
Expected return on plan assets	25.9	25.4
Interest cost on plan liabilities	(20.4)	(19.9)
Interest cost on unfunded retirement benefit liabilities	(0.2)	(0.2)
<b>Net pension charge recognised within operating profit</b>	<b>(2.8)</b>	<b>(1.1)</b>

The current service cost of £8.1m (2004: £6.4m) represented 26.8% (2004: 19.8%) of the applicable pensionable payroll. The increase in current service cost was partly attributable to the implementation of a salary-sacrifice plan, under which the scheme members agreed to a salary reduction in return for the group agreeing to make contributions to the scheme that were previously made by the members. The group recognised £2.1m (2004: £0.9m) of its net pension charge for 2005 within cost of sales and £0.7m (2004: £0.2m) within administrative expenses.

The group made total contributions of £1.4m (2004: £0.3m) towards funded and unfunded schemes. The increase in contribution levels resulted from the implementation of the salary-sacrifice plan and the group expects its level of contribution into the scheme to be similar during 2006. Returns on assets and interest on liabilities are determined by reference to the actuarial assumptions adopted at the beginning of each financial year. The actual return on assets for 2005 was £67.0m (2004: £28.7m).

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**16. Pension commitments (continued)****C. Defined benefits scheme and unfunded retirement benefit arrangements (continued)****(iii) Balance sheet**

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

	2005 £m	2004* £m
Fair value of scheme assets	476.5	425.7
Present value of funded obligations	(469.4)	(391.3)
Present value of unfunded obligations	(3.2)	(3.2)
<b>Net assets recognised in the balance sheet</b>	<b>3.9</b>	<b>31.2</b>

As at 31 December 2005, approximately 53 per cent of the scheme's assets were represented by investments in equities, 41 per cent by bonds, 1 per cent by property and 5 per cent by cash.

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

	2005 £m	2004* £m
Fair value of scheme assets at 1 January	425.7	410.6
Expected return	25.9	25.4
Actuarial gain	41.1	3.3
Contributions to defined contribution section	(0.8)	(0.6)
Contributions by employees	0.9	2.2
Contributions by employer	1.4	0.3
Benefits paid	(17.7)	(15.5)
<b>Fair value of scheme assets at 31 December</b>	<b>476.5</b>	<b>425.7</b>

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

	2005 £m	2004* £m
Fair value of scheme liabilities at 1 January	(394.5)	(376.6)
Service cost	(8.1)	(6.4)
Interest cost	(20.6)	(20.1)
Actuarial loss	(66.2)	(4.7)
Contributions by employees	(0.9)	(2.2)
Benefits paid	17.7	15.5
<b>Fair value of scheme liabilities at 31 December</b>	<b>(472.6)</b>	<b>(394.5)</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 16. Pension commitments (continued)

### C. Defined benefits scheme and unfunded retirement benefit arrangements (continued)

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

	2005 £m	2004* £m
At 1 January	31.2	34.0
Net pension charge	(2.8)	(1.1)
Employer contribution	1.4	0.3
Contributions to defined contribution section	(0.8)	(0.6)
Actuarial loss relating to net retirement benefit assets recognised in the statement of recognised income and expense	(25.1)	(1.4)
<b>At 31 December</b>	<b>3.9</b>	<b>31.2</b>

As at 31 December 2005, cumulative actuarial losses recognised in the group's statement of recognised income and expense, since 1 January 2004, amounted to £26.5m (2004: £1.4m). The 2005 actuarial loss of £25.1m arose as the better than expected return on assets of £41.1m was more than offset by increased liabilities associated with the adoption of updated mortality tables (£24.7m) and with the 60 basis point decrease in the discount rate applied to liabilities (£41.5m).

#### (vii) Historical record

	2005 £m	2004* £m
Amounts for current and previous periods are as follows:		
Fair value of scheme assets	476.5	425.7
Present value of funded scheme obligations	(469.4)	(391.3)
Present value of unfunded obligations	(3.2)	(3.2)
<b>Net assets recognised in the balance sheet</b>	<b>3.9</b>	<b>31.2</b>
Actuarial loss due to changes in assumptions	(66.2)	(20.3)
Experience gains on scheme liabilities	-	15.6
Experience gains on scheme assets	41.1	3.3
<b>Actuarial loss relating to net retirement benefit assets recognised in the statement of recognised income and expense</b>	<b>(25.1)</b>	<b>(1.4)</b>

### D. Defined contribution arrangements

The group incurred costs of £1.4m (2004: £1.1m) in relation to defined contribution arrangements provided by Associated British Ports and its USA subsidiary AMPORTS Inc. At 31 December 2005, there were no amounts outstanding as being due to these arrangements from the group (2004: nil).

### E. Industry-wide schemes

#### (i) The Pilots National Pension Fund (PNPF)

The PNPF is an industry-wide defined benefits scheme. As at 31 December 2004, the date of the most recent full triennial valuation carried out by an independent actuary, the scheme had assets with a market value of £339m, representing 76 per cent of the benefits accruing to members after allowing for future increases. As at that date, the funding level continued to exceed the minimum funding requirements. The scheme actuary has estimated the IAS 19 deficit as at 31 December 2005 as being £107m. Approximately 42 per cent of the scheme's assets were invested in equities, 44 per cent in bonds, 11 per cent in hedge funds and 3 per cent in cash. The IAS 19 valuation assumptions adopted by the actuary were as follows:

	%
Inflation	2.75
Rate of increase in pensionable salaries	3.75
Rate of increase for pensions in payment	2.75
Rate of increase for deferred pensions	2.75
Discount rate	4.70
Expected return on plan assets	8.00

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**16. Pension commitments (continued)****E. Industry-wide schemes (continued)****(i) The Pilots National Pension Fund (PNPF) (continued)**

Following the 31 December 2004 valuation, the trustees of this scheme are in negotiations with the participating bodies to agree a schedule of contributions to reduce the deficit. The scheme rules do not provide a mechanism for the allocation of past-service deficits. A number of different legal opinions have been issued concerning this scheme and the group is unable to determine its share of the past-service deficit on a reasonable basis. The potential IAS 19 pre-tax liability that could arise in relation to the past-service deficit for this scheme could range from £1.1m to £31.1m as at 31 December 2005. During 2005, the group made contributions of £95,000 to this scheme in relation to its current active members and has recorded those as defined contribution costs within the income statement.

In the absence of an agreement on the allocation of the past-service deficit, the group is unable to determine its share of assets and liabilities for this scheme on a consistent and reasonable basis and therefore continues to account for this scheme as a defined contribution scheme.

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

The FRDWPF is an industry-wide defined benefits scheme. As at 5 April 2002, the date of the most recent full triennial valuation carried out by an independent actuary, the scheme had assets with a market value of £804m, representing 107 per cent of the benefits accruing to members after allowing for future increases. As at that date, the funding level remained sufficient to exceed the minimum funding requirements and management believes that this scheme remained in surplus on an IAS 19 basis as at 31 December 2005. The group does not have access to more recent scheme data. As at 5 April 2002, approximately 23 per cent of the scheme's assets were invested in equities, 76 per cent in bonds and 1 per cent in property and cash. The valuation assumptions adopted by the actuary at the time of the last valuation were as follows:

	%
Inflation	2.80
Rate of increase in pensionable salaries	3.80
Rate of increase for pensions in payment	3.60
Rate of increase for deferred pensions	3.60
Discount rate	5.10
Expected return on plan assets	5.10

During 2005, the group made contributions of £56,000 to this scheme in relation to its current active members and has recorded those as defined contribution costs within the income statement.

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

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

The MNOFF is an industry-wide defined benefits scheme. The scheme is divided into two sections, the Old Section and the New Section, both of which are closed to new members. The latest valuation for each section was carried out on 31 December 2003. As at 31 December 2003, the Old Section had assets of £1,316m, representing 115 per cent of the benefits accrued to members, whilst the New Section had assets of £1,768m, representing 86 per cent of the benefits accrued to members as at that date. Following this valuation, the trustees undertook court proceedings to determine the allocation of the past-service deficit for the New Section. In 2005, the court established which employers were liable for the past-service deficit and the trustees adopted an allocation consistent with the court ruling.

The group's share of the past-service deficit was confirmed as being £169,000. The group settled and expensed this amount as a defined contribution pension cost in its income statement in 2005. In addition, the group paid and expensed £11,000 of regular contributions to this scheme as defined contribution pension costs.

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

# Notes to the financial statements

## 17. Trade and other receivables

	Group		Company	
	2005	2004*	2005	2004*
	£m	£m	£m	£m
<b>Non-current</b>				
Other debtors	0.9	-	-	-
Prepayments and accrued income	0.9	-	-	-
Property completions due	1.7	-	-	-
	3.5	-	-	-
<b>Current</b>				
Gross trade receivables	61.2	55.9	-	-
Provision for doubtful receivables	(4.2)	(4.0)	-	-
Net trade receivables	57.0	51.9	-	-
Amounts owed by subsidiary undertakings	-	-	744.0	512.1
Amounts owed by associated undertakings	6.2	5.7	-	-
Other debtors	10.8	6.9	-	0.4
Prepayments and accrued income	15.8	18.6	-	-
Property completions due	3.7	4.0	-	-
	93.5	87.1	744.0	512.5

All trade and other receivables are non-interest bearing. Based on the quality and diversity of its customer base, management considers the group's exposure to concentration credit risk to be minimal. The provision for doubtful receivables is made when there is objective evidence that the group will not be able to collect all amounts recorded within the balance sheet. Costs for doubtful receivables are recorded within administrative expenses. The group has provided for known credit risks as part of its normal provision for doubtful receivables.

Other debtors comprise costs incurred recoverable from third parties.

## 18. Property developments and land held for sale

Property developments and land held for sale are stated at the lower of their cost or transfer value and net realisable value as determined by the directors at 31 December 2005. The historical cost of property developments and land held for sale totalled £7.9m (2004: £16.5m). These assets relate to surplus property and land which are held for sale and reported as part of the group's property development activities.

## 19. Cash and short-term deposits

	Group		Company	
	2005	2004*	2005	2004*
	£m	£m	£m	£m
Cash at bank and in hand (note 28)	3.0	7.3	-	-
Short-term deposits	3.7	-	-	-
<b>Cash and short-term deposits</b>	<b>6.7</b>	<b>7.3</b>	<b>-</b>	<b>-</b>

Short-term deposits comprise amounts held with banks with maturity dates between three and six months. The effective interest rate on short-term deposits was 4.4% (2004: nil).

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**20. Financial liabilities – borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004*</b>	<b>2005</b>	<b>2004*</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Current</b>				
Bank overdraft – unsecured (note 28)	2.5	–	2.3	1.9
Bank loans – unsecured	–	0.3	–	–
Interest payable – accrual	4.7	–	4.5	–
	7.2	0.3	6.8	1.9
Obligations under finance leases – secured	0.4	4.1	–	–
	7.6	4.4	6.8	1.9
<b>Non-current</b>				
Eurobonds 2008 (6 5/8%) – unsecured	120.0	120.0	120.0	120.0
Eurobonds 2011 (11 7/8%) – unsecured	100.0	100.0	100.0	100.0
Eurobonds 2015 (10 7/8%) – unsecured	75.0	75.0	75.0	75.0
Bank loans – unsecured	260.9	169.0	260.9	169.0
Less: deferred borrowing costs to be amortised	(1.4)	(1.4)	(1.4)	(1.4)
	554.5	462.6	554.5	462.6
Obligations under finance leases – secured	6.4	6.3	–	–
	560.9	468.9	554.5	462.6

The group's borrowings are denominated in sterling and US dollars. The US dollar amounts included within borrowings are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004*</b>	<b>2005</b>	<b>2004*</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Current</b>				
Obligations under finance leases – secured	0.1	0.1	–	–
<b>Non-current</b>				
Bank loans – unsecured	33.9	35.0	33.9	35.0
Obligations under finance leases – secured	4.4	4.1	–	–
	38.4	39.2	33.9	35.0

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 20. Financial liabilities – borrowings (continued)

### Net borrowings

	Group		Company	
	2005 £m	2004* £m	2005 £m	2004* £m
Current borrowings	7.6	4.4	6.8	1.9
Non-current borrowings	560.9	468.9	554.5	462.6
	568.5	473.3	561.3	464.5
Less: cash and short-term deposits	(6.7)	(7.3)	–	–
	561.8	466.0	561.3	464.5

The group's share of net borrowings of associated undertakings not included above total £6.8m (2004: £6.7m).

An analysis of the maturity of financial liabilities is given in note 21.

Bank loans and overdrafts are repayable between 2006 and 2011 and bear interest linked to national inter-bank rates. Obligations under finance leases are secured on related leased assets.

As at 31 December 2005, the group's bank loans and overdrafts are exposed to repricing within 12 months of the balance sheet date.

The group has not entered into any derivative instruments in relation to financial liabilities.

## 21. Financial instruments

The group's policies regarding derivatives and financial instruments are set out in the operating and financial review on pages 43 and 44 and the accounting policies on page 58. Numerical disclosures are set out below.

### A. Maturity of financial liabilities

The maturity profile of the carrying amount of financial liabilities was as follows:

	Group			Company		
	2005			2004*		
	Debt £m	Finance leases £m	Total £m	Debt £m	Finance leases £m	Total £m
Not later than one year	7.2	0.4	7.6	0.3	4.1	4.4
More than one year but not more than two years	–	0.4	0.4	–	0.3	0.3
More than two years but not more than five years	119.7	1.5	121.2	119.6	1.2	120.8
More than five years	434.8	4.5	439.3	343.0	4.8	347.8
	561.7	6.8	568.5	462.9	10.4	473.3

	Company	
	2005 £m	2004* £m
Not later than one year	6.8	1.9
More than one year but not more than two years	–	–
More than two years but not more than five years	119.7	119.6
More than five years	434.8	343.0
	561.3	464.5

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**21. Financial instruments** (continued)**A. Maturity of financial liabilities** (continued)

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

	Group	
	2005	2004*
	£m	£m
Not later than one year	1.0	5.0
More than one year but not more than five years	4.1	3.8
More than five years	7.0	7.4
	12.1	16.2
Future finance charges on finance leases	(5.3)	(5.8)
<b>Present value of finance lease liabilities</b>	<b>6.8</b>	<b>10.4</b>

**B. Undrawn borrowing facilities**

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

	Group			
	2005		2004*	
	Floating rate £m	Fixed rate £m	Total £m	Total £m
Expiring:				
Within one year – uncommitted	32.5	–	32.5	40.5
More than five years – committed	339.1	–	339.1	431.0
	371.6	–	371.6	471.5

**C. Fair value of financial assets and liabilities****(i) Financial assets**

The carrying value for financial assets equates to the estimated fair value both for 2005 and 2004.

**(ii) Financial liabilities**

	Group			
	2005		2004*	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Non-current liabilities</b>				
Borrowings	561.7	634.1	462.9	532.9
Finance leases	6.8	8.9	10.4	12.3
	568.5	643.0	473.3	545.2

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 21. Financial instruments (continued)

### C. Fair value of financial assets and liabilities (continued)

#### (ii) Financial liabilities

	2005		Company 2004*	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	561.3	633.7	464.5	534.5

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

#### D. Fair values of derivative financial instruments

The fair value of derivative financial instruments designated as cash flow hedges at the balance sheet date were:

	2005 £m	2004 £m
Share of losses in relation to interest rate swaps held by associated undertakings	0.1	–

At 31 December 2005, the group was not counterparty to any open derivative contracts.

## 22. Trade and other payables

	Group		Company	
	2005 £m	2004* £m	2005 £m	2004* £m
Trade payables	30.4	26.5	–	–
Amounts owed to associated undertakings	0.2	0.2	–	–
Other creditors	11.2	13.5	–	–
Taxation	2.2	2.2	–	–
Accruals	25.1	29.9	3.4	7.5
	69.1	72.3	3.4	7.5

## 23. Provisions

	Restructuring £m	Onerous contracts £m	Other £m	Total £m
At 1 January 2005*	2.5	3.6	2.3	8.4
Charged to income statement during year	–	1.0	0.9	1.9
Utilised in year	(2.1)	(0.6)	(0.9)	(3.6)
Amortisation of discounting	–	0.3	–	0.3
At 31 December 2005	0.4	4.3	2.3	7.0

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**23. Provisions** (continued)

Provisions are analysed between non-current and current as follows:

	2005 £m	2004* £m
Current	1.2	5.1
Non-current	5.8	3.3
	<b>7.0</b>	<b>8.4</b>

**Restructuring**

The restructuring provision relates to the 2004 review of the group's cost base (see note 3) and is expected to be fully utilised within one year.

**Onerous contracts**

The provision for onerous contracts represents amounts provided in relation to property leases, which the group is committed to until 2016, where the unavoidable costs under the lease exceed the economic benefit. In determining the provision, cash flows have been discounted on a pre-tax basis using a risk-free discount rate. The group expects to utilise £0.5m of this provision within one year.

**Other**

Other provisions relate primarily to obligations from commitments entered into as part of the development of certain port facilities, £0.3m of the balance outstanding at 31 December 2005 is expected to be utilised within one year.

**24. Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30.0% (2004: 30.0%).

The movement on the deferred tax account is shown below.

	2004* £m	Charged to foreign exchange £m	Charge/ (credit) to income statement £m	Credited to retained earnings £m	2005 £m
Accelerated tax depreciation	61.5	0.9	3.6	–	66.0
Revaluation of operational land and investment properties	28.3	–	(1.7)	–	26.6
Capital losses	(8.5)	–	1.1	–	(7.4)
Retirement benefit obligations	9.4	–	(0.7)	(7.5)	1.2
Advanced corporation tax	(6.3)	–	–	–	(6.3)
Other	(1.9)	–	(0.2)	(0.7)	(2.8)
<b>Net deferred tax liability</b>	<b>82.5</b>	<b>0.9</b>	<b>2.1</b>	<b>(8.2)</b>	<b>77.3</b>

No deferred tax asset is recognised in the balance sheet for unused capital losses of £65.5m (2004: £61.9m).

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 24. Deferred tax (continued)

Deferred tax assets and liabilities are set out below.

	2005 £m	2004* £m
Deferred tax liabilities	93.8	99.2
Deferred tax assets	(16.5)	(16.7)
<b>Net deferred tax liability</b>	<b>77.3</b>	<b>82.5</b>

The group's deferred tax assets are offset against deferred tax liabilities where there is a legally enforceable right of offset and there is an intention to settle the balances net. Consequently, the group has provided for its deferred tax liabilities at 31 December 2005 of £77.3m (2004\*: £82.5m) on a net basis. The group does not expect this liability to crystallise within the foreseeable future and has classified the balance as being non-current.

The company's deferred tax asset of £0.5m (2004\*: £0.2m) relates to share-based payments. During 2005, £0.1m was credited to the income statement and £0.2m was credited to equity, in relation to deferred tax associated with share-based payments.

## 25. Other non-current liabilities

	Group		Company	
	2005 £m	2004* £m	2005 £m	2004* £m
<b>Accruals</b>	<b>0.1</b>	<b>0.2</b>	<b>-</b>	<b>-</b>

## 26. Share capital

### A. Authorised

	2005 £m		2004 £m	
500,000,000 (2004: 500,000,000) ordinary shares of 25p each	125.0		125.0	
<b>Issued and fully paid</b>				
Ordinary shares of 25p each	Shares	2005 £m	Shares	2004 £m
At 1 January	310,257,308	77.6	329,235,303	82.3
Allotted under share option schemes and share incentive plan	1,466,405	0.4	2,218,856	0.6
Repurchase of shares	(10,219,333)	(2.6)	(21,196,851)	(5.3)
<b>At 31 December</b>	<b>301,504,380</b>	<b>75.4</b>	<b>310,257,308</b>	<b>77.6</b>

During the year, the company repurchased and subsequently cancelled 10.2m shares with a nominal value of £2.6m (2004: 21.2m shares with a nominal value of £5.3m). These shares, representing 3.3 per cent of ordinary shares in issue at 31 December 2004, were purchased as part of the group's £205m share repurchase programme announced in 2004. The total cost of the share purchases (including expenses and stamp duty) of £50.4m (2004: £95.5m) was charged to retained earnings.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**26. Share capital (continued)****B. Potential issue of shares****(i) Outstanding share options**

During the year, options exercised under the schemes resulted in the issue of 1,369,907 ordinary shares of 25p each. The company received a total of £4.3m in respect of these shares. A summary of options granted to employees (including executive directors) and outstanding at 31 December 2005 under share option schemes is given below.

	Date granted	Price per share	Date option normally exercisable	Number of options outstanding
Savings-related scheme	October 1997	222.0p	until 2006	40,502
Savings-related scheme	October 1998	208.0p	until 2006	155,255
Savings-related scheme	March 1999	217.0p	until 2007	120,234
Savings-related scheme	October 1999	249.0p	until 2007	104,540
Savings-related scheme	October 2000	255.0p	until 2008	431,187
Savings-related scheme	October 2001	327.0p	until 2009	489,518
Savings-related scheme	October 2002	327.0p	2006 to 2010	948,621
Savings-related scheme	October 2003	337.0p	2007 to 2011	747,578
Savings-related scheme	October 2004	354.0p	2008 to 2012	763,251
Savings-related scheme	October 2005	398.0p	2009 to 2013	757,663
Executive scheme	September 1997	293.5p	until 2007	3,000
Executive scheme	September 1998	255.0p	until 2008	16,500
Executive scheme	September 1999	293.0p	until 2009	12,500
Executive scheme	September 2000	311.0p	until 2010	36,000
Executive scheme	September 2001	400.0p	until 2011	76,974
Executive scheme	September 2002	419.0p	2007 to 2012	1,209,267
Executive scheme	September 2003	422.0p	2007 to 2013	1,173,823
Executive scheme	September 2004	440.0p	2007 to 2014	1,198,806
Executive scheme	October 2005	527.0p	2008 to 2015	1,075,402
Executive scheme	November 2005	530.0p	2008 to 2015	25,471
US Stock Purchase Plan	October 2004	386.0p	November 2006	29,266
US Stock Purchase Plan	October 2005	433.0p	November 2007	35,045
Californian Stock Purchase Plan	October 2004	386.0p	November 2006	18,505
Californian Stock Purchase Plan	October 2005	433.0p	November 2007	8,375
				<b>9,477,283</b>

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 grant 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.

# Notes to the financial statements

## 26. Share capital (continued)

### B. Potential issue of shares (continued)

#### (ii) Changes in share options

A reconciliation of the changes in share options is shown below.

	2005		2004	
	Number of shares	Weighted average exercise price (pence)	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 January 2005	9,552,560	361.6	9,951,212	336.2
Granted	1,931,027	464.7	2,183,725	408.2
Forfeited	(636,397)	381.2	(473,378)	359.4
Exercised	(1,369,907)	315.1	(2,108,999)	292.9
<b>Outstanding at 31 December 2005</b>	<b>9,477,283</b>	<b>388.0</b>	<b>9,552,560</b>	<b>361.1</b>
<b>Exercisable at 31 December 2005</b>	<b>225,487</b>	<b>322.8</b>	<b>723,933</b>	<b>375.1</b>

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

Range of exercise prices	2005				2004			
	Weighted average exercise price (pence)	Number of shares	Weighted average remaining life expected (years)	Weighted average remaining life contracted (years)	Weighted average exercise price (pence)	Number of shares	Weighted average remaining life expected (years)	Weighted average remaining life contracted (years)
£2-3	240.0	883,718	6.4	2.8	239.2	1,603,928	6.2	3.9
£3-4	345.4	3,833,822	4.9	9.9	334.7	3,422,173	4.9	10.6
£4-5	426.4	3,658,870	4.4	8.0	424.2	4,526,459	4.4	8.8
£5-6	527.1	1,100,873	4.4	10.0	—	—	—	—

The weighted average share price during the year for options exercised over the year was 447.7p (2004: 498.3p). The weighted average fair value for options granted during 2005 was £1.18.

#### (iii) ABP share incentive plan (SIP)

Subject to the rules and limits set out in the SIP, qualifying employees are permitted to purchase shares of the company out of their pre-tax earnings. These shares are issued at the mid-market price for the dealing day preceding the date of the award. In respect of the SIP, the company received a total of £0.5m (2004: £0.5m) for the 96,498 (2004: 109,272) ordinary shares issued.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**26. Share capital (continued)****B. Potential issue of shares (continued)****(iv) Long-term incentive plan (LTIP)**

Under the company's LTIP, executive directors received annual awards of shares subject to the vesting criteria detailed in the remuneration report on pages 118 to 128. Contingent awards of shares outstanding under the company's LTIP are summarised below.

	Number of shares
At 1 January 2005	364,459
Awarded during year	204,605
Lapsed during year	(191,082)
<b>At 31 December 2005</b>	<b>377,982</b>

**C. Share-based payments****(i) Fair values**

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

The fair value of share-based payment awards or grants made in 2004 and 2005, at the award or grant date, are set out below.

	Free share plan grants – SIP £m	3 year	Savings-related options 5 year	7 year	Executive option scheme £m	US and California stock purchase plans £m	LTIP £m	Total £m
2004	0.4	0.3	0.6	0.1	1.3	–	0.7	3.4
2005	1.1	0.4	0.5	0.1	1.1	–	0.9	4.1

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

	2005 £m	2004* £m
Charge for grants in prior years	1.3	1.5
Charge for grants during 2004	0.8	0.8
Charge for grants during 2005	0.4	–
<b>Total income statement charge</b>	<b>2.5</b>	<b>2.3</b>

# Notes to the financial statements

## 26. Share capital (continued)

### C. Share-based payments (continued)

#### (ii) Fair value assumptions

The fair value of shares and share options granted under the various schemes has been calculated using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculation. The fair value per option granted and the assumptions made for each of the scheme awards for 2005 and 2004 are listed below:

2005	Free share plan grants – SIP*	Savings-related options			Executive option scheme	US and California stock purchase plans	LTIP†
		3 year	5 year	7 year			
Grant date	31 Mar 06	12 Oct 05	12 Oct 05	12 Oct 05	6 Oct- 1 Nov 05	15 Oct 05	16 Feb- 26 Apr 05
Participants	1,753	525	389	82	77	122	3
Contractual life (years)	4.0	3.0	5.0	7.0	10.0	2.0	3.0
Black-Scholes model assumptions:							
Share price (p)	633	516	516	516	527-530	509	472
Exercise price (p)	–	398	398	398	527-530	433	–
Estimated life (years)	4.0	3.3	5.3	7.3	4.5	2.0	3.0
Risk-free interest rate	4.19%	4.17%	4.20%	4.23%	4.20%	4.17%	4.58%
Dividend yield	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%	3.30%
Volatility	24.0%	21.0%	24.0%	25.3%	24.0%	18.1%	21.0%
Basic fair value of option (p)	633	137	154	164	99	96	427
Options granted/shares awarded	173,221	324,784	343,243	89,636	1,129,944	43,222	204,605
Fair value of share options (£m)	1.1	0.4	0.5	0.1	1.1	–	0.9
Vesting adjustment factor	80%	75%	75%	75%	85%	90%	41%
Total scheme adjusted fair value (£m)	0.9	0.3	0.4	0.1	1.0	–	0.4
Performance period (years)	4.0	3.0	5.0	7.0	3.0	2.0	3.0
Annual income statement charge							
which would be applied over							
the performance period (£m)	0.2	0.1	0.1	–	0.3	–	0.1

\* To be granted in March 2006, estimate of fair value and number of shares is based on the number of participants and closing price on 20 February 2006.

† The company made two grants under the LTIP during 2005; Data presented above in relation to these grants represents a weighted average of the factors used to determine their fair value.

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

2004	Free share plan grants – SIP	Savings-related options			Executive option scheme	US and California stock purchase plans	LTIP
		3 year	5 year	7 year			
Grant date	31 Mar 05	6 Oct 04	6 Oct 04	6 Oct 04	29 Sep 04	13 Oct 04	19 Feb 04
Participants	1,686	414	387	71	83	124	2
Contractual life (years)	4.0	3.0	5.0	7.0	10.0	2.0	3.0
Black-Scholes model assumptions:							
Share price (p)	472	443	443	443	440	454	447
Exercise price (p)	–	354	354	354	440	386	–
Estimated life (years)	4.0	3.3	5.3	7.3	4.5	2.0	3.0
Risk-free interest rate	4.66%	4.70%	4.75%	4.81%	4.76%	4.27%	4.87%
Dividend yield	–	3.73%	3.73%	3.73%	3.75%	3.75%	3.63%
Volatility	28.80%	28.80%	28.80%	28.80%	28.80%	28.80%	28.80%
Basic fair value of option (p)	472	124	134	139	96	101	401
Options granted/shares awarded	89,358	264,727	416,949	93,133	1,357,604	47,771	173,377
Fair value of share options (£m)	0.4	0.3	0.6	0.1	1.3	–	0.7
Vesting adjustment factor	75%	75%	75%	75%	85%	90%	50%
Total scheme adjusted fair value (£m)	0.3	0.2	0.4	0.1	1.1	–	0.3
Performance period (years)	4.0	3.0	5.0	7.0	3.0	2.0	3.0
Annual income statement charge which would be applied over the performance period (£m)							
	0.1	0.1	0.1	–	0.4	–	0.1

3. Results

Expected volatility for the 2005 grants is based on the historical volatility taking into account the expected vesting term for each grant. The risk-free rate has been taken as the yield on UK government treasury bonds with a maturity date approximating to the expected or contracted vesting date of the share or share option as published in the Financial Times on the grant date. For options issued under the Savings-Related Option Scheme, to which no performance criteria apply, the observable historical lapse rate of 25 per cent has been applied in determining fair value. For options issued under the Executive Share Option Scheme, the observable historical lapse rate of 15 per cent has been applied in determining fair value. For options issued under the US Stock Purchase Plan and California Stock Purchase Plan, to which no performance criteria apply, an expected vesting percentage of 90 per cent has been applied. For shares issued under the LTIP, a weighted average expected vesting percentage of 41 per cent has been applied after taking into account the probabilities attached to the attainment of the market conditions.

The vesting conditions for the SIP, the Executive Share Option Scheme and the LTIP are set out in the remuneration report on pages 118 to 128.

The total charge for the year relating to employee share-based payment plans was £2.5m (2004: £2.3m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge to the income statement was £2.1m (2004: £1.8m).

# Notes to the financial statements

## 27. Reserves and statement of changes in shareholders' equity

	Share capital £m	Share premium account £m	Revaluation reserve £m	Other reserves				Retained earnings £m	Group Total £m
				Hedging reserve £m	Capital redemption reserve £m	Share options reserve £m	Translation reserve £m		
At 1 January 2005*	77.6	91.0	682.3	–	22.7	4.5	(0.5)	83.6	961.2
Actuarial loss relating to net retirement benefit assets	–	–	–	–	–	–	–	(25.1)	(25.1)
Deferred tax associated with actuarial loss relating to net benefit assets	–	–	–	–	–	–	–	7.5	7.5
Share of associated undertakings' actuarial loss relating to net retirement benefit liabilities	–	–	–	–	–	–	–	(2.1)	(2.1)
Share of associated undertakings' loss relating to cash flow hedges	–	–	–	(0.1)	–	–	–	–	(0.1)
Currency translation differences on foreign currency net investments	–	–	–	–	–	–	1.4	–	1.4
Profit for the year	–	–	–	–	–	–	–	99.9	99.9
Dividends paid	–	–	–	–	–	–	–	(49.7)	(49.7)
Issue of ordinary shares	0.4	4.4	–	–	–	–	–	–	4.8
Repurchase of shares	(2.6)	–	–	–	2.6	–	–	(50.4)	(50.4)
Share-based payments	–	–	–	–	–	3.2	–	–	3.2
Surplus arising on revaluation of investment property (note 14)	–	–	3.5	–	–	–	–	(3.5)	–
Realisation of property revaluation surpluses of previous years	–	–	(0.9)	–	–	–	–	0.9	–
<b>At 31 December 2005</b>	<b>75.4</b>	<b>95.4</b>	<b>684.9</b>	<b>(0.1)</b>	<b>25.3</b>	<b>7.7</b>	<b>0.9</b>	<b>61.1</b>	<b>950.6</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

## 27. Reserves and statement of changes in shareholders' equity (continued)

	Share capital £m	Share premium account £m	Reval- uation reserve £m	Capital redemption reserve £m	Other reserves		Retained earnings £m	Group
					Share options reserve £m	Trans- lation reserve £m		Total £m
At 1 January 2004*	82.3	84.1	681.3	17.4	3.9	–	171.2	1,040.2
Actuarial loss relating to net retirement benefit assets	–	–	–	–	–	–	(1.4)	(1.4)
Deferred tax associated with actuarial loss relating to net retirement benefit assets	–	–	–	–	–	–	0.4	0.4
Share of associated undertakings' actuarial loss relating to net retirement benefit liabilities	–	–	–	–	–	–	0.4	0.4
Currency translation differences on foreign currency net investments	–	–	–	–	–	(0.5)	–	(0.5)
Profit for the year	–	–	–	–	–	–	60.5	60.5
Dividends paid	–	–	–	–	–	–	(50.2)	(50.2)
Issue of ordinary shares	0.6	6.1	–	–	–	–	–	6.7
Qualifying Employee Share Trust	–	0.8	–	–	–	–	(0.8)	–
Repurchase of shares	(5.3)	–	–	5.3	–	–	(95.5)	(95.5)
Share-based payments	–	–	–	–	0.6	–	–	0.6
Surplus arising on revaluation of investment property (note 14)	–	–	3.4	–	–	–	(3.4)	–
Realisation of property revaluation surpluses of previous years	–	–	(2.4)	–	–	–	2.4	–
<b>At 31 December 2004*</b>	<b>77.6</b>	<b>91.0</b>	<b>682.3</b>	<b>22.7</b>	<b>4.5</b>	<b>(0.5)</b>	<b>83.6</b>	<b>961.2</b>

3. Results

During 2004, £3.3m was received by the company upon the exercise of options awarded under the Savings-Related Share Option Scheme. Employees paid £2.5m to the group for the issue of these shares and the balance of £0.8m comprised contributions to the Qualifying Employee Share Trust from the employing company.

At 31 December 2005, cumulative goodwill written off was £20.9m (2004: £20.9m), including £4.2m (2004: £4.2m) in respect of associated undertakings.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 27. Reserves and statement of changes in shareholders' equity (continued)

						Company
	Share capital £m	Share premium account £m	Other reserves		Retained earnings £m	Total £m
			Capital redemption reserve £m	Share options reserve £m		
At 1 January 2005	77.6	91.0	22.7	3.6	128.7	323.6
Profit for the year	-	-	-	-	93.9	93.9
Dividends paid	-	-	-	-	(49.7)	(49.7)
Issue of ordinary shares	0.4	4.4	-	-	-	4.8
Repurchase of shares (note 26)	(2.6)	-	2.6	-	(50.4)	(50.4)
Share-based payments	-	-	-	2.3	-	2.3
<b>At 31 December 2005</b>	<b>75.4</b>	<b>95.4</b>	<b>25.3</b>	<b>5.9</b>	<b>122.5</b>	<b>324.5</b>
At 1 January 2004*	82.3	84.1	17.4	2.4	201.9	388.1
Profit for the year	-	-	-	-	73.3	73.3
Dividends paid	-	-	-	-	(50.2)	(50.2)
Issue of ordinary shares	0.6	6.1	-	-	-	6.7
Qualifying Employee Share Trust	-	0.8	-	-	(0.8)	-
Repurchase of shares (note 26)	(5.3)	-	5.3	-	(95.5)	(95.5)
Share-based payments	-	-	-	1.2	-	1.2
<b>At 31 December 2004*</b>	<b>77.6</b>	<b>91.0</b>	<b>22.7</b>	<b>3.6</b>	<b>128.7</b>	<b>323.6</b>

## 28. Cash flow statements

	Group		Company	
	2005 £m	2004* £m	2005 £m	2004* £m
Reconciliation of operating profit to cash generated from operations				
<b>Continuing operations</b>				
Operating profit/(loss)	171.1	111.3	(5.5)	(5.1)
Depreciation of property, plant and equipment	31.2	29.6	-	-
Amortisation of intangible assets	0.2	0.5	-	-
Share-based payments	2.2	1.1	0.1	(0.9)
Write-off of property, plant and equipment	-	42.2	-	-
Profit on sale of property, plant and equipment	(0.6)	(0.4)	-	-
(Decrease)/increase in provisions	(3.6)	5.2	-	-
Revaluation of investment properties	(3.5)	(3.4)	-	-
Decrease in net retirement benefit asset	2.2	1.5	-	-
<b>Operating cash flows before movements in working capital</b>	<b>199.2</b>	<b>187.6</b>	<b>(5.4)</b>	<b>(6.0)</b>
Decrease in property developments and land held for sale	3.1	20.5	-	-
(Increase)/decrease in trade and other receivables	(9.1)	2.2	50.7	143.7
(Decrease)/increase in trade and other payables	(1.1)	1.8	0.3	0.3
<b>Cash generated from operations</b>	<b>192.1</b>	<b>212.1</b>	<b>45.6</b>	<b>138.0</b>

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**28. Cash flow statements (continued)**

	Group		Company	
	2005	2004*	2005	2004*
	£m	£m	£m	£m
Analysis of cash and cash equivalents				
Cash at bank and in hand (note 19)	3.0	7.3	-	-
Bank overdraft (note 20)	(2.5)	-	(2.3)	(1.9)
<b>Cash and cash equivalents</b>	<b>0.5</b>	<b>7.3</b>	<b>(2.3)</b>	<b>(1.9)</b>

**29. Related party transactions**

The group has interests in two associated undertakings: Southampton Container Terminals Limited and Tilbury Container Services Limited. The nature of these investments is described more fully in note 32 to the financial statements. During the year, the group charged these undertakings a total of £25.1m (2004: £22.9m) in respect of property management and operational services. At the year end, £6.2m (2004: £5.7m) 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 22.

In addition, the group had a 45 per cent interest in The Cardiff Bay Partnership, which was disposed of on 17 May 2004 (see note 8). In 2004, the group charged a total of £0.1m in respect of management charges.

The group's UK retirement benefit schemes are managed by The Associated British Ports Group Pension Scheme (see note 16). During the year, the group charged The Associated British Ports Group Pension Scheme £0.3m (2004: £0.3m) in respect of administrative services. At the year end, £nil (2004: £nil) remained owing to the group by The Associated British Ports Group Pension Scheme in respect of these charges.

Doug Morrison, who was appointed as a director of the company on 26 April 2005, was granted an interest-free bridging loan of £51,900 by Associated British Ports during 2005. This loan was granted to assist him with his relocation from the Port of Hull to the Port of Southampton and was repaid on 19 April 2005, prior to his appointment as a director of the company.

Key management compensation is disclosed in note 6.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 30. Financial commitments

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Group capital expenditure contracted but not provided for	15.7	29.8	-	-

The group's share of the capital commitment of its associated undertakings amounted to £0.2m (2004: £2.4m).

	Group		Company	
	2005	2004*	2005	2004*
	£m	£m	£m	£m
Total future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	5.8	5.7	0.9	0.9
More than one year but not more than five years	14.1	15.0	2.0	2.7
More than five years	19.0	16.5	-	0.2
	38.9	37.2	2.9	3.8

	Group		Company	
	2005	2004*	2005	2004*
	£m	£m	£m	£m
Total future minimum lease payments expected to be received under non-cancellable subleases are as follows:				
Not later than one year	0.4	0.6	-	-
More than one year but not more than five years	0.7	0.7	-	-
More than five years	-	-	-	-
	1.1	1.3	-	-

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

## 31. Contingent liabilities

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Contingent liabilities under claims, indemnities and bank guarantees				
Bank guarantees in respect of subsidiary undertakings	-	-	-	0.3
Other guarantees and contingencies	3.8	3.7	-	-

Other guarantees and contingencies relate primarily to performance bonds.

The group makes contributions to three industry-wide defined benefit pension schemes, which have various funding levels. The group's ability to control these schemes is limited and therefore the impact on the group's future cash flows and cost base from these schemes is uncertain. Further details on these schemes are set out in note 16.

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

**32. Principal subsidiary and associated undertakings**

	<b>% held by Group</b>
<b>Subsidiary undertakings</b>	
<b>Ports and transport</b>	
Associated British Ports	(see below)*
Northern Cargo Services Limited	100
Southampton Free Trade Zone Limited	100
The Teignmouth Quay Company Limited	100
ABP Marine Environmental Research Limited (directly owned)	100
AMPORTS Inc. (registered and operating in the USA)	100
<b>Property</b>	
Grosvenor Waterside (Holdings) Limited	100
ABP Property Development Company Limited	100
Grosvenor Waterside Investments Limited	100
<b>Associated undertakings</b>	
<b>Ports and transport</b>	
Southampton Container Terminals Limited	49
Tilbury Container Services Limited	33†

\* 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 AMPORTS Inc., which is registered in the USA. The group's interest in subsidiary undertakings is represented by ordinary shares. All shares held are of the same class with voting rights in the same proportion to the shareholding. A full list of subsidiary and associated undertakings will be annexed to the company's next annual return.

**33. New accounting standards**

Comparative information for 2004 presented in these financial statements was originally reported under UK GAAP and has been restated to comply with IFRS following the group's transition to IFRS from 1 January 2004. Details on the restatement of the group's 2004 comparatives, together with the group's accounting policies under IFRS, were published on 24 June 2005 and are available on the group's website, [www.abports.co.uk](http://www.abports.co.uk). Since that date, following agreements reached with the tax authorities, and as a result of further guidance provided in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the group's current tax liability has been increased by £6.3m with a corresponding addition to its deferred tax asset as at 1 January 2004. In addition, since 24 June 2005, the company has completed the restatement of its own 2004 financial statements, which has resulted in a £47.1m increase to the group's revaluation reserve with a corresponding decrease in its merger reserve and retained earnings of £19.8m and £27.3m, respectively, as at 1 January 2004. Also since 24 June 2005, in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, the group has disclosed £0.5m of net exchange differences as at 31 December 2004 in a separate translation reserve. Previously, £0.1m and £0.4m had been deducted from the revaluation and retained earnings reserves, respectively. A summary of the changes that impacted profit before taxation, profit attributable to equity shareholders, basic earnings per share from continuing and discontinued operations and net assets in the comparative period for both the group and the company is set out as follows:

\* Prior year previously reported under UK GAAP, now reported under IFRS (note 33)

# Notes to the financial statements

## 33. New accounting standards (continued)

Group	Note	Profit before taxation	Profit attributable to equity shareholders	Basic earnings per share from continuing and discontinued operations
		2004	2004	2004
		£m	£m	P
UK GAAP as previously reported		83.0	57.3	17.9
Adjustments:				
IAS 1 – Presentation of Financial Statements – associates	A	(3.3)	–	–
IFRS 2 – Share-based Payment	B	(1.7)	(1.2)	(0.4)
IFRS 3 – Business Combinations	C	0.9	0.9	0.3
IAS 12 – Income Taxes	E	–	0.2	–
IAS 17 – Leases	F	(0.1)	(0.1)	–
IAS 40 – Investment Property	I	3.4	3.4	1.1
IFRS as restated		82.2	60.5	18.9

### Company

<b>UK GAAP as previously reported</b>		68.1	73.1	n/a
Adjustments:				
IFRS 2 – Share-based Payment	B	0.3	0.2	n/a
<b>IFRS as restated</b>		68.4	73.3	n/a

Group			Net assets
			31 December
			1 January
			2004
			2004
			£m
			£m
UK GAAP as previously reported			950.8
Adjustments:			1,030.3
IFRS 2	– Share-based Payment	B	2.1
IFRS 3	– Business Combinations	C	0.9
IAS 10	– Events after the		
	Balance Sheet Date	D	27.9
IAS 12	– Income Taxes	E	(19.8)
IAS 17	– Leases	F	(0.4)
IAS 19	– Employee Benefits	G	(0.3)
IFRS as restated			961.2
			1,040.2

**33. New accounting standards (continued)**

Company	Note	31 December	Net assets
		2004	1 January
		£m	2004
			£m
<b>UK GAAP as previously reported</b>		950.8	1,072.4
Adjustments:			
IFRS 2 – Share-based Payment	B	5.9	4.6
IAS 10 – Events after Balance Sheet Date	D	27.9	28.0
IAS 27 – Consolidated and Separate Financial Statements	H	(661.0)	(716.9)
<b>IFRS as restated</b>		323.6	388.1

**A. IAS 1 – Presentation of Financial Statements****Principal difference**

The group's share of the results from its continuing and discontinued associated undertakings has been reported within the respective line items (operating profit, interest, other finance income/cost and taxation) under UK GAAP. However, IAS 1 requires the group to report its post-tax share of results from continuing associated undertakings as a single-line item at the pre-tax profit level. In addition, IAS 1 requires the group to report its post-tax share of the results from discontinued associated undertakings as a single-line item at the post-tax level.

**Impact**

This re-categorisation results in the group's profit before taxation reducing by £3.3m for the year ended 31 December 2004 (being £2.9m in respect of the share of taxation in associated undertakings and £0.4m in respect of discontinued operations). This re-categorisation does not have any impact on the group's total earnings per share or the amount of profit attributable to equity holders.

**B. IFRS 2 – Share-based Payment****Principal difference**

The group and the company operate a number of share-based payment schemes under which options or shares are granted to employees. Under UK GAAP, the group has recognised an expense in its income statement in relation to shares awarded under its all-employee UK Share Incentive Plan and under its Long-Term Incentive Plan, but no expense has been recognised in relation to options granted under the all-employee or executive option schemes. Under IFRS 2 Share-based Payment, the group is required to record an expense for all share-based payments based on the fair value of those payments as determined at the date of grant. IFRS 2 also permits an entity to recognise a deferred tax asset in relation to its share-based payment expense to the extent that it is able to obtain a tax deduction upon exercise of the equity instruments granted.

**Impact**

The group's and the company's IFRS 2 charge for the year ended 31 December 2004 has been calculated at £2.3m and £0.3m respectively. The group's charge was partially offset by the reversal of £0.6m previously provided under UK GAAP and the company's charge was more than offset by the reversal of this amount. The group and the company have applied IFRS 2 to all equity instruments unvested at 1 January 2005 and have recognised a deferred tax asset to reflect the tax deduction that the group and the company will be entitled to upon exercise of these equity instruments. The deferred tax asset recognised in the group's and the company's balance sheets as at 1 January 2004 amounted to £1.7m and £0.1m, respectively and at 31 December 2004 amounted to £1.6m and £0.2m, respectively. The group and the company also reversed accruals of £1.1m and £0.5m as at 1 January 2004 and 31 December 2004, respectively, in relation to the Share Incentive Plan that are no longer necessary under IFRS 2.

# Notes to the financial statements

## 33. New accounting standards (continued)

### C. IFRS 3 – Business Combinations

#### Principal difference

IFRS 3 requires positive goodwill to be carried on the balance sheet, subject to annual reviews for impairment with an initial impairment test at the date of transition. Under UK GAAP, the group amortised goodwill over its expected useful economic life of 20 years.

#### Impact

The adoption of IFRS eliminates the need for the group to record a goodwill amortisation charge within its income statement. Consequently, £0.9m of amortisation charges recorded in the year ended 31 December 2004 have been reversed in the restated financial statements. The group's goodwill balance of £14.5m at 1 January 2004 has been tested for impairment and will be retained at this level, subject to the results of future impairment tests.

### D. IAS 10 – Events after the Balance Sheet Date

#### Principal difference

In contrast to existing practice under UK GAAP, under IAS 10, dividends cannot be accrued at the balance sheet date unless the amount has been formally approved as at that date. Under UK GAAP, the dividend charge is also recognised in the income statement; under IFRS, the dividend charge is not recognised in the income statement but is recognised directly in reserves.

#### Impact

The group's and the company's accrued dividends of £28.0m as at 1 January 2004 and £27.9m as at 31 December 2004 have been removed from the restated balance sheets. Both the interim dividend for 2004 and the final dividend for 2004 (£50.1m in total) have been removed from the restated income statement.

In addition, accrued dividends receivable from associates of £3.5m at 1 January 2004 have been reversed, with a compensating addition to investments.

### E. IAS 12 – Income Taxes

#### Principal difference

IAS 12 requires a deferred tax provision to be recognised for all taxable temporary differences between the tax bases and the associated carrying amounts for assets and liabilities. Under UK GAAP, there was no requirement to recognise deferred tax provisions on timing differences arising when non-monetary assets were revalued, unless revaluation gains were recorded through the income statement, or by the balance sheet date the entity had entered into a binding agreement to sell the asset and had recognised the gain or loss arising from the sale.

#### Impact

The group will continue to revalue its investment property portfolio and, for operational land, will continue to adopt the 31 December 1998 valuation on its transition to IFRS. Compliance with IAS 12 as at 1 January 2004 has been achieved by making a deferred tax provision (net of relevant brought forward capital losses) of £20.3m in relation to revaluation gains. A similar additional deferred tax provision of £19.8m has been made as at 31 December 2004.

The adoption of IAS 12 resulted in a tax credit of £0.2m for 2004.

The group does not expect the additional deferred tax provisions created by IAS 12 to crystallise within the foreseeable future and anticipates that the ongoing utilisation of its tax capital losses will retain its cash tax rate close to that seen under UK GAAP.

**33. New accounting standards (continued)****F. IAS 17 – Leases****Principal difference**

Under UK GAAP and IFRS, leases are classified as finance or operating leases. As a result of further guidance provided in IAS 17, some leases that were classified as operating leases under UK GAAP may be re-classified as finance leases under IFRS.

**Impact**

The impact of the re-classification of a small number of operating leases as finance leases under IFRS results in an increase in property, plant and equipment of £4.3m and £3.8m as at 1 January and 31 December 2004, respectively, together with an increase of £4.6m and £4.2m to obligations under finance leases at the same respective dates. In addition, profit before taxation for the year ended 31 December 2004 is reduced by £0.1m.

**G. IAS 19 – Employee Benefit****Principal difference**

Under guidance set out in IAS 39, pension scheme assets are disclosed at bid values, rather than at the mid-market values adopted under FRS 17.

**Impact**

The adoption of bid values resulted in a reduction of £0.4m in the valuation of the group's pension scheme assets at both 1 January 2004 and 31 December 2004. These reductions, net of the associated reductions in deferred tax provision of £0.1m at each of 1 January 2004 and 31 December 2004, have been incorporated into the group's IFRS balance sheet.

**H. IAS 27 – Consolidated and Separate Financial Statements****Principal difference**

Under UK GAAP, the company revalued its investments in subsidiary undertakings at the balance sheet date to directors' valuations. However, under IAS such investments may be recorded at cost.

**Impact**

The impact of recording subsidiary undertakings at cost results in the elimination of the company's revaluation reserve and a decrease in the company's investments of £716.9m and £661.0m as at 1 January and 31 December 2004, respectively. In addition, as a result of the elimination of the company's revaluation reserve, £47.1m in respect of the capitalisation issue of shares that had previously been deducted from the company's revaluation reserve has been deducted from the company's merger reserve and retained earnings.

**I. IAS 40 – Investment Property****Principal difference**

Under UK GAAP, the group has carried its investment property portfolio on its balance sheet at open market value with changes in the value of this portfolio arising as a result of its revaluation being recorded through the statement of total recognised gains and losses (i.e., direct to equity). However, under IAS, the adoption by an entity of the fair value model requires it to report any subsequent gains or losses through its income statement.

**Impact**

IAS 40 will have no impact on the group's balance sheet. The revaluation surplus of £3.4m for the year ended 31 December 2004 has been reported within the group's income statement.

# How we behave

## **The board of directors**

The calibre of the non-executive directors ensures that they are able to help develop proposals on strategy, scrutinise performance and controls and ensure the maintenance of robust governance standards, challenging the executive team as necessary.

## **Corporate governance**

We seek to surpass the governance requirements of our stakeholders and to manage our business in an accountable and transparent manner.

## **Corporate social responsibility**

The group recognises that its operations have the potential to affect a range of stakeholders and is committed to ensuring that it has in place mechanisms to understand, monitor and meet its obligations to its stakeholders.

## **Contents**

Board of directors	100
Operational management team	102
Statement of directors' responsibilities	104
Independent auditors' report	105
Directors' report	106
Corporate governance	108
Remuneration report	118
Shareholder analysis	129
Corporate social responsibility	130
Notice of meeting	134
Five-year summary	136
Company information	138
Glossary	140

# Board of directors

## **Richard Adam, Group Finance Director, 48**

Since joining the group in 1999, Richard has steered the group's proactive communications with investors and stakeholders, strengthened its financial management and overseen the successful disposal of non-core assets. He is chairman of the risk management working group, CSR management committee and the main defined-benefit pension scheme. Richard qualified as a chartered accountant with KPMG in 1982 before gaining broad experience in a variety of senior financial posts, predominantly within the media sector. By the age of 30, he was Group Finance Director of TVS Entertainment plc, which then held the ITV franchise for the south and

south-east of England. In this role, he raised £300m for the acquisition of new businesses. In 1993, he was Chief Financial Officer at International Family Entertainment UK and a key figure in the launch of its 'Family Channel' on satellite television. Between 1996 and 1999, he was Group Finance Director of Hodder Headline plc, the book-publishing business acquired by WH Smith in 1999. Pre-tax profits grew by 64 per cent during his time at Hodder and he is credited with improving the group's financial controls. Richard is a non-executive director and the chairman of the Audit Committee of global healthcare organisation SSL International plc.

## **Aubrey Adams, Non-executive, 56**

Aubrey has been a member of the board since 1996 and is a member of the Audit, Nomination and Remuneration Committees. His extensive, first-hand knowledge of property matters has contributed greatly to the success of the group's estate-management activities and non-core property disposal programme. Aubrey has spent the majority of his career within the property sector and is Group Chief Executive of Savills, the international property consultants. He was previously Managing Director and Finance Director of

the company. Prior to joining Savills in 1990, Aubrey was Financial Director at Peachey Property Corp plc; he was instrumental in reorganising the group and increasing its market capitalisation from £20m to £300m by 1988. He joined Peachey from PricewaterhouseCoopers. A fellow of the Institute of Chartered Accountants, Aubrey is also a trustee of the Wigmore Hall and sits on the general council of the British Property Federation.

## **Tim Bowdler, Non-executive, 58**

Tim joined the board in 2001. He is a member of the Audit, Nomination and Remuneration Committees. In advising the board, Tim draws on his experience of running an expanding and successful public company. The market capitalisation of Johnston Press, one of the UK's major regional newspaper publishers, has increased more than seven-fold since Tim joined the company in 1994 as Group Managing Director; he was appointed Chief Executive in 1997. He was previously Managing Director of Cape plc's building and architectural-products companies. Tim's career began in manufacturing:

he trained as a production engineer before rising through a variety of managerial positions to general management. Beginning as a graduate management trainee at GKN Sankey Ltd, he went on to work for Tyzack & Partners Ltd, Chloride Group plc, Sandvik Ltd and RHP Bearings Ltd. Tim is a fellow of the RSA, a past president of the Newspaper Society and a member of its council, Chairman of the Press Standards Board of Finance Ltd and a non-executive director of the Press Association Ltd and the Miller Group Ltd.

## **Stuart Chambers, Non-executive, 49**

Stuart joined the board in 2002. He is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees. As a highly experienced chief executive of a public company, he shares his expertise with the board on many business matters. He has been Group Chief Executive of Pilkington plc, one of the world's leading glass manufacturers, since 2002. Stuart joined Pilkington in 1996 as the group vice-president responsible for marketing and business development of Building Products. In 1998, he was promoted to managing

director of Primary Products Europe, and then to president of Building Products Worldwide. Stuart began his career by using his academic background in applied physics as a chemical engineer for Shell. He worked in a number of Shell's divisions, including Shell Oil UK and Deutsche Shell AG, before becoming Shell Oil UK's regional manager for retail in 1986. He joined Mars as a national account manager in 1988, becoming European sales director four years later and then vice-president for sales and marketing of Mars Electronics International in 1995.

## **Chris Clark, Non-executive Chairman, 64**

Chris became non-executive Chairman on 1 August 2004 and brings extensive business knowledge and commercial experience to the board. He is Chairman of the Nomination Committee. Before taking on his current role, Chris spent his entire executive career at Johnson Matthey plc, the speciality chemicals company. He joined Johnson Matthey as a metallurgist in their research laboratories before moving into sales and marketing, where he held a number of marketing and management roles and spent five years in the USA.

He was promoted to the board of Johnson Matthey as an executive director in March 1990, rising to the position of Chief Operating Officer in July 1996 and Chief Executive in June 1998. Under his leadership, the company joined the FTSE 100 in 2002. In addition to the position of non-executive Chairman of ABPH, Chris is Chairman of Wagon Automotive and Chairman of Urenco, the uranium-enrichment company that is owned jointly by the governments of Germany, Holland and the UK.

# Strength through experience

## **Bo Lerenius, CBE, Group Chief Executive, 59**

Since becoming Group Chief Executive in May 1999, Bo has developed the management team, refocused the group on its core ports and transport business and instigated a programme to dispose of non-core assets. He is a member of the Nomination Committee. Prior to joining the group, Bo gained an understanding of ports and port users' requirements from his experience as President and Chief Executive and subsequently Vice-Chairman of Stena Line, one of Sweden's largest companies and the owner and operator of ships and a number of smaller UK ports. During his time with Stena, he managed the merger of its cross-Channel ferry

operations with P&O in 1998. Prior to this, Bo was Group President of Ernstströmgruppen, a building materials group, and a director of both Tarkett Flooring (Swedish Match) and Nordjysk Färg (Nobel Group). He is also a non-executive director of Group 4 Securicor Plc and Land Securities Group plc, Deputy Chairman of the Swedish Chamber of Commerce, a member of the CBI London Council, a director of IAPH (International Association of Ports & Harbors) and President of the Sea and Water Advisory Board. In 2005, Bo was awarded an honorary CBE for services to the British ports industry.

## **Doug Morrison, Port Director, Southampton, 54**

Doug has worked for the group for his entire career, having joined direct from school in 1968. Doug worked in ports administration for 11 years before moving to the operational side of the business as a trainee supervisor. Within 10 years, he was responsible for all port operations at Ayr & Troon. He became Port Manager in 1998 and the port grew significantly, winning considerable volumes of new business under his leadership. Following his promotion to the position of Port Director of Hull & Goole in 2003, Doug oversaw

considerable investment in new facilities at the ports. He took control of Southampton in March 2005 and joined the board shortly afterwards.

## **Derek Sach, Non-executive, 57**

Derek has been a member of the board since 1998. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Derek is suitably equipped to advise the board on strategic financial matters due to his career in investment management and banking. He is the managing director of Specialised Lending Services (SLS) and a board member of Corporate Markets at the Royal Bank of Scotland (RBS). He joined RBS in 1992 to establish SLS, which provides strategic advice to businesses in trouble or showing signs of difficulty. He has since held

a number of posts at RBS. As director of group risk, Derek was responsible for the effective control and monitoring of risk within the group, including market and operational risk management. As part of a joint venture, he was seconded in 1997 to Tesco Personal Finance as Chief Executive for a year and previously, Derek was a director of 3i Group plc, where he was the managing director for the UK and chairman of its property companies and investment committee.

## **Andrew Simon, OBE, Non-executive, 60**

Andrew became a member of the board in 1994. He is a member of the Audit, Nomination and Remuneration Committees. The considerable international experience that he contributes to the board is bolstered by his experience in strategy process and development. Andrew has been involved in over 20 businesses as chairman or non-executive director. He spent 23 years at Evode Group as Managing Director, Chief Executive Officer and Chairman. In this time, he developed the group's adhesives and sealants business from a £10m

to a £300m international speciality chemicals and materials group, as well as achieving a number of market-leadership positions. Since Evode's takeover, Andrew has accumulated a diversified portfolio of non-executive and chairman positions in UK, European and North American companies across many sectors. He is Chairman of Kaffee Partner, Deputy Chairman of Dalkia plc, a non-executive director of Brake Bros and Finning International and sits on the supervisory board of SGL Carbon.

# Operational management team

## Phillip Williams, 48 (a) Group Property Director

Phillip has worked for ABP since 1994 and joined the operational board in 2002. He is responsible for the group's entire property portfolio, including AMPORTS in the USA. Since assuming the role, he has developed the group's long-term property strategy, identified profitable land-disposal opportunities, increased the efficiency of the estate-management functions and directed land assembly for ongoing major infrastructure projects. Having originally joined the company as Development Manager for ABP's property subsidiary, Phillip went on to become Head of ABP Group Property before he was promoted to his current position. He joined ABP from the Port of Pembroke.

## Ian Schofield, 44 (b) Group Engineering Director

Ian became Group Engineering Director in 2002. In addition to overseeing engineering matters at the ports, Ian leads the company's health and safety and environment teams, is Chairman of ABP Marine Environmental Research Ltd and Vice-Chairman of Port Skills and Safety Ltd. He is working consistently to improve the company's safety culture and to reduce the incidence of work-related accidents and cases of work-related ill health. Ian joined ABP in 1991 as Assistant Port Engineer for Goole; he then worked at Hull and the group's north-east ports until he was appointed Port Manager for King's Lynn in 1999. Prior to joining ABP, he spent 11 years in line management in the mining industry.

## Matthew Kennerly, 39 (d) Port Director, Hull & Goole

Matthew joined the operational board when he was promoted to the position of Port Director, Hull & Goole, in June 2005. Matthew joined ABP as a management trainee in 1989, based at the Port of Newport. Subsequently, he became Marketing Manager for Grimsby & Immingham, Operations Manager and then Assistant Port Manager at Newport and Deputy Port Manager for ABP's South Wales Ports. In this role, Matthew implemented the reorganisation of the region's operational activities. Following his promotion to the position of Assistant Port Manager, Southampton, Matthew led the expansion of the City Cruise Terminal in order to accommodate larger cruise vessels for customer RCL. Matthew is a member of the Chartered Institute of Logistics & Transport and the Institute of Chartered Shipbrokers.

## Nick Palmer, 46 (c) Port Director, Grimsby & Immingham

Nick was appointed Port Director, Grimsby & Immingham, in May 2004. Since taking up this role, contracts have been secured for the £27.5m development of Immingham's Outer Harbour and the £59.5m extension to Humber International Terminal. Nick became a member of the operational board in 2002, when he was appointed Port Director, Shortsea Ports. He has held a number of management positions since joining ABP as a graduate trainee in 1980. He was Assistant Port Manager for King's Lynn before moving to the then ABP subsidiary Red Funnel Group as General Manager for Ferries. In 1997, he returned to ABP as Deputy Port Manager for Grimsby & Immingham, playing a leading role in the development of Humber International Terminal.

## Matt Jukes, 34 (e) Port Director, Shortsea Ports

Matt has been a member of ABP's operational board since October 2005, when he was promoted from his previous position as Deputy Port Manager, Hull & Goole, and put in charge of the group's 11 shortsea ports. Matt joined ABP in 1994 as a dredging technician and has since worked in many varied positions throughout the company, including as Quay Foreman and Assistant Operations Manager at Grimsby & Immingham and as Marketing Manager and Operations Manager at Hull. While at Hull, Matt was involved in the contract extension, further investment and subsequent expansion of the Finland Terminal. He also worked extensively on the planning and application process for ABP's new shortsea container facility at the port, for which the government granted its approval in December 2005.

# Consistent team, consistently profitable

## John Fitzgerald, 43 (g) Port Director, South Wales Ports

John has been an operational board member since September 2004. He has been employed by ABP since 1997, initially serving as Sales & Marketing Manager for Grimsby & Immingham, before being promoted to Deputy Port Manager in 2002. He was then Port Director of Shortsea Ports until assuming his current role in October 2005. John was instrumental in the business development of both phases of Humber International Terminal at the Port of Immingham. As Port Director, Shortsea Ports, he was responsible for consolidating the management and administration of those 11 ports and restructuring them into four separate business units. Before joining the group, John worked in the ports industry for 16 years. He began his career as a graduate trainee with Ocean Group, served as a marketing assistant for Ocean Port Services and later held a number of positions at Medway Ports.

## Andrew Garner, 37 (h) General Counsel

Andrew became ABP's General Counsel in November 2005 and is responsible for providing the group with legal support. He joined the company from First Choice Holidays plc, where he served as General Counsel Corporate from 2001 onwards. At First Choice, Andrew advised on many of the company's worldwide acquisitions and was responsible for legal matters affecting the UK tour operating and retail businesses. He also represented the company at the Federation of Tour Operators, the UK tour operator trade association. Andrew qualified as a solicitor with law firm Linklaters & Paines before joining Unigate plc (now Uniq plc), which included the Unigate Dairies, St Ivel and Wincanton Logistics businesses.

## Hywel Rees, 47 (i) Company Secretary and Head of Group Personnel

Hywel joined ABP in 1984 as Secretariat Clerk. By 1987, he had been promoted to Secretary of ABP; he became Company Secretary two years later. He was, additionally, appointed Head of Group Personnel in 1999. Hywel's accomplishments include modernising ABP's personnel policies and launching a number of employee share schemes. Other initiatives introduced under his leadership include an employee-assistance programme and employee forums. Hywel has also worked to extend employee choice by reactivating ABP's relationship with the Transport and General Workers' Union.

## David Twidle, 57 (j) Assistant to Group Chief Executive

David has been Assistant to Bo Lerenius since 1999. He has worked for ABP for 38 years in a variety of senior management and accounting roles at head office and at the ports, and, as a result, has a thorough knowledge of the business and the industry. He was Group Management Accountant at head office in London for 10 years and Port Accountant for the north-west ports in Fleetwood. David's achievements in his current role include improving communications within the group, encouraging a more transparent corporate culture and devolving ABP's marketing functions from head office to the ports and business units.

## Bo Lerenius, 59 (f) Group Chief Executive

For full biography, please see page 101.

## Doug Morrison, 54 (k) Port Director, Southampton

For full biography, please see page 101.

## Richard Adam, 48 (l) Group Finance Director

For full biography, please see page 100.

# 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 that 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 apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether the financial statements comply with the International Financial Reporting Standards as endorsed by the EU, 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 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 are 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.

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

We have audited the group and parent company financial statements (the "financial statements") of Associated British Ports Holdings PLC for the year ended 31 December 2005 which comprise the group income statement, the group and parent company balance sheets, the group and parent company cash flow statements, and the group and parent company statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

## 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 law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's 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 into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

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 other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC 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 form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the chief executive's review of strategy, the operating and financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of

the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

## Opinion

In our opinion:

- The group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended
- The parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005 and cash flows for the year then ended
- The financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London  
22 February 2006

# Directors' report

## Principal activities and business review

The principal activities of the group comprise the provision of port facilities and related services to shipowners and other users of seaports in the UK and USA. The group owns and operates 21 ports within the UK and provides vehicle-processing services at five port locations in the USA. It also provides 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.

The progress of business during the year and anticipated future developments are discussed in the Group Chief Executive's review on pages 28 to 31 and the operating and financial review on pages 32 to 49. The operating and financial review also provides information that all large and medium-sized European Union companies are required to publish under the EU Accounts Modernisation Directive.

## Results and dividends

Group pre-tax profit on ordinary activities for the year was £135.8m (2004\*: £82.2m). Further details of the group's operating performance are provided in its income statement on page 52.

The company paid an interim dividend of 7.25 pence per share, which was paid on 1 November 2005. The directors recommend a final dividend of 9.75 pence per share, making a total for the year of 17.00 pence per share. This is an increase of 6.3 per cent on the 2004 total dividend of 16.00 pence per share. If approved at the forthcoming Annual General Meeting (AGM), the company will pay the final dividend on Friday 28 April 2006 to ordinary shareholders on the register at close of business on Friday 31 March 2006.

## Directors and their interests

The names of the directors as at the date of this report, together with details on their backgrounds and abilities, are set out in the directors' biographies on pages 100 to 101. Details of the independence of non-executive directors and their roles in the

company's governance structure are set out in the report on corporate governance on pages 108 to 117. All of the directors served throughout the period except for Doug Morrison, who was appointed to the board as an executive director on 26 April 2005.

The company's articles of association require that all directors are subject to election by shareholders at the first opportunity after appointment and to re-election every three years.

Doug Morrison, being eligible, offers himself for re-election. Doug has a service contract that may be terminated by giving one year's notice.

Richard Adam, who joined the board as Group Finance Director in November 1999, retires as a director by rotation at the forthcoming AGM. As he continues to be eligible under the company's articles of association, he also offers himself for re-election. Richard has a service contract that may be terminated by giving one year's notice.

Stuart Chambers, who has been a non-executive director since October 2002 and was appointed Chairman of the Remuneration Committee on 26 April 2005, retires as a director by rotation at the forthcoming AGM. As he continues to be eligible under the company's articles of association, he offers himself for re-election. Stuart does not have a service contract.

Aubrey Adams, who has been a non-executive director since October 1996 and the Senior Independent Director (SID) since the 2005 AGM, has decided to retire from the board following the company's 2006 AGM.

Andrew Simon, who has been a non-executive director since November 1994 and is due to retire as a director at the forthcoming AGM, has also decided not to seek re-election.

Russell Edey and Simon Melliss, who will join the board as non-executive directors on 1 March 2006, being eligible, will offer themselves for re-election. Details of their respective backgrounds and abilities are

set out in the notice to the AGM on pages 134 to 135. Neither Russell Edey nor Simon Melliss has a service contract. Russell Edey will become the company's SID following the 2006 AGM.

The board considers that Stuart Chambers, Russell Edey and Simon Melliss are all independent of management, free from any business or other relationships that could interfere materially with their independent judgement and bring wide and varied commercial experience to its deliberations.

Details of directors' service contracts, remuneration, interests in the shares of the company and options over shares are disclosed in the remuneration report on pages 118 to 128.

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

## Investment property

The group's investment property as at 31 December 2005 was valued at £572.6m (2004: £566.3m) on an open market basis. In accordance with International Accounting Standard 40, Investment Property, £3.5m of the increase in the value of investment property has been recorded within the group's income statement. Previously, under UK accounting standards, this would have resulted in an increase to the group's revaluation reserve.

## Payment of suppliers

The group aims to agree terms and conditions before business takes place and to settle amounts due to its suppliers in line with the terms agreed.

At year-end, the group owed the equivalent of 35 days of purchases (2004: 34 days) to trade creditors, based on the average daily amount invoiced by suppliers during the year.

## Purchase of own shares

During 2005, the company continued with its share repurchase programme by purchasing, and subsequently cancelling,

\* Prior year previously reported under UK GAAP, now reported under IFRS (see note 36)

an additional 10.2m shares, or 3.3 per cent of the issued share capital at 31 December 2004. The total cost of £50.4m, including costs, has been charged to the profit and loss account reserve. The company repurchased these shares as part of its ongoing share repurchase programme. The company obtained approval to repurchase up to 10 per cent of its issued equity share capital at its AGM in 2005 and intends to seek approval for the renewal of this authority at its forthcoming AGM in April 2006.

#### Substantial shareholdings

An analysis of substantial shareholdings is provided on page 129.

#### Charitable and political donations

The group donated £123,000 (2004: £84,000) to charities during the year. It did not make any contributions for political purposes (2004: £nil).

#### Employees and employment policies

The group's policy is to adopt practices that respect employees as individuals and allow them to participate in the business. It provides opportunities for active participation and personal development with the twin goals of motivating individuals and helping them to enhance their skills.

The group is committed to:

- Providing equality of opportunity for all existing and potential employees
- Ensuring that employees have access to information that enables them to contribute to and participate fully in the group's achievement of its objectives
- Providing employees with clear and fair terms of employment and competitive remuneration packages.

The group is committed to giving full and fair consideration to applicants for employment who are disabled. If an employee becomes disabled during their employment, the group makes every effort to ensure that, wherever possible, the person can either continue in their present role or retrain for a different role. Further details of the group's management of its employees are provided in the annual corporate social responsibility report.

#### Special business at the Annual General Meeting (AGM)

The remuneration report set out on pages 118 to 128 will be put to the AGM as an ordinary resolution.

At the AGM of 26 April 2005, shareholders approved an ordinary resolution to permit the directors to distribute shares to the value of 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 2006 AGM. At the forthcoming AGM, the directors wish to renew that permission 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. As at 22 February 2006, one-third of the issued equity share capital equalled £25,183,766 or 100,735,065 ordinary shares. 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 also request power to distribute shares worth up to £3,777,564 (15,110,259 ordinary shares), representing approximately five per cent of the issued equity share capital of the company as at 22 February 2006, without offering them first to existing shareholders. The authority would expire at the AGM in 2007. The directors believe it is in the best interests of the company that, as permitted by the Companies Act 1985, they should be in possession of a relatively small number of shares to enable them to take advantage of any appropriate opportunities that may arise.

The directors further request permission for the company to buy up to 30.2m of its own shares, equivalent to approximately 10 per cent of the issued equity share capital, in the open market. The authority would again expire at the AGM in 2007. Before buying any shares, the directors commit to take into account the group's cash resources, capital requirements and the effect of any purchase on earnings per share. The purpose of the authority is to enable the company to

execute its share repurchase programme and to mitigate the market impact of share issues from employee share schemes.

The directors are proposing that an ordinary resolution be submitted to the AGM giving the company authority to extend the Associated British Ports Executive Share Option Scheme by a further year and to establish the Associated British Ports Share Matching Plan and the Associated British Ports Performance Share Plan. Details of these proposals will be outlined in a letter from the Chairman to shareholders dated 16 March 2006.

The directors are also proposing that an ordinary resolution be put to the AGM to renew the Associated British Ports Savings-Related Share Option Scheme. Further details will be provided in the letter from the Chairman to shareholders dated 16 March 2006.

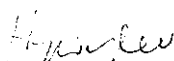
Finally, the board is proposing a special resolution to amend the articles of association to make them consistent with new legislation in respect of indemnification of directors.

#### Auditors

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

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

By order of the board



**Hywel Rees**  
Company Secretary  
22 February 2006

# Corporate governance

The board takes its corporate governance responsibilities seriously. Although the group complies with all of the provisions of the Combined Code, it doesn't stop there. It seeks to surpass the governance requirements of its stakeholders and to manage its business in an accountable and transparent manner.

## Background

The listing rules of the UK Financial Services Authority require UK-listed companies to report on their governance practices and the extent to which they comply with the provisions set out in Section 1 of the Combined Code on Corporate Governance. The current Combined Code on Corporate Governance was published in July 2003 by the Financial Reporting Council (FRC) and derives from two reports: 'Review of the role and effectiveness of non-executive directors', prepared by Derek Higgs, and 'Audit Committees Combined Code Guidance', prepared by Sir Robert Smith, both of which were published in January 2003. It became applicable for reporting years beginning on or after 1 November 2003 and so became effective for the group on 1 January 2004. This is, therefore, the

second consecutive year that we have reported on our corporate governance in accordance with the revised Code's provisions. For more information on the Code, its background and its provisions, please visit the FRC website, [www.frc.org.uk](http://www.frc.org.uk).

The information that follows explains how we comply with – or exceed – the Code's 14 main principles and detailed provisions.

## 1. The board

**"Every company should be headed by an effective board, which is collectively responsible for the success of the company."**

Combined Code – Main Principle A.1

## Composition of the board

The board comprises a non-executive Chairman, five independent non-executive directors and, since April 2005, three executive directors (previously there were two – the Group Chief Executive and the Group Finance Director). Details of the composition of the board and its committees, together with the company's assessment of the independence of its directors, are set out in table 1. Details of the roles, backgrounds and other commitments of the directors are

provided in the board directors' biographies on pages 100 to 101. During 2005, Chris Clark, Chairman, was appointed non-executive chairman of Wagon Automotives and on 1 January 2006, Chris was appointed non-executive chairman of Urenco. As a result of these appointments Chris resigned from his role as non-executive deputy chairman of Rexam plc and as non-executive director of FK1 plc in February 2006. Biographies of the group's operational management are set out on pages 102 to 103.

The calibre of the non-executive directors, each of whom has appropriate knowledge and skills combined with relevant experience, ensures that they are able to help develop proposals on strategy, scrutinise performance and controls and ensure the maintenance of robust governance standards, challenging the executive team as necessary. The Chairman aims to ensure that the board's decisions are based on consensus. Should any director express unresolved concerns, these would be included in the board minutes by the Company Secretary. In the event of a director resigning over an unresolved issue, the Chairman would bring the matter to the attention of the board.

Table 1

	Position	Number of years on board	Independent	Audit Committee	Nomination Committee	Remuneration Committee
Richard Adam	Group Finance Director	6	No	No	No	No
Aubrey Adams	Non-executive director (SID <sup>2</sup> )	9	Yes <sup>1</sup>	Yes <sup>3</sup>	Yes	Yes
Tim Bowdler	Non-executive director	5	Yes	Yes	Yes	Yes
Stuart Chambers	Non-executive director	3	Yes	Yes	Yes	Chairman <sup>4</sup>
Chris Clark	Non-executive Chairman	1	No <sup>1</sup>	No	Chairman	No
Bo Lerenius	Group Chief Executive	7	No	No	Yes	No
Doug Morrison	Executive director	1	No	No	No	No
Derek Sach	Non-executive director	8	Yes	Chairman <sup>3</sup>	Yes	Yes <sup>4</sup>
Andrew Simon	Non-executive director	11	Yes <sup>5</sup>	Yes	Yes	Yes

<sup>1</sup> Chris Clark is not considered to be independent by virtue of his role as chairman of the company

<sup>2</sup> Senior Independent Director

<sup>3</sup> Aubrey Adams was Chairman of the Audit Committee until 26 April 2005, when he was succeeded by Derek Sach

<sup>4</sup> Derek Sach was Chairman of the Remuneration Committee until 26 April 2005, when he was succeeded by Stuart Chambers

<sup>5</sup> Notwithstanding the fact that Aubrey Adams and Andrew Simon have served on the board for a period in excess of nine years, the board considers that they continue to be independent in character and judgement.

The company indemnifies directors for claims made against them in relation to their duties as directors of the company, except for any losses incurred as a result of their wilful negligence. Insurance cover, with an annual limit of up to £35m, is maintained in respect of legal action against the directors.

#### **Board responsibilities and management structure**

The board is accountable to shareholders and other stakeholders for the group's performance. It meets its responsibilities for ensuring the successful development of the group by:

- Setting strategic direction
- Monitoring operational performance
- Monitoring health and safety performance
- Monitoring environmental performance
- Setting standards of ethical behaviour
- Overseeing the implementation of socially responsible policies and practices
- Developing robust corporate governance and risk management procedures
- Establishing policies and internal controls to safeguard the company's reputation and assets
- Supervising management
- Establishing and maintaining an appropriate structure to ensure that the group is able to meet its statutory obligations
- Succession planning.

The schedule of matters reserved for the board includes:

- Annual budgets
- Strategic plans
- Payment of dividends
- Reporting to shareholders and other stakeholders
- Approval of acquisitions and divestments
- Approval of major capital expenditure projects
- Consideration of significant financing.

The board of Associated British Ports (ABP), the group's principal subsidiary, manages operational matters relating to the UK business. Bo Lerenius, Group Chief Executive, is Chairman of the ABP board, which, in addition, comprises Richard Adam, Group Finance Director, Doug Morrison, Executive Director and Port Director for Southampton, the four other Port Directors, the Group Property Director and the Group Engineering Director.

The AMPORTS board manages operational matters relating to the group's USA business. It comprises the Group Chief Executive, the Group Finance Director, the AMPORTS Chief Executive Officer and the AMPORTS Chief Financial Officer.

The executive directors, ABP and the AMPORTS boards operate within clearly defined limits of authority delegated by the board and must refer any matters outside those limits to the board for its consideration.

#### **Board process**

In addition to maintaining close dialogue between meetings, the board meets eight times a year in the normal course of business and once a year to review strategy. Board meetings are held at head office and at the group's port locations around the UK. Attendance by individual directors at board and committee meetings held during 2005 is set out in table 2 on page 110.

The Chairman met with the non-executive directors on two occasions without the executive directors being present. The Audit Committee members held discussions with the external audit partner and the Head of Internal Audit on two occasions during the year without the executive directors being present.

#### **2. Role of the Chairman and role of the Group Chief Executive**

**"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision."**

Combined Code – Main Principle A.2

There is a clear split of responsibilities between the Chairman and the Group Chief Executive. The Chairman is primarily responsible for the effective running of the board, while the Group Chief Executive is tasked with the running of the company's business. Their different roles are set out in writing and have been agreed by the board.

#### **3. Board balance and independence**

**"The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking."**

Combined Code – Main Principle A.3

The balance of executive and non-executive directors on the board and the skills and experience they possess help to ensure that the board operates as a team and precludes any individual or sub-group from dominating its decisions. The company considers the total number of its directors and the balance between executive and non-executive directors to be appropriate in view of the size and complexity of its operations. Board balance has been enhanced by the appointment of Doug Morrison as a third executive director. As the Port Director for Southampton, Doug brings to the board a wealth of practical knowledge and experience of today's ports industry.

# Corporate governance

Table 2

	Board <sup>(1)</sup>	Strategy day	Audit Committee <sup>(2)</sup>	Nomination Committee <sup>(3)</sup>	Remuneration Committee <sup>(4)</sup>
<b>Total number of meetings</b>	8	1	5	2	7
<i>Executive directors:</i>					
Richard Adam (Group Finance Director)	8	1	N/A	N/A	N/A
Bo Lerenius (Group Chief Executive)	8	1	N/A	2	N/A
Doug Morrison <sup>(5)</sup>	6	1	N/A	N/A	N/A
<i>Non-executive directors</i>					
Aubrey Adams <sup>(6)</sup>	7	1	4	2	6
Tim Bowdler	8	1	5	2	7
Stuart Chambers <sup>(7)</sup>	7	1	4	1	7
Chris Clark (Chairman)	8	1	N/A	2	N/A
Derek Sach	8	1	5	2	7
Andrew Simon <sup>(8)</sup>	7	1	4	1	7

(1) All board meetings were attended by the Company Secretary and the Deputy Company Secretary  
(2) At the invitation of the Chairman of the Audit Committee, the Chairman, the Group Chief Executive, the Group Finance Director, the Port Director for Southampton, the Head of Internal Audit, the external audit partner, the Company Secretary and the Deputy Company Secretary also attended the meetings of the Committee  
(3) At the invitation of the Chairman of the Nomination Committee, the Company Secretary also attended the meetings of the Committee  
(4) At the invitation of the Chairman of the Remuneration Committee, the Chairman and the Company Secretary attended the meetings of the Committee and the Group Chief Executive and the Group Finance Director also attended some of the meetings of the Committee  
(5) Doug Morrison joined the board on 26 April 2005 and has attended all board meetings since his appointment  
(6) Aubrey Adams did not attend the June board meeting or the Audit and Remuneration Committee meetings held on the same day  
(7) Stuart Chambers did not attend the February board meeting or the Audit and Nomination Committee meetings held on the same day  
(8) Andrew Simon did not attend the December board meeting or the Audit and Nomination Committee meetings held on the same day

Aubrey Adams became the Senior Independent Director (SID) in April 2005. During the year, he was available to shareholders should they have had concerns which could not be resolved through the normal channels of communication with the Chairman, Group Chief Executive or Group Finance Director, or if such contact would have been inappropriate. No concerns were brought to the attention of the SID during the year ended 31 December 2005.

Table 1 on page 108 provides a summary of the company's assessment of the independence of the directors who served on the board in 2005. Both Aubrey Adams, who has served nine years on the board, and Andrew Simon, who has served 11 years on the board, have decided to step down from the board with effect from the 2006 Annual General Meeting.

Derek Sach, who provides the board with expertise in banking and treasury matters, is a senior executive of the Royal Bank of Scotland plc, one of the group's key relationship banks. In order to avoid any possible conflict of interest, he does not participate in any decisions in relation to the selection of the group's banking relationships or procurement of any financing or derivative instruments from any financial institution. He is also excluded by the Royal Bank of Scotland plc from any decisions that relate to the group. The board considers Derek to be independent in character and judgement, as he is free from any other business or other relationship that could interfere materially with his independent judgement.

## 4. Information and professional development

**"The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge."**

Combined Code – Main Principle A.5

The Chairman is responsible for ensuring that board members receive accurate, timely and clear information. In order to enable the board to discharge its duties effectively, board members are provided with background details on all agenda items prior to each board meeting.

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

procedures are followed. Any director may also take independent professional advice in furtherance of his duties at the company's expense.

New directors receive background information on the company, including board papers from recent meetings, details of recent operating performance, annual budgets and strategic plans and analysts' reports on the company. The company also facilitates and encourages newly appointed directors to visit the ports and other operational areas. Any directors without previous public company board experience are provided with training on their roles and responsibilities. In this regard, as a newly appointed executive director, Doug Morrison received training from Slaughter and May as part of his induction process. All directors are permitted to undertake subsequent training relevant to their duties at the company's expense.

#### 5. Performance evaluation

**"The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors."**  
Combined Code – Main Principle A.6

The company's evaluation process was developed in conjunction with external consultants in 2003. It is our policy to conduct the annual evaluation process internally. Assessments of the effectiveness of the board and its committees take into account factors such as composition, expertise, information flows and procedures. Figure 1 shows how this process works in relation to the evaluation of the board's performance. The same process is applied in the evaluation of the performance of the board's committees, although the questionnaires completed by members differ to reflect the different functions and terms of

reference of the Audit, Nomination and Remuneration committees. The output from these processes is used to highlight areas of strength and weakness and is kept under consideration for the future development of the board and its committees. The performance of the Chairman is assessed by the board. The process for the evaluation of the Chairman's performance is led by the SID, all directors provide feedback on the Chairman's performance. The overall results are discussed with the Chairman by the SID. Matters highlighted and actions implemented as a result of the 2005 evaluation process included:

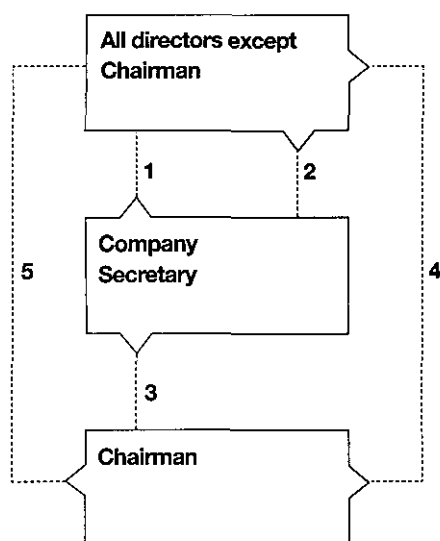
- The recommendation for the board to undertake a more formal review of succession plans for key executives will be taken forward during 2006
- The current practice for all non-executive directors to serve on the Audit, Remuneration and Nomination Committees will be reviewed during 2006
- To allow directors additional time to review papers in advance of board meetings, management will, during 2006, work towards ensuring that board papers are sent to members one week before each board meeting.

#### 6. Re-election

**"All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board."**  
Combined Code – Main Principle A.7

All directors are subject to election by shareholders at the first opportunity after appointment and to re-election every three years. Details of directors submitted for election and re-election at the forthcoming

**Figure 1**  
**Board evaluation process**



1. Questionnaires distributed.
2. Completed questionnaires returned (both quantitative and qualitative responses).
3. Feedback and analysis of results.
4. One-to-one interviews.
5. Areas for improvement identified, reported back to the board and adopted as appropriate.

# Corporate governance

AGM are provided in the directors' report. Biographies of the directors proposed for election and re-election, together with the board's justification for their election or re-election, will be provided to shareholders in the papers accompanying the election and re-election resolutions. These are distributed with this annual report as part of the form of proxy. In the case of non-executive directors whose re-election is proposed, the Chairman's confirmation of their continued effective performance will also be included in these papers.

## 7. Remuneration

**"Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance."**

Combined Code – Main Principle B.1

Details of the directors' remuneration, as required by the Combined Code and the Directors' Remuneration Report Regulation 2002, are set out in the remuneration report on pages 118 to 128.

## 8. Financial reporting

**"The board should present a balanced and understandable assessment of the company's position and prospects."**

Combined Code – Main Principle C.1

The board places a great deal of emphasis on ensuring that all communications with shareholders present a balanced and transparent assessment of the company's position and prospects. Results announcements, interim reports, annual reports, corporate social responsibility

reports, AGM updates and trading updates are all reviewed and approved by the board, or a sub-committee of the board, prior to their release.

The directors' statement of responsibilities in respect of the preparation of financial statements is set out on page 104. The auditors' statement on the respective responsibilities of directors and auditors is included within their report on page 105.

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

## 9. Internal control

**"The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets."**

Combined Code – Main Principle C.2

The board acknowledges that it has overall responsibility for the group's system of internal control and for reviewing its effectiveness. Through its Audit Committee, it continues to keep the internal control systems described below under review and has in place ongoing processes for identifying, evaluating and managing the significant risks faced by the company. In addition, it conducts an annual assessment of its risk management systems. The board confirms that the actions it considers necessary have been or are being taken to rectify such failings and weaknesses which it considers to be significant from its review of the system of internal control. The board also confirms that it has not been advised of material weaknesses in that part of the internal

control system that relates to financial reporting. However, it should be noted that a sound system of internal control can only reduce, not eliminate, risks in achieving business objectives. While subject to regular review and update, it should be recognised that the group's systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

## Internal control

Procedures are in place throughout the group to ensure compliance with the report of the Turnbull Committee ('Internal Control: Guidance for Directors on the Combined Code'). The key components of the group's system of internal control are described below.

The group has in place clearly defined lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of capital expenditure.

The Group Chief Executive, the Group Finance Director and senior operational and financial managers meet on a regular basis to discuss 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 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. The board reviews and approves all reports on projected and actual financial performance.

The internal audit function supports the directors in assessing the effectiveness of internal controls at each business unit through a pre-agreed audit programme. This programme addresses the full spectrum of the group's potential risks by undertaking reviews in areas such as health and safety, environmental management and information technology, as well as looking at financial controls. Where control weaknesses are identified, 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 self-assessment questionnaire that measures and assesses risk areas and reviews the principal controls that are in place to manage risk. 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.

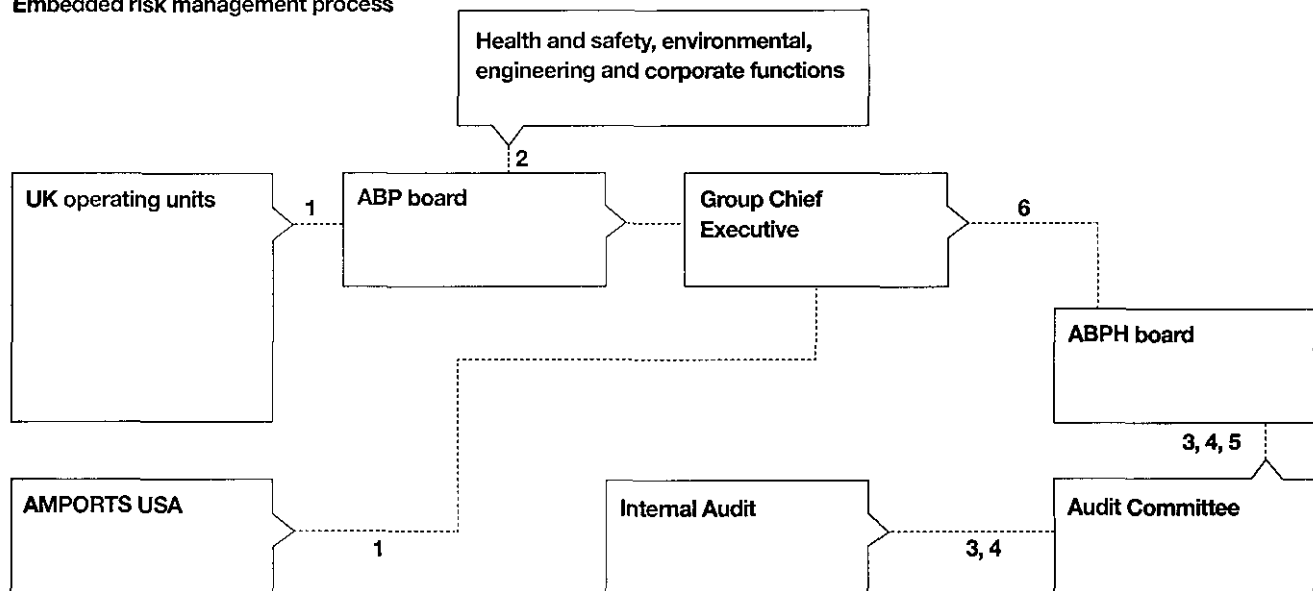
#### Risk management

As recommended by the Turnbull Committee, the group maintains comprehensive systems to identify, monitor and manage the major risks relevant to its

business operations. A risk management working group, which comprises senior executives from the group's operations and is chaired by the Group Finance Director, is responsible for keeping the group's risk management policy, processes and procedures under review. Its recommendations are reviewed and updated annually and agreed by the board.

The embedded risk management process described in the following paragraphs is summarised in figure 2. This process enables the board to receive timely information on all significant risks and facilitates the formulation of effective

**Figure 2**  
**Embedded risk management process**



1. Monthly management and risk assessment reports. Reports on key results emerging, risks and actions taken to enhance risk management. Includes event/incident/control failure reporting on an exception basis.

2. Review reports and highlight any major events, incidents and improvement actions.

3. Report summary findings on the risk management process.

4. Report summary audit findings on internal control.

5. Report internal audit findings relevant to the board's external report on internal control and risk.

6. Summary report submitted to the board at each meeting.

# Corporate governance

responses. All risks, including social, environmental and ethical risks, which could impact on the group's short- or long-term objectives are identified, quantified, assessed for likelihood and addressed appropriately. In addition to the summary of the specific risks facing the business that is provided within the operating and financial review on pages 32 to 49, further information on the group's risk management in relation to its corporate social responsibilities (CSR) can be found on its CSR website, [csr.abports.co.uk](http://csr.abports.co.uk), and in the annual CSR report.

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 group's definition of risk 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 continues to regard its major risk management objectives as being to:

- Endeavour to meet the demands of trade while having due regard for the potential impact of its activities on the environment
  - Ensure that it has in place mechanisms to understand, monitor and manage its obligations to all of its stakeholders.
- The group aims to manage risk by embedding processes and ensuring that 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 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. In addition, risk co-ordinators submit regular updates to risk management personnel at head office on risks relevant to their operations.
- 10. Relations with shareholders**  
**"There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place."**  
 Combined Code – Main Principle D.1
- 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
- Ensure that the health and safety of its employees and other persons is not put at risk by its operations
  - Continue to avoid disasters or catastrophes by managing those physical and other risks that have the potential to damage significantly the financial position of the group, its reputation or its ability to provide services
  - Identify, assess and prioritise opportunities to grow the business, having regard for the need to manage the group's commercial risks

shareholders throughout the year. The Group Chief Executive and the Group Finance Director give presentations to institutional shareholders and analysts immediately after the announcement of the group's half-year and full-year results. These are subsequently made available on the group's website. The group also encourages communications with private shareholders throughout the year and welcomes their participation at shareholder meetings.

The Group Chief Executive and Group Finance Director also conduct one-to-one formal meetings with the group's key shareholders following the announcement of half-year and full-year results. The group obtains independent feedback on these meetings through its corporate brokers. This is circulated to all board members along with other feedback received during the meetings.

The company aims to facilitate any requests from its shareholders for meetings with board directors and responds to queries and requests for information from existing or potential shareholders. Chris Clark, Chairman, and Aubrey Adams, SID, are available to major shareholders to ensure that any potential concerns can be raised directly.

The company issues trading statements in advance of its close periods and provides an indication of trading at the time of the AGM. The group's Annual Report & Accounts, preliminary and interim announcements, trading statements and press releases are available on its website at [www.abports.co.uk](http://www.abports.co.uk), as are all regulatory announcements relating to the group. All communications from the company can be obtained in electronic form by e-mailing [pr@abports.co.uk](mailto:pr@abports.co.uk).

### 11. Constructive use of the Annual General Meeting (AGM)

**"The board should use the AGM to communicate with investors and to encourage their participation."**

Combined Code – Main Principle D.2

The chairmen of the Audit, Remuneration and Nomination committees attend the AGM and are available to answer questions. The Group Chief Executive and the Group Finance Director give a presentation on the group's financial results for the most recent financial full year. Resolutions are proposed on each substantially separate issue and the agenda includes a resolution to adopt the group's Annual Report & Accounts. The 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.

### 12. Audit Committee and auditors

**"The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors".**

Combined Code – Main Principle C.3

#### The Audit Committee report 2005

In 1993, the board established an Audit Committee to oversee financial reporting and internal control matters and to maintain appropriate relationships with the company's auditors. Details of the members of the Audit Committee, all of whom are independent non-executive directors of the company, are set out in figure 1 on page 108.

The terms of reference for the Audit Committee, which include all of the recommendations set out in 'The Smith Guidance', can be found on the group's website [www.abports.co.uk](http://www.abports.co.uk). Alternatively, they can be requested from the company.

Derek Sach replaced Aubrey Adams as Chairman of the Audit Committee on 26 April 2005. Derek is employed as the managing director of Specialised Lending Services at Royal Bank of Scotland and has previously worked as the bank's Director of Group Risk, with responsibility for the effective control and monitoring of risk. Given his background and experience, the board considers that Derek has the current and relevant financial experience necessary to chair the Audit Committee effectively. Derek receives additional remuneration to compensate him for his additional responsibilities as the committee chairman (see table 13 on page 125).

Appointments to the Audit Committee are made by the board at the recommendation of the Nomination Committee. The company ensures that all committee members are familiar with their responsibilities by providing regular briefing papers on developments in corporate governance and company reporting.

The committee is entitled to seek independent external advice at the group's expense. The Company Secretary acts as the secretary for the Audit Committee and, in conjunction with the committee chairman and the Group Finance Director, is responsible for its effective running.

The chairman of the Audit Committee may invite non-members to attend committee meetings. Details of the attendees at

meetings held during 2005, and the meetings of the committee with the Head of Internal Audit and the external audit partner, are provided in table 2 on page 110. The chairman of the Audit Committee maintains regular dialogue with the external audit partner and the Head of Internal Audit in between committee meetings.

In 2005, the committee met formally on five occasions and dealt with the following agenda items:

- Review of trading updates issued by the group
- Review of the group's half-year and full-year results and statement on the impacts of its transition to International Financial Reporting Standards (IFRS)
- Assessment of the going concern basis
- Review of the nature, scope and resources planned for the full-year audit, including the external audit fee
- Review of the report from the external auditors following their 2004 year-end audit and their 2005 interim review
- Approval of the internal audit plan for the forthcoming financial year
- Review of reports from the Head of Internal Audit
- Auditor independence – review of non-audit fees
- Assessment of the effectiveness of the internal and external audit functions
- Review of compliance with the Combined Code
- Review of risk management systems, fraud procedures and internal controls
- Review of litigation involving the group
- Review of the company's material risks disclosed in the operating and financial review and how these link to risk management processes

# Corporate governance

- Review of disclosures in the company's Annual Report & Accounts in relation to risk management, internal control and workings of the Audit Committee
- Review of the Audit Committee's terms of reference
- Review of the audit representation letters signed by management.

One of the primary responsibilities of the committee is to review the company's internal controls and risk management systems designed to safeguard its assets and reputation and to help prevent and detect incidents of fraud. The committee reviews the company's fraud prevention, detection and investigation procedures on an annual basis and requires all actual incidents of fraud to be reported to the chairman. The committee also regularly reviews the company's whistleblowing policy, which facilitates confidential reporting by employees of any incidents of fraud and unethical or illegal behaviour to an appropriate member of the senior management team and also provides for matters to be reported to the chairman of the committee.

The committee recognises the value added by an independent and robust audit of the company's financial statements and maintains procedures to ensure that the independence of the company's auditors is not compromised by other business relationships. Recognising also that it is in the interests of the company to engage its auditors to undertake certain other non-audit assignments, the committee has agreed a policy which sets limits on the amount of non-audit services that may be provided by the company's auditors without prior approval from the committee. The annual limits on the fees that may be

incurred on the procurement of non-audit services without prior approval from the committee are set out in table 3.

The value of the non-audit services provided by the auditors is reviewed by the committee on an annual basis. The committee has also implemented a policy on the employment of former employees of the auditor.

During the year, the committee discussed the group's 2004 full year results, its 2005 interim results and IFRS transition statement with management and the external auditors to ensure that the group's reporting is in line with its compliance obligations and any financial reporting judgements made were reasonable and appropriate. The committee also reviewed the group's formal trading statements to ensure that they represented the board's view of current trading and future prospects accurately.

The committee ensures that the group's procedures, controls and external reports are subjected to an appropriate level of independent scrutiny from internal and external auditors. The 2005 internal audit plan and the level of resources committed to this plan were reviewed and approved by the committee. The Head of Internal Audit provided the committee with progress updates against this plan at three of its five meetings in 2005. The scope, resources and the level of fees proposed by the external auditors in relation to the group's 2005 interim and full-year audits were reviewed and approved by the committee. The committee also assessed the effectiveness of both the internal and external audit functions, held meetings with the Head of Internal Audit and the external audit partner in the absence of executive management and reviewed quality and

Table 3	
Type of work	Annual limit
Audit-related regulatory reporting, including interim review, covenant reporting and other audit certificates	£100,000
Further assurance, including advice on accounting matters, non-regulatory reporting on internal controls or corporate governance, due diligence work and environmental audits	£200,000
Tax compliance services	£200,000
Tax adviser services	£200,000

independence procedures adopted by the group's auditors.

The committee is responsible for keeping under review the group's internal control procedures and risk management systems. In addition to the findings reported by the Head of Internal Audit, at its December meeting the committee reviewed the output from the self-assessment questionnaires on internal controls completed by the business units and a report from the group's risk management working group. The self-assessment questionnaires require all business units to confirm the status of their internal controls covering financial, compliance, commercial, ethical and reputational risks relevant to the group's business and are signed off by the head of each business unit. The report from the risk management working group provides details of the group's risk management systems, the significant risks relating to the group and its business units, its procedures for the management of fraud risk and a summary of the significant risks that are reported within the operating and financial review.

The committee is scheduled to meet three times during 2006. Following the publication of the Flint Review of the

Turnbull Guidance on internal control, it is intended that the committee will review the group's risk management systems on a more frequent basis.

**Derek Sach**  
Chairman of the Audit Committee  
22 February 2006

**13. Appointments to the board**  
"There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board"

Combined Code – Main Principle A.4

**Nomination Committee report 2005**

Membership of the Nomination Committee is set out in figure 1 on page 108 and its terms of reference, which include responsibility for reviewing the size, structure and composition of the board, are available from the group's website [www.abports.co.uk](http://www.abports.co.uk). They are also available, on request, from the company. The committee meets as and when necessary but at least once a year.

The Nomination Committee is responsible for succession planning and ensuring that all appointments to the board are made *against objective criteria and on merit*. The committee takes into account the balance of skills, knowledge and experience of the board in making its recommendations and uses external search firms or open advertising to compile shortlists of candidates for board membership.

The committee met twice during the year. Among other activities, it was involved in

the process which culminated in the appointment of Doug Morrison as an executive director. It evaluated the balance of skills, knowledge and experience already on the board, and, in the light of this evaluation, it was decided that the balance of the board would be further enhanced by the appointment of an additional executive director directly involved in the running of the business at an operational level. As the most experienced Port Director, and in view of his wealth of knowledge of the ports industry, it was decided that Doug Morrison was the most appropriate candidate for the role.

During 2005, the committee was informed by Aubrey Adams and Andrew Simon that in view of their length of service they had decided to retire from the board. The committee considered the size and structure of the board in light of these decisions and concluded that it would be appropriate to recruit two new non-executive directors to replace Aubrey and Andrew. The committee engaged an external search firm to source and evaluate candidates with suitable experience, skills and backgrounds. Initial discussions with potential candidates were led by Chris Clark and Bo Lerenius. Shortlisted candidates met with all of the remaining board directors and the process was concluded by the appointment of Russell Edey and Simon Melliss as non-executive directors with effect from 1 March 2006.

The terms and conditions of appointment of all of the group's non-executive directors, including the Chairman, are available for inspection at the group's registered office, 150 Holborn, London, EC1N 2LR. In addition, they can be viewed at the Annual

General Meeting. All future appointments are expected to be for an initial period of up to three years followed by no more than two additional three-year periods.



**Chris Clark**  
Chairman of the Nomination Committee  
22 February 2006

**14. Compliance with the provisions of the Combined Code**

The board considers that the company has complied in full with the principles set out in Section 1 of the updated Combined Code throughout the year ending 31 December 2005.

While the company's auditors, PricewaterhouseCoopers LLP, are not required to form an opinion on the effectiveness of the company's corporate governance procedures, they are required to review whether this corporate governance statement reflects the company's compliance with nine of the Code's provisions as specified by the Listing Rules of the Financial Services Authority. These provisions are contained within section C of the Combined Code, which relates to the area of Accountability and Audit. Having conducted a review, PricewaterhouseCoopers LLP are obliged to report if it considers that this statement does not reflect such compliance. No such report has been made.



**Chris Clark**  
Chairman  
22 February 2006

# Remuneration report

**"Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance."**

Combined Code – Main Principle B.1

**"There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration."**

Combined Code – Main Principle B.2

## Introduction

This report sets out the group's policy and disclosure in relation to directors' remuneration. It has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and explains how the group has applied the principles of the Combined Code on Corporate Governance in relation to the remuneration of directors.

The 2004 directors' report on remuneration was approved by the shareholders at the Annual General Meeting (AGM) in April 2005. The company will seek approval of this report at the forthcoming AGM on 26 April 2006. Directors do not vote on any matters relating to their own remuneration.

## The Remuneration Committee

The board of directors is responsible for executive remuneration. It has established a Remuneration Committee to make recommendations on policy, framework and the cost base of executive remuneration.

The committee's full terms of reference are available on the group's website, [www.abports.co.uk](http://www.abports.co.uk). Alternatively, the company can provide them upon request.

The committee comprises all of the independent non-executive directors. For full details of its membership, together with attendance records for 2005, see table 1, page 108. Stuart Chambers is Chairman of the Remuneration Committee, having succeeded Derek Sach on 26 April 2005. As the Chief Executive of Pilkington plc, Stuart has wide business and board experience and is considered to have the necessary experience for the role.

The committee:

- Determines and keeps under review the group's broad policy for the remuneration of the Chairman, executive directors and other senior managers
- Oversees major changes in employee-benefit structures throughout the group
- Approves the design of and determines targets for any performance-related pay schemes the group operates
- Reviews the design of all share incentive plans for approval by the board and shareholders and approves grants of share options to directors and senior managers
- Within the terms of the agreed policy, determines the terms and conditions of executive directors, including their total remuneration packages
- Reports to the board and external stakeholders on matters within its responsibilities and duties.

The committee is authorised to appoint any advisers it requires to fulfil its responsibilities, the choice and use of which are committee matters. Currently, it uses New Bridge Street Consultants LLP to provide independent advice on determining appropriate levels of remuneration. New Bridge Street Consultants LLP also manages the measurement of performance against vesting targets for the Long-Term Incentive Plan (LTIP). The committee also has access to Hywel Rees, Company Secretary and Head of Group Personnel.

In addition, the Remuneration Committee takes into account the views of the Group Chief Executive in determining remuneration for Richard Adam, Group Finance Director, and Doug Morrison, executive director. Neither the Group Chief Executive nor any of the other executive directors is present at committee meetings where their own remuneration is discussed.

A summary of matters considered and actions taken at each committee meeting held in 2005 is shown in table 4 on page 119.

## 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. To achieve its aims, remuneration packages for executive directors are reviewed annually and are designed to provide market-competitive rates of total remuneration based on personal performance with the incentive of additional remuneration on achievement of challenging targets. Market rates are determined by reference to other companies of similar size, activities and complexity.

Table 4	
Date of meeting during 2005	Summary of matters discussed and actions taken
14 February	Consideration and approval of 2004 annual bonus payments. Initial discussion on revision of long-term incentive arrangements. Review of performance against vesting conditions for grants made under the Long-Term Incentive Plan (LTIP). Discussion and agreement of 2005 LTIP awards for Bo Lerenius and Richard Adam.
26 April	Discussion on salary increases for ABP's directors. Discussion and agreement of 2005 LTIP award for Doug Morrison.
20 June	Review of performance targets for executive options granted in 2002 and to be granted in 2005.
19 July	Discussion and agreement of the Chairman's fee. Further discussion on revision of long-term incentive arrangements. Review of performance against vesting conditions for grants made under the LTIP. Agreement of 2005 executive share option grant.
5 September	Agreement of salaries following Port Director appointments.
14 November	Further discussion on revision of long-term incentive arrangements. Review of performance against vesting conditions for grants made under the LTIP. Discussion on pension arrangements for executive directors.
12 December	Agreement of proposals for new long-term incentive arrangements to be introduced in 2007. Review and agreement of 2006 salaries for executive directors. Review and agreement of annual bonus plan for 2006. Agreement of revised pension arrangements for executive directors. Review of the committee's terms of reference.

The group's policy is based on the premise that rewards for executive directors should be linked to the attainment of its objectives. The committee keeps both the fixed and variable elements of each director's overall package under review. During 2005, the committee conducted a full review of the company's executive incentive policy, with the assistance of New Bridge Street Consultants LLP, in the context of the company's circumstances and objectives, investor guidelines and changes in accounting standards and practice. Proposals from this review are being submitted to shareholders for approval. In addition to bringing the company's arrangements into line with market practice, these proposals will lead to an increased proportion of executive remuneration being linked to performance. In recent years, the committee progressively increased the

variable element of executive remuneration as follows:

- Performance-related annual bonuses for executive directors and senior management introduced in 2000
- LTIP introduced for executive directors in 2003
- Performance-related annual bonus element to be increased for all executives during 2006
- LTIP to be replaced by a Performance Shares Plan (PSP) for executive directors in 2006
- Share Matching Plan (SMP) to replace executive share options for executive directors during 2007

→ SMP and PSP to replace executive share options for executives who report directly to the Group Chief Executive during 2007

→ PSP to replace executive share options for all other senior management during 2007.

The committee considers the targets set for the variable element of executive directors' remuneration to be appropriate and demanding in the context of market practice, the group's trading environment and the business challenges it faces. Attainment of targets for the 2005 performance-related bonus scheme and for share options granted after 1 January 2002 have been tested under IFRS where appropriate.

Components of executive remuneration based on actual levels of cash payments and the change in transfer value of accrued pension rights, where applicable, in 2005 are set out in figure 3 on page 120.

The percentage figures for base salary, annual bonus, pension contributions or change in transfer value of accrued pension rights and other benefits represent amounts paid or accrued in respect of 2005; share option percentages represent the aggregate gains made on the exercise of share options during 2005.

Subject to shareholder approval of the proposed new long-term incentive arrangements, components of executive remuneration based on estimated target levels of pay in 2006 are set out in figure 4 on page 120.

# Remuneration report

**Figure 3**  
**Components of executive remuneration** 2005

■ Share options	■ Pension
■ Other benefits	■ Pension supplement
■ Annual bonus	■ Base salary

**Figure 4**  
**Components of executive remuneration** 2006

■ Share options	■ Annual bonus
■ Performance shares	■ Pension benefit
■ Other benefits	■ Base salary

**Figure 5**  
**Components of executive remuneration** 2007

■ Matching shares	■ Annual bonus
■ Performance shares	■ Pension benefit
■ Other benefits	■ Base salary

The percentage figures for base salary, annual bonus, pension contributions or pension benefits accrued and other benefits represent amounts estimated as being accrued for on-target performance in 2006; performance shares percentages are based on estimated amounts vesting for on-target performance and share option percentages represent estimated values for 2006 grants using a Black-Scholes model.

Subject to shareholder approval of the proposed new long-term incentive arrangements, components of executive remuneration, based on estimated target levels of pay, for 2007 and beyond are set out in figure 5.

The percentage figures for base salary, annual bonus, pension contributions or pension benefits accrued and other benefits represent amounts estimated as being accrued for on-target performance in 2007; matching shares and performance shares percentages are based on estimated vesting amounts for on-target performance.

The company maintains contact with its principal shareholders on remuneration matters as necessary.

## Executive directors

The remuneration package for executive directors comprises a competitive basic salary, a performance-related annual cash bonus, share-related incentive schemes, pension provision and other benefits. In determining executive remuneration, the committee takes into account pay and employment conditions across the group.

## 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 with input from

independent remuneration consultants as appropriate; any increases are awarded only after taking into account individual performance, changes in responsibilities, the group's prospects, the wider economic and employment backdrop and external advice as to appropriate salary levels for each position. Base salaries for executive directors, which are summarised in table 5, are reviewed annually at the beginning of each year.

	Year to	From	Annualised
	31 December 2005	1 January 2006	change
	£	£	%
Richard Adam	325,000	345,000	6.2
Bo Lerenius	500,000	530,000	6.0
Doug Morrison*	87,600	135,700	5.6

\*Base salary for 2005 relates to the period from date of appointment, 26 April 2005  
Changes in the base salaries for executive directors were agreed by the committee after consulting its independent remuneration consultant and by taking into account expected salary settlements within the wider market.

## Performance-related bonus

In order to reward performance against short-term targets, the committee has established a discretionary non-pensionable annual performance-related bonus scheme for executive directors and other senior management. The bonus scheme is designed to motivate the executive directors and senior managers to not only attain, but also to exceed, key targets set out in the group's annual budget.

For 2005, executive directors were able to earn bonus amounts of up to 30 per cent of base salary for on-target performance; up to a further 30 per cent of base salary was payable for exceptional outperformance against targets. Other senior managers were eligible for payment of up to 20 per cent of base salary for on-target performance and up to a further 20 per cent of base salary for exceptional outperformance against target.

The group's performance targets for executive directors, which are agreed by the Remuneration Committee, relate to the following:

- Growth in the group's underlying earnings per share
- Growth in the group's underlying ports and transport operating profits
- Attainment of group health and safety targets.

Senior managers with operational responsibilities are assessed on the above criteria and, additionally, the attainment of return on capital employed targets.

Table 6 provides a summary of the targets used to assess the attainment of bonuses by Bo Lerenius and Richard Adam under the 2005 scheme. Doug Morrison's bonus was based on the attainment of 2005 targets by the Ports of Hull & Goole and the Port of Southampton.

The group will pay bonuses in the range of nil to 42 per cent of base salaries for 2005, as it partially achieved its targets in relation to growth in underlying earnings per share and underlying ports and transport operating profits and achieved its target for reducing reportable injuries per thousand employees.

As a result of the 2005 review of remuneration practices undertaken by the committee in conjunction with New Bridge Street Consultants LLP, subject to shareholder approval, for 2006 and beyond, executive directors will be able to earn bonus amounts of up to 60 per cent of base salary for on-target performance; up to a further 40 per cent of base salary will be payable for exceptional outperformance against targets. Under the proposed plan, executive directors and executives who report directly to the Group

Chief Executive will be required to invest a minimum of 33 per cent of their bonus in an SMP that will also allow them to invest a further 17 per cent of their bonus. Executives who report directly to the Group Chief Executive will be eligible for bonus payments of up to 36 per cent of base salary for on-target performance and up to a further 24 per cent of base salary for exceptional outperformance against target. Other senior managers will be eligible for maximum bonus payments of up to 40 per cent with no requirement to invest in the SMP.

#### Share-related incentives

Executive directors and other senior managers are currently entitled to participate in the following share-related incentive schemes, which are designed to link their long-term interests with those of the group: the Executive Share Option Scheme (ESOS); the Savings-Related Share Option Scheme (SRSOS); the Share Incentive Plan (SIP); the LTIP. Currently,

participation in the LTIP is limited to the executive directors. As a result of its review of the company's executive incentive arrangements, the committee is proposing a number of changes to these schemes for future years, which will be considered by the shareholders at the 2006 AGM. These proposals are summarised on pages 122 to 124 where appropriate.

The company is aware of the limits included in the guidelines issued by the Association of British Insurers (ABI) in relation to the percentage of issued share capital that can be subject to options to subscribe. These guidelines recommend that no more than five per cent of the issued share capital should be committed to options under discretionary schemes over a 10-year period and no more than 10 per cent of the issued capital should be committed to options under all schemes over a 10-year period. The company's current position in respect of these limits is set out in table 7.

	Percentage of bonus*	Growth required to trigger minimum bonus payments	Growth required for maximum bonus payments	Actual growth achieved
Growth in underlying earnings per share	40.0%	5.2%	9.3%	6.0%
Growth in underlying ports and transport operating profits	60.0%	2.1%	5.9%	3.5%

\*Subject to the overall amount of bonus received by any bonus scheme participant being capped at the maximum percentage noted above, amounts paid to all employees are adjusted to reflect the group's performance in relation to the number of reportable injuries per thousand employees suffered by its UK ports and transport operations. Bonus amounts otherwise payable are reduced by 10 per cent for an incidence rate of more than 15 and are increased by 10 per cent for an incidence rate of less than 12. No adjustments are made for an incidence rate of between 12 and 15.

	Discretionary schemes 10 per cent test	All schemes 5 per cent test
Options issued during the 10 years to 31 December 2005	14,433,516	6,445,023
10 per cent or 5 per cent of issued capital at 31 December 2005	30,150,438	15,075,219
Headroom against ABI limit at 31 December 2005	15,716,922	8,630,196

# Remuneration report

## Executive Share Option Scheme (ESOS)

Options are issued annually at a price equal to the average of the share prices on the five days immediately preceding the date of grant. Except in a very limited number of circumstances, options granted under the ESOS may only be exercised once the underlying earnings per share (EPS) target has been achieved. Options may also become exercisable following a change in control of the company; options granted before 2005 vest in full on change of control. However, for options granted in 2005 and beyond, options only vest following a change of control provided that the performance conditions are met over the shortened period.

The value of options granted annually to each executive director and senior manager is limited to one times their annual base salary. Details of grants made to the executive directors during the year are set out on page 127. The committee has proposed that the ESOS be replaced by a SMP for executive directors, by a SMP and a PSP for executives who report directly to the Group Chief Executive and by a PSP for all other senior management with effect from 2007. Under the PSP, executives who report directly to the Group Chief Executive and other senior managers could be awarded shares with a value of up to 40 per cent of their base salary on an annual basis. Under the SMP, executive directors and executives who report directly to the Group Chief Executive will be required to invest 33 per cent of their annual bonus and may voluntarily increase this investment up to an overall maximum of 50 per cent of their annual bonus into the SMP for three years. The company will match this investment by between 60 per cent and 200 per cent, subject to the attainment of challenging and appropriate vesting conditions. Vesting conditions for the PSP and SMP will be

detailed in a circular to be sent to shareholders prior to the 2006 AGM seeking approval for the proposed changes.

To strengthen the link between the interests of the company and its directors, the company intends to encourage its executive directors to accumulate and hold shares equivalent to 100 per cent of their salaries within five years of the introduction of the SMP and the PSP. To assist with this aim, it is anticipated that executive directors will retain up to 50 per cent of any future post-tax award vesting under the SMP and the PSP until the target of 100 per cent of basic salary has been achieved.

The target set in relation to the vesting of all outstanding ESOS options requires the growth of the group's underlying EPS to exceed the rate of inflation by at least three per cent per annum for a minimum period of three years. For options issued under the ESOS prior to 2004, the minimum period will be extended by one year at the end of the third year and by a further year at the end of the fourth year if this target is not achieved after three years. If the target has not been met by the end of the fifth year, the options will lapse. For options issued under the ESOS during and since 2004, the options will lapse if the target is not achieved after three years. The company introduced this change during 2004 in order to align its practices with best practice.

Options granted under the ESOS in 2002 did not vest during 2005 as the growth in the group's underlying EPS for the three-year period from 1 January 2002 was below the target level required under the scheme rules. Under the re-testing provisions, these options will also not vest in 2006 and will be subject to a second and final retesting in February 2007.

Similarly, options granted under the ESOS in 2003 will not vest during 2006, as the growth in the group's underlying EPS for the three-year period from 1 January 2003 was below the target level required under the scheme rules. These options will now be retested in February 2007.

The group uses growth in underlying EPS as the target for the remaining options held by executive directors and other senior managers, as this is an indicator that can be verified independently and is closely aligned to shareholder value. The committee reviews the appropriateness of the measure and target adopted at the time of each grant. Further details of the options held by each executive director under the ESOS are provided on page 127.

The targets set and actual performance of the group in relation to unvested option grants are detailed in table 8.

Table 8			
	Base earnings per share P	2005 target earnings per share required to trigger vesting of options P	Actual earnings per share 2005 P
2002*	27.3	33.8	31.6
2003*	28.3	33.3	31.6
2004*	28.0	31.3	31.6
2005	29.8	31.4	31.6

\*Prior year previously reported under UK GAAP, now reported under IFRS

### Savings-Related Share Option Scheme (SRSOS)

Under the SRSOS, the company grants options to eligible employees, including executive directors, at an option price that is 20 per cent lower than the market price at the date of grant. Employees can elect to save up to £250 per month for a period of three or five years. At the end of the elected savings period, they can use the proceeds to acquire shares at the option price. The group operates similar plans for its employees in the USA. There are no performance conditions attached to the vesting of options granted under the SRSOS. Further details of the options held by each executive director under the SRSOS are provided on page 127.

### Share Incentive Plan (SIP)

Subject to a minimum period of service, all UK employees, including executive directors, are eligible to participate in the SIP. Participating employees can elect to purchase up to £125 of shares out of their pre-tax and National Insurance salaries per month. The shares are allotted to a trustee on a monthly basis and held in trust for a period of five years prior to vesting.

During 2005, employees had the opportunity to elect to be awarded free shares worth £125 for the year. The scheme also allowed participating employees to receive further shares up to a maximum annual value of £500 if the group achieved its annual underlying pre-tax

profit target. Shares awarded under this part of the scheme are again held in trust for a period of five years prior to vesting.

As the group achieved its underlying pre-tax profit target for the year, awards of £625 were made to each participating employee under the SIP for 2005. The group intends to retain the existing structure for the 2006 grants under the SIP, which will be open once again to eligible employees in 2006.

### Long-Term Incentive Plan (LTIP)

The company introduced the LTIP during 2003 to further strengthen the link between the executive directors' remuneration and the long-term performance of the group. It enables executive directors to receive annual share awards of up to 100 per cent of their base salary. The vesting of the shares is based on the company's performance in terms of total shareholder return (TSR) compared to the group of FTSE companies ranked between 51 and 150 by market capitalisation, excluding companies in the financial, IT and telecommunications sectors. The exact list of companies is based on the average market capitalisation of companies over the three months prior to the beginning of each performance period. Each performance period lasts three years and commences at the beginning of the financial year in which the award is made.

TSR is averaged over the six months prior to the start and end of each performance

period. Thirty per cent of the shares vest for attaining a median ranking; 100 per cent of the shares vest if the company is ranked in the upper decile; there is pro-rata vesting for performance between median and upper decile. No shares vest for below-median ranking. The independent remuneration consultants manage the measurement of performance against vesting targets in line with the plan rules circulated to shareholders prior to the approval of the LTIP in 2003. In the event of change of control, the performance period ends on the relevant date and the vesting of the relevant awards, based on the normal criteria, is restricted by reference to reduction in the performance period.

Grants made under the LTIP in 2003 did not vest, as the group's TSR for the three-year period to 31 December 2005 was below that of the median-ranking company within the applicable comparator group. During the year, Bo Lerenius, Richard Adam and Doug Morrison, received conditional awards of shares equivalent to their annual base salaries. Further details on the number of shares issued to each director under the LTIP are provided on page 128. Table 9 sets out the vesting status of LTIP grants as at 31 December 2005.

As part of the proposals developed following the committee's review of the company's incentive arrangements, it is intended that the LTIP will be replaced by

Table 9

Year of grant	Beginning of performance period	End of performance period	Number of companies in comparator group	Rank for 30% vesting	Rank for 100% vesting	Company's current rank	Current vesting percentage
2004	1 January 2004	31 December 2006	73	37	8	48	Nil
2005	1 January 2005	31 December 2007	78	39	8	42	Nil

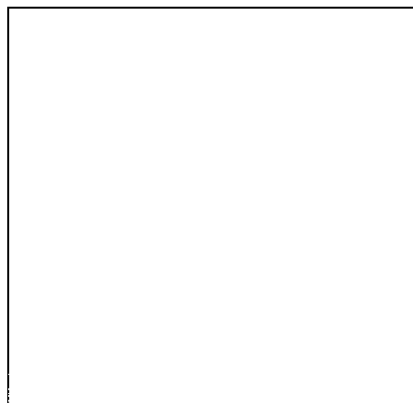
# Remuneration report

a PSP for executive directors during 2006. Under the PSP, the executive directors may be awarded annual grants of shares up to 125 per cent of their base salaries, although the initial intention is to limit grants up to 100 per cent of base salaries. Vesting conditions for the PSP will be detailed in a circular to be sent to shareholders prior to the 2006 AGM seeking approval for the proposed changes.

## Total shareholder return (TSR)

As required by the Directors' Remuneration Report Regulations 2002, the graph in figure 6 sets out the group's TSR compared with the FTSE top-250 comparator group of companies over the five-year period to 31 December 2005.

Figure 6  
Total shareholder return



The company has selected the FTSE-250 comparator group because its FTSE ranking has ranged from 131 to 142 during 2005. In line with market practice, the calculation for TSR assumes reinvestment of dividends and is based on data provided by Datastream.

## Pension

The company pays Bo Lerenius and Richard Adam a supplement of 30 per cent of basic salary in lieu of pension arrangements. This was increased from 25 per cent on 1 January 2006 following a review of pension arrangements by the committee during 2005. Doug Morrison, executive director, is a member of the group's defined benefit pension scheme. Following the implementation in 2005 of a salary-sacrifice plan, Doug does not make any contributions towards the company's pension scheme. Under this arrangement Doug's salary from the date of his appointment to 31 December 2005 was reduced by £6,000 and the company contributed this amount into its pension scheme on his behalf. Details of his pension arrangements are shown in table 10. The company does not intend to make any changes to the pension-provision arrangements set out above for its directors as a result of the recent changes in pensions legislation.

## Other benefits

The company provides other benefits in line with market practice. These include medical cover and a company car or cash alternative.

## Service contracts

The employment contracts of the executive directors contain a notice period of 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 by an executive director for loss of office, the level of compensation would be subject to mitigation if considered appropriate and legally sustainable. The service contracts of existing directors do not contain any provisions for pre-determined compensation. Table 11 sets out details of directors' contracts.

Table 11

	Date of appointment	Notice period	Expected retirement age
Bo Lerenius	17.05.99	1 year	65
Richard Adam	15.11.99	1 year	65
Doug Morrison	26.04.05	1 year	65

Table 10

Executive director	Normal retirement age	Total accrued pension at 26 April 2005 £000	Gross increase in accrued pension £000	Increase in accrued pension net of inflation £000	Transfer value of net increase in accrual over period £000	Transfer value of accrued pension at 26 April 2005 £000	Transfer value of accrued pension at 31 Dec 2005 £000	Total change in transfer value during period £000
Doug Morrison	65	62	18	17	322	996	1,492	496

### External appointments

The group believes that the experience gained by executive directors through their involvement with other companies has the potential to be beneficial to both the individual and the group. The group's policy on external appointments is to allow executive directors to accept one external non-executive appointment as long as the time commitments involved do not undermine the performance of their duties. During 2004, Bo Lerenius, who had been appointed as non-executive director for Group 4 Securicor plc in 2003, was permitted to accept a second non-executive appointment with Land Securities plc. The approval for this second appointment was considered and granted by the Chairman in conjunction with the independent non-executive directors. It is anticipated that, except for their existing commitments, the executive directors will not be permitted to take on any further external appointments. Directors are permitted to retain any fees earned through such appointments. Fees earned by Bo Lerenius and Richard Adam from external appointments for the year ending 31 December 2005 amounted to £86,000 and £35,000, respectively. Further details of current appointments held by executive directors are set out in their biographies on pages 100 and 101.

### Non-executive directors

Non-executive directors are appointed to the board for an initial term of three years and are permitted to offer themselves for re-election for subsequent terms of up to three years. Non-executive directors who have served on the board for a period in excess of nine years are required to offer themselves for re-election on an annual

basis. They do not have service contracts. The commencement and expected year of expiry of each of the non-executive directors' current terms are shown in table 12.

Table 12		
	Current term commencement date	Date of expiry of current term
Aubrey Adams	26 April 2005	AGM 2006
Tim Bowdler	21 April 2004	AGM 2007
Stuart Chambers	15 April 2003	AGM 2006
Chris Clark	26 April 2005	AGM 2008
Derek Sach	21 April 2004	AGM 2007
Andrew Simon	26 April 2005	AGM 2006

To determine the fees it pays to non-executive directors, the board takes into account the need to attract individuals of appropriate calibre and expertise, the fees paid to non-executive directors by other companies of a similar size and the time commitment attached to each appointment. The board keeps fees under review. Non-executive directors do not participate in the performance-related annual bonus, any of the group's equity-linked remuneration plans or pension arrangements.

Full details of the committee memberships held by the non-executive directors are set out in table 1 on page 108. All non-executive directors sit on the Audit, Nomination and Remuneration committees with the exception of Chris Clark, who does not sit on the Audit Committee or the Remuneration Committee, as he is not considered to be independent under the updated Combined Code on Corporate Governance. Following the publication of the updated Combined Code, the board considered whether it would be

appropriate to make additional payments to non-executive directors for their membership of these committees. It concluded that it was appropriate to pay the respective chairmen of the Audit and Remuneration committees an additional £7,500 a year, but that it was not appropriate to make additional payments to other committee members. Fees paid to non-executive directors were reviewed by the board in September 2005 and will next be reviewed during 2007.

Table 13			
	To 30 September 2005 £	From 1 October 2005 £	Change %
Chairman <sup>1</sup>	160,000	175,000	9.4
Non-executive director	32,500	35,000	7.7
Additional fee for chairman of Audit Committee	7,500	7,500	-
Additional fee for chairman of Remuneration Committee	7,500	7,500	-
Additional fee for Senior Independent Director	7,500	7,500	-

<sup>1</sup> Chairman's change effective from 1 August 2005

A breakdown of the composition of the fees earned by non-executive directors is provided in table 13.

### Audited information

The emoluments and directors' interests information disclosed in table 15 on page 126 and on the following pages, which – with the exception of table 20 – is required by Part 3 Schedule 7A of the Companies Act 1985, has been audited.

# Remuneration report

## Directors' emoluments

Table 15										
	Salary/ fees 2005 £000	Performance- related bonus 2005 £000	Pension supplement 2005 £000	Other benefits 2005 £000	Total 2005 £000	Salary/ fees 2004 £000	Performance- related bonus 2004 £000	Pension supplement 2004 £000	Other benefits 2004 £000	Total 2004 £000
<b>Executive directors</b>										
Richard Adam	325	137	81	13	556	310	95	77	13	495
Bo Lerenius (a)	500	211	125	12	848	465	143	116	12	736
Doug Morrison (b)	88	43	–	71	202	–	–	–	–	–
<b>Total</b>	<b>913</b>	<b>391</b>	<b>206</b>	<b>96</b>	<b>1,606</b>	<b>775</b>	<b>238</b>	<b>193</b>	<b>25</b>	<b>1,231</b>
<b>Non-executive directors</b>										
Aubrey Adams	41	–	–	–	41	45	–	–	–	45
Tim Bowdler	33	–	–	–	33	33	–	–	–	33
Stuart Chambers	38	–	–	–	38	33	–	–	–	33
Chris Clark (c)	166	–	–	–	166	67	–	–	–	67
Derek Sach	41	–	–	–	41	40	–	–	–	40
Ross Sayers (c)	–	–	–	–	–	47	–	–	–	47
Andrew Simon	36	–	–	–	36	40	–	–	–	40
<b>Total</b>	<b>355</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>355</b>	<b>305</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>305</b>
<b>Total directors' emoluments</b>	<b>1,268</b>	<b>391</b>	<b>206</b>	<b>96</b>	<b>1,961</b>	<b>1,080</b>	<b>238</b>	<b>193</b>	<b>25</b>	<b>1,536</b>
(a) The highest-paid director during the year was Bo Lerenius.										
(b) From date of appointment, 26 April 2005. Base salary reflects a £6,000 reduction in relation to the salary-sacrifice plan, under which the company has agreed to take responsibility for employee contributions into the pension scheme. The total change in the transfer value of Doug Morrison's pension benefit from 26 April 2005 to 31 December 2005 amounted to £496,000. Other benefits include £61,000 paid as the company's contribution towards relocation costs.										
(c) Ross Sayers retired from the board on 21 April 2004 and Chris Clark was appointed to the board as Chairman on 1 August 2004.										

Table 16						
Composition of non-executive directors' fees earned in 2005	Fee for SID or chairing a board committee		Total	Fee for SID or chairing a board committee		Total
	2005	2005		2004	2004	
	£000	£000		£000	£000	
Aubrey Adams (a)	33	8	41	38	7	45
Tim Bowdler	33	–	33	33	–	33
Stuart Chambers	33	5	38	33	–	33
Chris Clark	166	–	166	67	–	67
Derek Sach	33	8	41	33	7	40
Ross Sayers	–	–	–	47	–	47
Andrew Simon	33	3	36	33	7	40
(a) Aubrey Adams's 2004 fees include £5,000 for providing property advice to the company.						

Total emoluments, excluding pension benefits, of the directors of the group's principal UK operating company, Associated British Ports, were within the ranges set out in table 17.

Table 17		
Range	Number of directors 2005*	Number of directors 2004*
0£30,000 - 0£49,999	1	1
0£50,000 - 0£69,999	1	1
0£70,000 - 0£89,999	2	–
£110,000 - £129,999	2	3
£130,000 - £149,999	–	2
£150,000 - £169,999	2	1
£170,000 - £189,999	1	1
£210,000 - £229,999	–	1
£230,000 - £249,999	1	–
*Excluding the emoluments of Richard Adam, Bo Lerenius and Doug Morrison (post his appointment to the main group board on 26 April 2005), the details of which are set out in table 15 above. Emoluments refer only to the period for which an individual was a director.		

**Payments to former directors**

Lord Crickhowell, who retired as a director on 28 April 1999, was retained as a consultant and received £3,750 (2004: £15,000) in respect of his services. This arrangement ceased on 31 March 2005.

**Directors' share options**

Movements in the directors' holdings of options under the ESOS, SRSOS and LTIP during the year are set out in tables 18 to 21.

**Executive Share Option Scheme**

Table 18							
	Options at 1 January 2005*	Granted in year	Exercised in year	Options at 31 December 2005 (a)	Date of grant	Option price	Date normally exercisable
Richard Adam	52,785	-	(52,785)	-	Sep 2001	400.00p	Sep 2004 to Sep 2011
	58,472	-	-	58,472	Sep 2002	419.00p	Feb 2007 to Sep 2012
	71,090	-	-	71,090	Sep 2003	422.00p	Feb 2007 to Sep 2013
	70,454	-	-	70,454	Sep 2004	440.00p	Sep 2007 to Sep 2014
	-	61,669	-	61,669	Oct 2005	527.00p	Oct 2008 to Oct 2015
	252,801	61,669	(52,785)	261,685			
Bo Lerenius	95,738	-	(95,738)	-	Sep 2001	400.00p	Sep 2004 to Sep 2011
	97,852	-	-	97,852	Sep 2002	419.00p	Feb 2007 to Sep 2012
	106,635	-	-	106,635	Sep 2003	422.00p	Feb 2007 to Sep 2013
	105,681	-	-	105,681	Sep 2004	440.00p	Sep 2007 to Sep 2014
	-	94,876	-	94,876	Oct 2005	527.00p	Oct 2008 to Oct 2015
	405,906	94,876	(95,738)	405,044			
Doug Morrison	15,513	-	-	15,513	Sep 2002	419.00p	Feb 2007 to Sep 2012
	21,327	-	-	21,327	Sep 2003	422.00p	Feb 2007 to Sep 2013
	22,727	-	-	22,727	Sep 2004	440.00p	Sep 2007 to Sep 2014
	-	26,565	-	26,565	Oct 2005	527.00p	Oct 2008 to Oct 2015
	59,567	26,565	-	86,132			

\*Interests at date of appointment if later

(a) Options held at 31 December 2005 are only exercisable should the performance criteria discussed on page 122 be achieved.

(b) On 30 September 2005, Richard Adam exercised options over 52,785 shares at 400.00 pence per share. The market price at the close of business on 30 September 2005 was 525 pence per share. On 30 September 2005, Bo Lerenius exercised options over 95,738 shares at 400.00 pence per share. The market price at the close of business on 30 September 2005 was 525 pence per share. There were no aggregate gains made by the directors on the exercise of options during 2004.

**Savings-Related Share Option Scheme**

Table 19							
	Options at 1 January 2005*	Granted in year	Exercised in year	Options at 31 December 2005	Date of grant	Option price	Date normally exercisable
Richard Adam	2,737	-	-	2,737	Oct 2003	337.00p	6 months from Jan 2007
Bo Lerenius	2,737	-	-	2,737	Oct 2003	337.00p	6 months from Jan 2007
Doug Morrison	794	-	-	794	Oct 2000	255.00p	6 months from Jan 2006
	607	-	-	607	Oct 2001	327.00p	6 months from Jan 2007
	1,004	-	-	1,004	Oct 2002	327.00p	6 months from Jan 2008
	1,881	-	-	1,881	Oct 2003	337.00p	6 months from Jan 2009
	373	-	-	373	Oct 2004	354.00p	6 months from Jan 2010
	-	809	-	809	Oct 2005	398.00p	6 months from Jan 2011
	4,659	809	-	5,468			

\*Interests at date of appointment if later

# Remuneration report

## Long-Term Incentive Plan

Table 20	At 1 January 2005	Awarded in year	Lapsed in year	Vested in year	At 31 December 2005	Market price at award date	Date of award	Earliest vesting date
Richard Adam	76,433	–	(76,433)	–	–	392.5	May 2003	n/a
	69,351	–	–	–	69,351	447.0	Feb 2004	19 Feb 2007
	–	68,855	–	–	68,855	477.5	Feb 2005	17 Feb 2008
	145,784	68,855	(76,433)	–	138,206			
Bo Lerenius	114,649	–	(114,649)	–	–	392.5	May 2003	n/a
	104,026	–	–	–	104,026	447.0	Feb 2004	19 Feb 2007
	–	105,932	–	–	105,932	477.5	Feb 2005	17 Feb 2008
	218,675	105,932	(114,649)	–	209,958			
Doug Morrison	–	29,818	–	–	29,818	457.0	Apr 2005	27 Apr 2008
	–	29,818	–	–	29,818			

## Directors' interests

Directors' beneficial interests, including family interests, in the share capital of the company as at 31 December 2005, as recorded in the register maintained under section 325 of the Companies Act 1985, are set out in table 21.

Table 21	Ordinary shares of 25p each		Ordinary shares of 25p each held under the SIP	
	2005*	2004	2005*	2004
Richard Adam	7,287	7,287	1,667	1,313
Aubrey Adams	20,000	20,000	–	–
Tim Bowdler	5,000	5,000	–	–
Stuart Chambers	10,000	5,000	–	–
Chris Clark	10,000	5,000	–	–
Bo Lerenius	44,179	34,179	1,667	1,313
Doug Morrison	515	–	1,667	–
Derek Sach	26,280	15,000	–	–
Andrew Simon	5,000	5,000	–	–

\*Interests at date of appointment if later

On 3 January 2006, Doug Morrison was allotted 794 shares following an exercise of options held by him under the Savings-Related Share Option Scheme. On 20 January 2006, 21 shares were allotted to the trustees of the SIP on behalf of Richard Adam, 21 shares were allotted on behalf of Bo Lerenius and 21 shares were allotted on behalf of Doug Morrison. On 20 February 2006, 20 shares were allotted to the trustees of the SIP on behalf of Richard Adam, 20 shares were allotted on behalf of Bo Lerenius and 20 shares were allotted on behalf of Doug Morrison. There have been no other changes in total shareholdings by directors in the period from 31 December 2005 to 22 February 2006. None of the directors had any non-beneficial interest in the share capital of the company during the period to 31 December 2005, nor the period from the year-end to 22 February 2006. The company's Register of Directors' Interests, which is available for inspection, contains full details of directors' shareholdings and options to subscribe for further shares.

**Stuart Chambers**  
Chairman of Remuneration Committee  
22 February 2006

# Shareholder analysis

At 31 December 2005				
Ordinary shares of 25 pence each – by number of shares held	Number of holders	%	Number of shares	%
1 – 1,000	5,403	43.26	2,884,357	0.96
1,001 – 2,000	2,621	20.99	4,005,728	1.33
2,001 – 4,000	1,982	15.87	5,863,320	1.95
4,001 – 20,000	1,929	15.45	15,747,575	5.22
20,001 – 400,000	449	3.60	42,462,789	14.08
400,001+	104	0.83	230,540,611	76.46
<b>Total</b>	<b>12,488</b>	<b>100.0</b>	<b>301,504,380</b>	<b>100.00</b>

At 31 December 2005				
Ordinary shares of 25 pence each – by category of holder	Number of holders	%	Number of shares	%
Individuals	9,303	74.49	25,119,416	8.34
Bank or nominees	2,845	22.78	269,292,214	89.32
Investment trust	32	0.26	133,465	0.04
Insurance company	25	0.20	159,409	0.05
Other company	260	2.08	5,817,495	1.93
Pension trust	6	0.05	34,695	0.01
Other corporate body	17	0.14	947,686	0.31
<b>Total</b>	<b>12,488</b>	<b>100.00</b>	<b>301,504,380</b>	<b>100.00</b>

## Percentage of shareholders

- Individual 74.5%
- Other 25.5%

## Percentage of shares

- Individual 8.3%
- Other 91.7%

## Substantial shareholdings

The following had notified substantial share interests as at 22 February 2006.

	Number of shares	% of issued ordinary capital
(i) Harris Associates LP	26,250,264	8.69
(ii) M&G Investment Management Ltd	23,343,531	7.72
(iii) Marathon Asset Management Ltd	17,358,592	5.74
(iv) Arnhold & S Bleichroeder Advisors LLC	16,692,679	5.52
(v) Schroder Investment Management Ltd	15,264,039	5.05
(vi) Legal & General Investment Management Ltd	11,389,860	3.77
(vii) Zurich Assurance Ltd	9,930,131	3.29
(viii) Jupiter Asset Management Limited	9,680,818	3.20

# Corporate social responsibility

## Highlights from 2005

- Launch of the group's dedicated CSR website, [csr.abports.co.uk](http://csr.abports.co.uk)
- Completion of wide-ranging employee perception survey
- Improved ranking in Business in the Community's Corporate Responsibility Index to joint 74th (2004: 98th)
- UK ports and transport business recorded lowest-ever rate of reportable injuries per thousand employees at 9.3
- ERM appointed to review and evaluate 2005 CSR data independently
- System for measuring and reporting the amount of waste generated by UK operations developed and implemented
- Quality of investor communications recognised: joint winner of the 2005 *i/sProShare* Award for Best Annual Report for Private Investors (non-FITSE 100).

## Priorities for 2006

- Publish 2005 CSR Report with all data independently verified for the first time
- Achieve reduced reportable injuries per thousand employees target of 9 for UK business
- Focus on further improving the health and safety performance of USA operations
- Communicate results of the 2005 employee perception survey to employees and commence appropriate initiatives to address feedback received
- Complete development of 148 acres of inter-tidal habitat on the Humber
- Complete review of existing customer-management practices and establish appropriate key performance indicators
- Launch new investor website
- Review current procurement policy to incorporate current environmental best practice
- Provide specific CSR training to key employees
- Review absence-management practices.

## Introduction

The group recognises that its operations have the potential to affect a range of stakeholders and is committed to ensuring that it has in place mechanisms to understand, monitor and meet its obligations to stakeholders. In addition to regular dialogue with and reporting to our capital providers (see relations with shareholders section of our statement on corporate governance on page 114), our key tools in communicating with our stakeholders are the group's CSR website ([csr.abports.co.uk](http://csr.abports.co.uk)), the group's annual CSR Report (which is published each spring) and stakeholder feedback, which is facilitated through our website, the CSR report and by specific surveys.

We also engage constructively with socially responsible investors and benchmark our performance through participation in external indices. This summary provides a round-up of our CSR activities in 2005 in advance of our full 2005 CSR Report, which is due to be published in May 2006. In compiling our CSR information, we confirm our compliance with the guidelines on social responsibility developed by the Association of British Insurers and adoption of the appropriate recommendations published in the Department of Trade and Industry's (DTI) Company Law Review and its Accounting for People Task Force. Our CSR data for 2005 has been independently reviewed and evaluated by ERM, a leading firm of consultants in the field of assessing environmental, health and safety and social risks.

Copies of our previous CSR reports can be obtained from our website [csr.abports.co.uk](http://csr.abports.co.uk). To request a copy of our forthcoming 2005 CSR report, please use the enclosed form of proxy.

The importance we attach to CSR is evident in the ethical standards of behaviour we promote. Within our code of ethics, we commit to:

- Encourage the active participation of employees through the promotion of equal opportunities, access to information and clear and fair terms of employment
- Ensure that our activities do not put at risk the health and safety of our employees and third parties, such as visitors to our ports
- Operate our business with due regard for its potential impact on the environment
- Engage with our communities through partnership initiatives aimed at delivering real benefits
- Operate our business in line with the expectations of our capital providers
- Work in partnership with our customers and suppliers under clear and reasonable terms.

#### Management

The CSR management committee is chaired by Richard Adam, Group Finance Director. Other senior management representatives from the group's personnel, communities, environmental, health and safety, internal audit and risk management function also sit on the committee. The committee meets on a regular basis and is responsible for developing the group's CSR strategy and implementing policies and practices.

#### Health and safety

Our key performance indicators relating to our health and safety performance are set out in table 10 of the operating and financial review (OFR) on page 46.

We had significant success in improving our reportable injury rate for our UK operations in 2005 – it fell to 9.3 per thousand employees (2004: 14.0 per thousand employees). As such, we achieved our long-term target of 12 or fewer reportable injuries per thousand employees for the first time. We realise however, that there is no room for complacency and that the focus of our efforts now needs to be on sustaining this improvement. Consequently, we have reduced our long-term target from 12 to 9 or fewer reportable injuries per thousand employees.

Fatalities are the worst thing that can happen in our business. Tragically, in 2005, a fatality did occur on our premises at Immingham. The incident, which involved a crew member from a visiting vessel, is currently being investigated by the appropriate authority. Also in 2005, we received a fine from the Health and Safety Executive of £60,000 (plus £35,000 costs) in relation to a fatality at Hull that occurred in 2003.

It remains our goal to ensure that 95 per cent of our UK employees have received accredited health and safety training. By the end of 2005, 89 per cent had received this training (2004: 80 per cent). During the course of 2005, we provided health and safety training to 912 employees (2004: 385). Our cargo handling training course, which was launched in 2002, has now been provided to all relevant employees.

We also met our target on health and safety performance in the USA, as the total number of recordable injuries decreased to 49 compared with 64 in 2004. We remain committed to maintaining this number at 50 or less during 2006.

#### Employees

Our key performance indicators relating to our employees are set out in table 13 of the OFR on page 49. The group monitors and benchmarks this data to ensure that it remains in line with industry norms. The group also sets and works towards a range of specific targets to further develop its human capital management practices.

Our staff turnover and sickness and absenteeism rate improved during 2005 and we met all of our 2005 targets on employee-related initiatives. Initiatives undertaken in 2005 included the benchmarking of our data, employee forums, training, feedback from employee and advertising our vacancies to a wider audience. The benchmarking of our diversity against publicly available data has continued into 2006 as we experienced greater difficulty in obtaining suitable benchmarking data than expected. Following our benchmarking of the sickness and absenteeism rate of our UK operations, we have concluded discussions with our employee forums on this subject. Our objective in 2006 is to review our absence-management practices with the aim of reducing the rate of sickness and absenteeism.

Our commitment to provide training to support our fair employment policies by providing five courses was exceeded, and we delivered on our target of providing initial training on our alcohol, drugs, medication and substance use and abuse policy.

We continued to seek feedback from employees and built on the survey of employee forums that took place in 2004 by conducting a wide-ranging employee perception survey in conjunction with

# Corporate social responsibility

Best Companies. This survey was sent to a random sample of 500 UK employees and achieved a 56 per cent response rate. The results – which have been independently analysed and reported by Best Companies – will be discussed in our 2005 CSR report. We intend to act on the feedback received.

## Environment

Operating our business with due regard for its potential impacts on the environment remains one of our key operational objectives. Our key performance indicators in relation to environment management are summarised in table 11 on page 47 of the OFR. In 2005, our target was to maintain the group's CO<sub>2</sub> emissions, electricity consumption and water consumption at 2004 levels on a like-for-like basis by taking into account the growth in our revenue.

We are pleased to report that the group exceeded its targets on CO<sub>2</sub> emissions and electricity consumption as the 1.0 per cent reduction in the group's revenue was exceeded by the 7.3 per cent reduction in our CO<sub>2</sub> emissions and the 4.5 per cent reduction in our electricity consumption. However, our water consumption increased due to an undetected leak at one of our ports, which was rectified during the year.

Our performance on resource consumption has been assisted by the implementation of resource efficiency groups (REGs) across all of our business units. These groups each identified and implemented five initiatives aimed at reducing resource consumption to improve the efficiency of our business and to reduce its impacts on the environment. By continuing to work on five initiatives at any one point in time, the REGs will remain core to the further

implementation of environmental best practice into our daily operations. More details on the work of our REGs will be reported in the group's 2005 CSR report.

During 2005, we also met our target on waste management by developing a system that will allow us, for the first time, to report the amount of waste generated by our operations. This system became operational on a trial basis towards the end of 2005 and will provide us with data to facilitate performance monitoring and the establishment of future targets. We are also pleased with the progress achieved against a wide range of initiatives detailed in our 2004 CSR report. Full details of these initiatives and our progress in 2005 will be provided in the group's 2005 CSR report.

## Customers and suppliers

The group aims to work in partnership with its customers under long-term agreements. During 2005, we signed six significant new agreements, under which we will invest £20m, to provide new facilities for our customers over the next two years. We maintain a dialogue with all of our customers and are committed to resolving any service delivery-related issues promptly and maintaining high performance standards throughout the term of every agreement. In 2006, we shall be reviewing the ways in which we manage our customer relations across our business units and intend to establish appropriate additional key performance indicators for future monitoring and reporting purposes.

Our dealings with suppliers are based on the agreement of fair and open terms of trade. We aim to ensure that we deliver in

accordance with the agreed terms: details of our creditor days for 2005 are set out in the directors' report on page 107. In 2006, we shall be reviewing our UK procurement policy with a view to updating the environmental requirements that we place on suppliers.

## Communities

During 2005, our community relations programme continued to focus on areas such as education, charitable giving, arts sponsorship, civic organisations, local partnerships and free access to our facilities for community events, where practical. Including a one-off contribution to Welsh National Opera, our total contributions amounted to £421,000 (0.32 per cent of underlying pre-tax profit) during 2005. We are pleased that after excluding this one-off contribution, our total contributions once again exceeded our minimum target of 0.20 per cent of underlying pre-tax profit. The group's 2005 performance, in relation to social and community matters, is summarised in table 12 on page 47 of the OFR. Projects and initiatives in which the group participated during 2005 will be detailed in our 2005 CSR report.

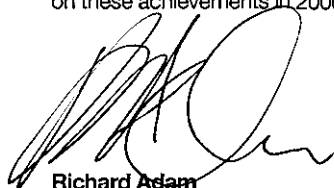
## Benchmarking

In addition to facilitating meetings and information requests from socially responsible investors, we continued to participate in a number of well regarded external indices in order to benchmark our performance and gain independent feedback on our progress.

Table 1 provides a summary of our 2005 performance in external indices.

In 2005, we maintained our membership of the FTSE4Good Index and the Kempen SNS Smaller Europe SRI Index and significantly improved our position in the DJSI and the CRI. In the CRI, our position in the top 100 companies improved to joint 74th from 98th; in the DJSI, we qualified for membership of the prestigious Dow Jones Sustainability World Index (DJSWI). Membership of the DJSWI is restricted to the top 10 per cent of sustainability-driven companies in each global industry group.

We are also pleased with the external recognition given to our stakeholder communications. Feedback received on our CSR report indicated an increased level of satisfaction with our reporting and our investor relations activities also received a number of prestigious awards in 2005. Our 2004 annual report was selected as the joint best report by a non-FTSE 100 company at the 2005 #sProShare awards, shortlisted as one of four candidates for the best annual report award at the 2005 Accountancy Age Awards and shortlisted as one of three candidates for the 2005 Building Public Trust Award sponsored by PricewaterhouseCoopers. We are honoured by and delighted with the endorsements given by our stakeholders and hope to build on these achievements in 2006.



**Richard Adam**  
Group Finance Director and Chairman  
of the CSR Management Committee  
22 February 2006

Table 1 Index	Background	Performance
FTSE4Good	Operated by FTSE and used by investors to assess UK company performance on CSR issues	No rankings published. The group qualified for membership in 2005 and expects to qualify for 2006
Dow Jones Sustainability Index (DJSI)	Operated by Dow Jones. Looks at companies on a European and worldwide basis	No rankings published. During 2005, the group qualified for the more prestigious Dow Jones World Index
Kempen SNS Smaller Europe SRI	Focused on small European companies	The group met the selection criteria in 2004/5 and will respond to future requests for information when required
Corporate Responsibility Index (CRI)	Open to all UK businesses operated by Business in the Community (BiC) and supported by The Sunday Times	The group improved its position in the CRI to joint 74th from 98th
Business in the Environment (BiE)	Open to all UK businesses and supported by The Sunday Times	Placed 103rd in the UK out of 168 companies that participated in the 2004 survey, compared with 94th out of 140 in 2003

# Notice of meeting

The 24th Annual General Meeting (AGM) of Associated British Ports Holdings PLC will take place at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Wednesday 26 April 2006 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 2005 be received and adopted.

### Resolution 2

THAT the remuneration report, as set out on pages 118 to 128 of the Annual Report & Accounts, be approved.

### Resolution 3

THAT a final dividend of 9.75 pence per ordinary share of the company be declared.

### Resolution 4

THAT Mr D D Morrison be re-elected as a director.

*Mr Morrison is the Port Director for Southampton and has spent 37 years in the ports industry gaining experience in a variety of roles within the group. Further biographical details are set out on page 101.*

### Resolution 5

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

*Mr Adam is the company's Group Finance Director and has 18 years of experience as a finance director on a number of boards. Further biographical details are set out on page 100.*

### Resolution 6

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

*Mr Chambers is a non-executive director of the company and chairman of its Remuneration Committee. He has been*

*Group Chief Executive of Pilkington plc since 2002. Further biographical details are set out on page 100.*

### Resolution 7

THAT Mr R P Edey be re-elected as a director.

*Mr Edey joined the board on 1 March 2006. Mr Edey is currently a senior adviser at Rothschilds and has been a non-executive member of a wide variety of boards over the past 17 years.*

### Resolution 8

THAT Mr S R Melliss be re-elected as a director.

*Mr Melliss joined the board as a non-executive director on 1 March 2006. Mr Melliss is on the board of Hammerson Plc, where he has been Group Finance Director for the past 11 years.*

### Resolution 9

THAT PricewaterhouseCoopers LLP be reappointed as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company.

### Resolution 10

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

### Resolution 11

THAT:

- (i) the establishment of The Associated British Ports Performance Share Plan and The Associated British Ports Share Matching Plan (together the 'Plans'), a summary of the principal provisions of each of which is set out in the Appendix to the letter from the Chairman of the company to shareholders dated 16 March 2006, be and they are approved and the directors be and they are authorised to do all acts and things necessary to establish and carry them into effect;

- (ii) the directors be and are authorised to amend the rules of The Associated British Ports Executive Share Option Scheme (the Scheme) in the manner explained in the letter from the Chairman of the company to shareholders dated 16 March 2006 and to do all such acts and things as may be necessary to carry the same into effect; and

- (iii) the directors be and they are authorised to vote and be counted in the quorum on any matter connected with the Plans and the Scheme (except that no director may vote or be counted in the quorum in respect of his own participation) and any prohibition on voting contained in the articles of association of the company be and is relaxed accordingly.

### Resolution 12

THAT the directors be and they are authorised to amend the rules of the Associated British Ports Savings-Related Share Option Scheme in the manner explained in the letter from the Chairman of the company to shareholders dated 16 March 2006 and to do all such acts and things as may be necessary to carry the same into effect.

### Resolution 13

THAT the directors be authorised to distribute relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £25,183,766 (being the lesser of the unissued ordinary share capital of the company and one-third of the issued equity share capital of the company) until the date of the AGM in 2007, and at any time afterwards, in support of any offer or agreement made by the company during that time.

## Special resolutions

### Resolution 14

THAT subject to the passing of resolution 13, the directors be empowered under section 95 of the Companies Act 1985 to distribute company shares for cash in connection with an offer of shares, for a period determined by the directors, by way of rights to holders of

ordinary shares on the register on a fixed date in proportion to their respective holdings or in accordance with the rights attached to them (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 or requirements of any regulatory body or stock exchange in any territory) up to an aggregate nominal value of £3,777,564 (being not more than five per cent of the issued ordinary share capital of the company).

The authority will expire on the date of the next AGM after the passing of the resolution, although the directors may still distribute shares to complete an offer or agreement made before the expiry date.

#### Resolution 15

THAT the company be authorised to make one or more market purchases of company shares (see Section 163(3) of the Companies Act 1985) on the London Stock Exchange of up to the lesser of:

- (i) 30.2m ordinary shares of 25 pence each (being 10 per cent of the company's issued ordinary share capital as at 22 February 2006)
- (ii) 10 per cent of the company's issued ordinary share capital as at the date this resolution is passed

at a price per share of not less than 25 pence and not more than 105 per cent of the average of the middle market quotations as derived from the London Stock Exchange Daily Official List for the five business days prior to the day of purchase. Unless revoked or varied, this authority will expire at the conclusion of the company AGM in 2007, although the company may still buy shares at any later date in order to fulfil a contract or contracts made before the expiry date.

#### Resolution 16

THAT the company's articles of association be amended as follows:

1. The insertion of new sub-paragraphs (iii) and (iv) in article 99(F):

- "(iii) the giving to him of any other indemnity where all other directors are being offered indemnities on substantially the same terms
- (iv) the funding by the company of his expenditure on defending proceedings or the doing by the company of anything to enable him to avoid incurring such expenditure where all other directors are being offered substantially the same arrangements."


2. The deletion of the existing article 144 and substitution therefore of the following:

"144. Indemnity of directors  
Subject to the provisions of the Companies Acts, the company may indemnify any director of the company or of any associated company against any liability and may purchase and maintain for any director of the company or of any associated company insurance against any liability.

The company may also fund a director's expenditure on defending proceedings or in connection with any application under the Companies Acts and may do anything to enable a director to avoid incurring such expenditure all as provided in the Companies Acts."

3. The renumbering of the sub-paragraphs in article 99(F) and any relevant cross-references to take account of the above.

By order of the board

  
Hywel Rees  
Company Secretary  
150 Holborn  
London EC1N 2LR  
16 March 2006

The Register of Directors' Shareholdings will be available for reference at the AGM.

Members entitled to attend and vote at the AGM are entitled to appoint one or more proxies to attend and on a poll vote instead of them; a proxy need not be a member. To be effective, proxies must be lodged at Computershare Investor Services PLC, Registrars, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR, no later than 48 hours before the time of the meeting.

Shareholders may 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 Personal Identification Number (PIN), both of which are on the proxy form, are required to access the service. The electronic proxy appointment service is optional. Shareholders may continue to submit their proxy card by post, if preferred.

Under regulation 20 and schedule 4 of the Uncertificated Securities Regulations 2001, only shareholders on the Register of Members as at 12 noon on 24 April 2006 will 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 in the Register after 12 noon on 24 April 2006 will be disregarded in determining the rights of any person to attend or vote at the meeting.

# Five-year summary

Group income statement	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
<b>Continuing operations</b>					
<b>Group revenue</b>					
Ports & transport – UK	373.9	365.4	349.1	325.7	304.2
Ports & transport – USA	37.5	36.6	36.0	36.1	29.9
Property investment	7.8	7.9	8.6	9.3	10.8
Property development	15.7	29.6	7.6	30.8	30.9
	434.9	439.5	401.3	401.9	375.8
<b>Group operating profit</b>					
Ports & transport – UK	151.3	146.3	141.2	135.5	135.6
Ports & transport – USA	4.3	4.1	2.2	1.6	0.4
Property investment	5.3	5.4	6.5	6.8	8.0
Property development	6.7	3.5	3.0	12.0	12.8
Underlying operating profit	167.6	159.3	152.9	155.9	156.8
Increase/(decrease) in fair value of investment properties	3.5	3.4	7.8	(5.5)	0.3
Exceptional items – administrative expenses	–	(51.4)	4.2	(5.9)	(0.9)
<b>Group operating profit</b>	171.1	111.3	164.9	144.5	156.2
<b>Analysed between:</b>					
Group operating profit before increase in fair value of investment properties and exceptional items	167.6	159.3	152.9	155.9	156.8
Increase/(decrease) in fair value of investment properties	3.5	3.4	7.8	(5.5)	0.3
Exceptional items – administrative expenses	–	(51.4)	4.2	(5.9)	(0.9)
Net interest payable	(39.7)	(35.6)	(33.8)	(35.7)	(37.9)
Share of profit in associated undertakings	4.4	6.5	6.2	5.3	4.7
<b>Profit before taxation</b>	135.8	82.2	137.3	114.1	123.0
<b>Analysed between:</b>					
Profit before taxation before increase in fair value of investment properties and exceptional items	132.3	130.2	125.3	125.5	123.6
Increase/(decrease) in fair value of investment properties	3.5	3.4	7.8	(5.5)	0.3
Exceptional items – administrative expenses	–	(51.4)	4.2	(5.9)	(0.9)
<b>Taxation</b>	(35.9)	(22.1)	(34.8)	(31.1)	(32.3)
<b>Profit for the year from continuing operations</b>	99.9	60.1	102.5	83.0	90.7
<b>Discontinued operations</b>					
Ports & transport – USA	–	–	–	1.3	0.9
Share of operating profit in associated undertakings	–	0.4	1.1	1.2	1.3
Profit on disposal of discontinued operations	–	–	–	6.4	–
<b>Profit for the year from discontinued operations</b>	–	0.4	1.1	8.9	2.2
<b>Profit attributable to equity shareholders</b>	99.9	60.5	103.6	91.9	92.9

Group financial statistics	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
<b>Earnings per share</b>					
From continuing operations					
Underlying	31.6	29.8	28.0	28.3	27.3
Basic	32.7	18.8	31.2	25.4	27.1
From continuing and discontinued operations					
Basic	32.7	18.9	31.5	28.1	27.8
<b>Dividend per share – declared basis</b>	17.00p	16.00p	15.25p	14.75p	13.75p
<b>Net assets per share</b>	315p	310p	316p	298p	300p
<b>Net borrowings as a percentage of equity shareholders' funds</b>	59.1%	48.5%	42.4%	46.2%	52.2%
Comparatives for the years 2001 to 2004 were previously reported under UK GAAP, now reported under IFRS					

Group balance sheet	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Property, plant and equipment	947.8	852.2	863.9	825.1	789.1
Port-related investment property	501.6	496.1	492.1	486.4	494.5
Other property assets	71.0	70.2	78.2	82.4	94.0
	1,520.4	1,418.5	1,434.2	1,393.9	1,377.6
Investments	38.8	36.6	48.4	43.3	43.0
Property developments and land held for sale	15.3	23.8	41.6	38.3	44.2
Net retirement benefit assets	3.9	31.2	34.0	29.9	99.7
Deferred tax liabilities	(77.3)	(82.5)	(84.9)	(76.5)	(89.9)
Other	11.3	(0.4)	8.3	(0.1)	13.4
	1,512.4	1,427.2	1,481.6	1,428.8	1,488.0
Net borrowings	(561.8)	(466.0)	(441.4)	(451.4)	(510.4)
Net assets	950.6	961.2	1,040.2	977.4	977.6
Shareholders' equity					
Share capital	75.4	77.6	82.3	82.0	81.6
Share premium account	95.4	91.0	84.1	77.4	70.9
Revaluation reserve	684.9	682.3	681.3	675.0	688.8
Other reserves	33.8	26.7	21.3	19.4	17.0
Retained earnings	61.1	83.6	171.2	123.6	119.3
Total shareholders' equity	950.6	961.2	1,040.2	977.4	977.6

Group cash flow and net borrowings	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Cash flows from operating activities					
Cash generated from operations	192.1	212.1	175.9	199.2	165.0
Net interest paid	(41.3)	(35.9)	(35.2)	(37.2)	(40.0)
Taxation	(30.9)	(28.5)	(24.0)	(25.7)	(28.2)
Net cash from operating activities	119.9	147.7	116.7	136.3	96.8
Cash flow from investing activities					
Dividends received from associated undertakings	-	3.9	3.4	2.4	3.6
Acquisitions and disposals	-	15.6	(1.9)	29.1	(5.5)
Proceeds from sale of property, plant and equipment	1.5	1.8	7.3	3.4	2.1
Gross capital expenditure	(113.2)	(57.5)	(68.0)	(76.7)	(62.4)
Net cash outflow from investing activities	(111.7)	(36.2)	(59.2)	(41.8)	(62.2)
Dividends paid	(49.7)	(50.2)	(49.3)	(46.6)	(44.5)
Increase in short-term deposits	(3.7)	-	-	-	-
Increase/(decrease) in borrowings	88.0	35.6	(8.6)	(48.8)	67.0
Repayments of obligations under finance leases	(4.1)	(3.8)	(3.6)	(3.4)	(3.0)
Repurchase of shares	(50.4)	(95.5)	(3.7)	-	(68.3)
Proceeds from issue of share capital	4.8	6.7	6.4	6.2	11.6
Net cash outflow from financing activities	(15.1)	(107.2)	(58.8)	(92.6)	(37.2)
(Decrease)/increase in cash and cash equivalents during the year	(6.9)	4.3	(1.3)	1.9	(2.6)
Cash and cash equivalents at 1 January	7.3	3.1	4.5	2.8	5.2
Effect of foreign exchange rate changes	0.1	(0.1)	(0.1)	(0.2)	0.2
Cash and cash equivalents at 31 December	0.5	7.3	3.1	4.5	2.8
Reconciliation of net cash flow to movement in net borrowings					
(Decrease)/increase in cash and cash equivalents during the year	(6.9)	4.3	(1.3)	1.9	(2.6)
Increase in short-term deposits	3.7	-	-	-	-
(Increase)/decrease in borrowings	(88.0)	(35.6)	8.6	48.8	(67.0)
New finance leases	-	-	(2.6)	-	-
Repayments of obligations under finance leases	4.1	3.8	3.6	3.4	3.0
(Increase)/decrease in net borrowings resulting from cash flows	(87.1)	(27.5)	8.3	54.1	(66.6)
Change in interest payable	(4.7)	-	-	-	-
Currency translation differences	(4.0)	2.9	1.7	4.9	(1.6)
Changes in net borrowings during the year	(95.8)	(24.6)	10.0	59.0	(68.2)
Net borrowings at 1 January	(466.0)	(441.4)	(451.4)	(510.4)	(442.2)
Net borrowings at 31 December	(561.8)	(466.0)	(441.4)	(451.4)	(510.4)

Comparatives for the years 2001 to 2004 were previously reported under UK GAAP, now reported under IFRS

# Company information

## Associated British Ports Holdings PLC

150 Holborn  
London EC1N 2LR  
T: +44 (0) 20 7430 1177  
F: +44 (0) 20 7430 1384  
csr.abports.co.uk  
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 6130  
www.amports.com

## Board of directors

Non-executive directors  
Chris Clark (Chairman)<sup>3</sup>  
Aubrey Adams<sup>1,2,3,\*</sup>  
Tim Bowdler<sup>1,2,3</sup>  
Stuart Chambers<sup>1,2,3</sup>  
Russell Edey<sup>1,2,3,\*</sup>  
Simon Melliss<sup>1,2,3,\*</sup>  
Derek Sach<sup>1,2,3</sup>  
Andrew Simon, OBE<sup>1,2,3,\*</sup>

Executive directors  
Bo Lerenius, CBE  
(Group Chief Executive)<sup>3</sup>  
Richard Adam, FCA  
(Group Finance Director)  
Doug Morrison  
(Executive Director)

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Remuneration Committee

<sup>3</sup> Member of the Nomination Committee

\* From 1 March 2006

# Until 26 April 2006

## 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

JPMorgan Cazenove Ltd  
20 Moorgate  
London EC2R 6DA

Morgan Stanley & Co.  
International Ltd  
20 Cabot Square  
Canary Wharf  
London EC14 4QW

## Investment Bankers

Deutsche Bank AG  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

## Registrars

Computershare Investor Services PLC  
PO Box 82  
The Pavillions  
Bridgwater Road  
Bristol BS99 79H  
www.computershare.com

## Solicitors

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

## Financial calendar

16 March 2006  
2005 Annual Report & Accounts

26 April 2006  
Annual General Meeting

28 April 2006  
Payment of 2005 final dividend

June 2006  
Trading statement – pre-2006 interim results

September 2006  
Publication of 2006 interim results

November 2006  
Payment of 2006 interim dividend

December 2006  
Trading statement – pre-2006 full-year results

February 2007  
2006 preliminary results

March 2007  
2006 Annual Report & Accounts

## Shareholder services

Share dealing services  
Computershare Investor Services PLC operates a simple, low-cost telephone share dealing service for the buying and selling of the company's shares. This service is available between 8:00am and 4:30pm Monday to Friday at +44(0)870 702 0003.

JPMorgan Cazenove Ltd provides a simple, low-cost, postal share dealing service. Further information, including the necessary forms, can be obtained from JPMorgan Cazenove Ltd, Postal Share Dealing Service, 20 Moorgate, London EC2R 6DA. T +44 (0)20 7155 5155

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](http://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 via the internet at [www.abports.co.uk](http://www.abports.co.uk)

# Where we do business

## Ports & transport – UK

Hull & Goole  
Port Director: Matthew Kennerley

ABP Hull/ABP Goole  
Port House  
Northern Gateway  
Hull HU9 5PQ  
Tel +44 (0)1482 327 171

Grimsby & Immingham  
Port Director: Nick Palmer

ABP Grimsby/ABP Immingham  
Port Office  
Cleethorpe Road  
Grimsby DN31 3LL  
Tel +44 (0)1472 359 181

Southampton  
Port Director: Doug Morrison

Associated British Ports  
Ocean Gate  
Atlantic Way  
Southampton SO14 3QN  
Tel +44 (0)23 8048 8800

ABP Connect  
Ocean Gate  
Atlantic Way  
Southampton SO14 3QN  
Tel +44 (0)23 8048 8800

Managing Director: Stephen Burgess

South Wales Ports  
Port Director: John Fitzgerald

ABP Cardiff/ABP Barry  
Queen Alexandra House  
Cargo Road  
Cardiff CF10 4LY  
Tel +44 (0)870 609 6699

Deputy Port Manager: Callum Couper

ABP Newport  
Alexandra Dock  
Newport NP20 2UW  
Tel +44 (0)870 609 6699

Deputy Port Manager: Clive Thomas

ABP Swansea/ABP Port Talbot  
Harbour Office  
Lock Head  
King's Dock  
Swansea SA1 1QR  
Tel +44 (0)870 609 6699

Deputy Port Manager: Clive Thomas

## Ports & transport – UK

UK Dredging  
Queen Alexandra House  
Queen Alexandra Dock  
Cargo Road  
Cardiff CF10 4LY  
Tel +44 (0)29 2083 5200

General Manager: Jeff Neale

Shortsea Ports  
Port Director: Matt Jukes

ABP Ayr/ABP Troon  
Port Office  
North Harbour Street  
Ayr KA8 8AH  
Tel +44 (0)1292 281 687

Port Manager: Alastair MacFarlane

ABP Barrow/ABP Silloth  
Port Office  
Ramsden Dock Road  
Barrow-in-Furness  
Cumbria LA14 2TW  
Tel +44 (0)1229 822 911

Port Manager: Nick Ridehalgh

ABP Garston/ABP Fleetwood  
Port Office  
Garston  
Liverpool L19 2JW  
Tel +44 (0)151 427 5971

Port Manager: Nick Ridehalgh

ABP Ipswich  
Old Custom House  
Key Street  
Ipswich IP4 1BY  
Tel +44 (0)1473 231 010

Port Manager: Robert Smith

ABP King's Lynn  
St Ann's Fort  
King's Lynn  
Norfolk PE30 1QS  
Tel +44 (0)1553 691 555

Port Manager: Robert Smith

ABP Lowestoft  
Port House  
Lowestoft  
NR32 1BG  
Tel +44 (0)1502 572 286

Port Manager: Robert Smith

## Ports & transport – UK

ABP Plymouth  
Port Office  
Millbay Docks  
Plymouth  
Devon PL1 3EF  
Tel +44 (0)1752 662 191

Port Manager: Colin Greenwell

ABP Teignmouth  
Old Quay  
Teignmouth  
Devon TQ14 8AS  
Tel +44 (0)1626 774 044

Port Manager: Colin Greenwell

ABP Marine Environmental  
Research (ABPmer)  
Suite B  
Waterside House  
Town Quay  
Southampton SO14 2AQ  
Tel +44 (0)23 8071 1840

Managing Director: Ian Townsend

## Ports & transport – USA

AMPORTS  
President & Chief Executive  
Officer: Jim Davis

Jacksonville  
Headquarters/Jacksonville  
Terminal  
9240 Blount Island Blvd  
Jacksonville  
FL 32226  
Tel +1 (904) 751 4391

General Manager: Roy Wolfe

Brunswick  
106 Joe Frank Harris Boulevard  
Brunswick  
GA 31525  
Tel +1 (912) 264 2110

Operations Manager: Ted Nichols

Port of Benicia  
PO Box 315  
1997 Elm Road  
Benicia  
CA 94510  
Tel +1 (707) 745 2394

General Manager, West Coast:  
Jimmy Triplett

## Ports & transport – USA

Baltimore  
Atlantic Terminals  
2901 Childs Street  
Baltimore  
MD 21226  
Tel +1 (410) 350 0400

Vice President North-East  
Terminals: Leo McFadden

Chesapeake Terminal  
2901 Childs Street  
Baltimore  
MD 21226

Tel +1 (410) 350 0400

Dundalk Terminal  
2700 Broening Highway  
Baltimore  
MD 21222  
Tel +1 (410) 633 3900

General Manager: George Molyneaux

## ABP Group Property

150 Holborn  
London EC1N 2LR  
Tel +44 (0)207 430 1177

Group Property Director:  
Phillip Williams

## Associates

Southampton Container  
Terminals  
Berths 204-207  
Western Docks  
Southampton SO15 1DA  
Tel +44 (0)23 8070 1701

Tilbury Container Services  
Northfleet Hope House  
Tilbury Freeport  
Tilbury RM18 7HX  
Tel +44 (0)1375 363 700

# Glossary

## ABP

Associated British Ports – the main operating subsidiary of ABPH

## ABPH

Associated British Ports Holdings PLC

## Associates

Tilbury Container Services and Southampton Container Terminals in which ABP owns a 33% and a 49% interest, respectively

## Basic earnings per share

Profit attributable to equity shareholders divided by the total weighted average number of shares in issue during the year

## Berthing dolphin

Free standing structure used for mooring vessels

## Black-Scholes model

An option-pricing model used to determine fair values for share options

## Business in the Community (BitC)

An organisation which seeks to inspire, challenge, engage and support business in continually improving its positive impact on society

## Chart datum

Measure of the water level at any given point (usually the average low tide water level)

## Combined Code on Corporate Governance

Published in July 2003, the Combined Code on Corporate Governance derived from a review of the role and effectiveness of non-executive directors by Derek Higgs and a review of audit committees by a group led by Sir Robert Smith

## Competent Harbour Authority (CHA)

Harbour authority that has responsibility for the provision of pilotage services

## Continuing underlying operating profit

Group continuing operating profit before any impact from changes in fair value of investment properties and exceptional items

## Corporate Responsibility Index (CRI)

A voluntary benchmark of responsible business practice created by BitC

## CSR

Corporate social responsibility

## Draught

The depth of water needed for a ship to float in

## Dredging

Process of removing sediment from shipping channels to maintain the correct depth

## English Nature

The government-funded body that promotes the conservation of England's wildlife and natural features

## Environment Agency

A non-governmental public body responsible for the regulation of pollution, flood defence and river management

## EU accounts modernisation directive

An EU directive that focuses on the quantity, transparency and comparability of environmental and other data flowing through the annual accounts and annual reports of EU companies

## Financial Services Authority

An independent non-governmental body, with statutory powers, that regulates the financial services industry in the UK

## Free cash flow

The amount of cash generated by the business after meeting its obligations for interest, tax and capital investment, defined as the group's net cash generated from operating activities less the group's net cash outflow from investing activities excluding acquisitions and disposals

## Gantry crane

Track-mounted crane utilised in the loading and unloading of cargoes from vessels

## Gearing

Measure of the financial leverage of a company calculated as net borrowings divided by total shareholders' equity

## Health & Safety Executive (HSE)

The UK's independent health and safety regulator

## Hopper

Container used to hold materials in the process of unloading or dispersing bulk cargoes

## ifsProShare

An organisation that promotes effective communication with private investors and employee share ownership

## International Financial Reporting Standards (IFRS)

The accounting standards under which ABPH's accounts are prepared

## Linkspan

A moveable connection used to provide a link between ferries and roll-on/roll-off vessels and the quayside

**Resource Efficiency Groups (REGs)**

A network of teams established across ABP's business activities charged with improving resource usage in their areas of operation

**Return on capital employed**

A measure of how effectively the company is using its capital – defined as the group's underlying operating profit divided by the average of the group's net assets less investments and retirement benefit assets plus net borrowings, current provisions and non-current liabilities excluding borrowings

**Revenue-earning capital expenditure**

Investment in projects to earn additional incremental revenues

**Roll-on/Roll-off (Ro-Ro)**

Wheel-based cargo which can be driven onto or off vessels

**RSPB**

Royal Society for the Protection of Birds

**SCT**

Southampton Container Terminals – a container-handling company based in ABP's Port of Southampton, in which ABP has a 49 per cent stake

**Stacker reclaimers**

Equipment that stacks bulk cargoes into large storage piles and at a later stage recovers the cargo for onward placement into rail or road vehicles

**Statutory Harbour Authority (SHA)**

A body responsible for improving, maintaining and managing a harbour under the Harbours Act 1964

**TCS**

Tilbury Container Services – a container-handling company based at the Port of Tilbury, in which ABP has a 33 per cent stake

**Total dividend per share**

Amount declared as dividends in respect of each share owned by a shareholder during the year

**Total shareholder return**

Measure of the total returns provided by the company, which takes into account both the dividend and the capital appreciation of the share held over the relevant period

**Twenty-foot equivalent unit (TEU)**

A universal unit of container measurement used in the global shipping industry

**Underlying dividend cover**

The number of times the company's declared dividend payout is covered by its underlying earnings per share

**Underlying earnings per share**

Profit for the year from continuing operations, before any increase in fair value of investment properties and exceptional items, divided by the total weighted average number of shares in issue during the year

**Underlying effective tax rate**

Tax charge for the year relating to the group's underlying profit before tax divided by the group's underlying profit before tax

**Underlying operating profit**

Group's operating profit before the impact of any changes in the fair value of investment properties and exceptional items

**Underlying return on capital employed**

The group's return on capital employed calculated using the group's underlying operating profit

Designed and produced by Merchant in collaboration with NB:Studio  
Illustration by Lucinda Rogers  
Copyediting by Stuart Daniel  
Typeset by Bettina Brux  
Printed by St Ives Westerham Press

This report is printed on paper made from pulps from sustainable forests using an elemental chlorine-free process. The paper is imported into the UK through ABP's Port of Hull.