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We may be a ports company – but we're not just focused on ports

We're focused on customers...

ABP

Annual Report & Accounts 2003

Everything you need to find...

Associated British Ports...

Meeting our customers' needs makes us the largest and most profitable UK ports company

We intend to stay that way

Everything you need to know...

The basics

- We are the largest ports operator in the UK
- Our 21 UK ports are in prime locations and evenly spread
- No single type of cargo accounts for more than 10% of our UK ports' turnover
- 50% of our UK ports' business for 2004 was contracted before the year began

Q1: 2004

9 March 2004
2003 Annual Report & Accounts posted

Q2: 2004

21 April 2004
Annual General Meeting

30 April 2004
Payment of 2003 final dividend

June 2004
Trading statement pre-2004 interim results

Q3: 2004

September 2004
Publication of 2004 interim results

Q4: 2004

November 2004
Payment of 2004 interim dividend

December 2004
Trading statement pre-2004 full-year results

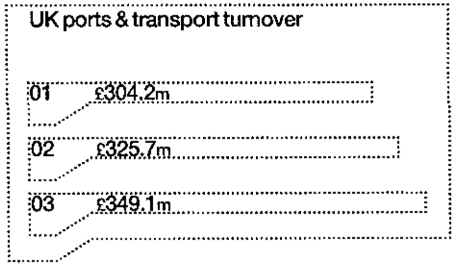
Our strategy

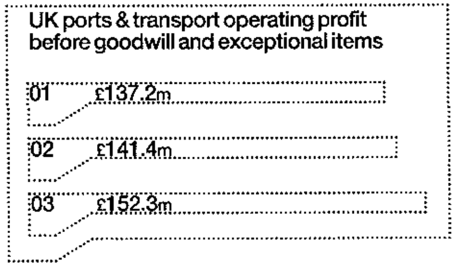
- Concentrate on UK ports business
- Grow existing business
- Develop new business by signing long-term contracts with quality customers delivering internal rate of return of at least 15%
- Avoid major speculative investments
- Develop value-added port-related services

This strategy works: in 2003 we won 12 new contracts involving a total capital investment of £23m from new and existing customers, which run for an average of 10 years. In addition, ABP Connect, the group's value-added services business, increased turnover by 16%.

Our results in 2003

Group turnover – continuing operations	unchanged
Group profit before tax	+5%
Earnings per share	+3%
Dividend per share	+3%



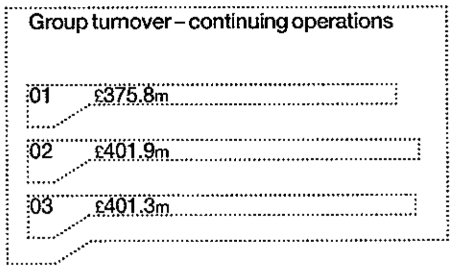


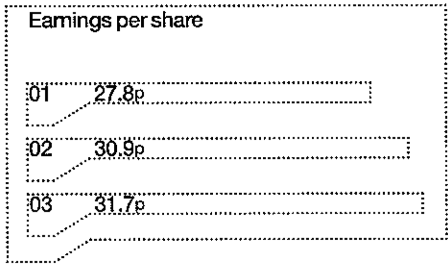
UK ports & transport turnover

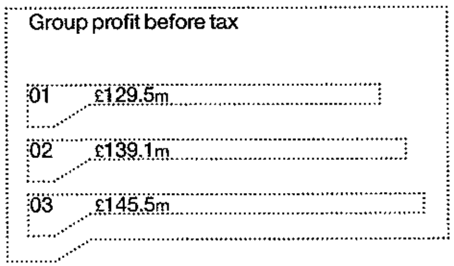
+7%

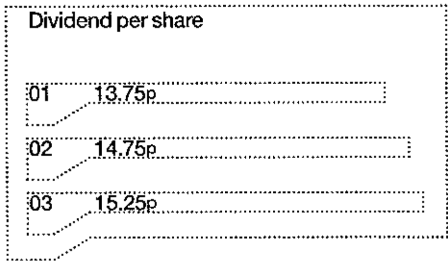
UK ports & transport operating profit

+8%









In early 2000, we said we would...

- Obtain new business which meets new investment disciplines and focuses on the UK ports business
- Develop value-added services associated with the ports business
- Sell £200m of non-core property and land
- Review other non-core assets within the group
- Repurchase own shares
- Develop a new deep-sea container terminal at Southampton

Our progress...

- Over 65 new long-term contracts won in the period to December 2003
- ABP Connect launched – turnover increased by 16% during 2003
- £176m of non-core property and land sold by the end of 2003
- Red Funnel Group sold for £71m in 2000 and AMPORTS Aviation division sold for £32m in 2002
- Share repurchase programmes totalling £220m completed in 2001
- Government decision on Dibden Terminal expected in 2004

2000

£150m share repurchase programme completed

Red Funnel Group sold for **£71m**

New **£70m** share repurchase programme announced

AMPORTS UK and Northern Cargo Services acquired for **£11.4m**

£200m property disposal target set

2001

ABP Connect launched

Sale of **AMPORTS Aviation** division announced

Dibden public inquiry began

£70m share repurchase programme completed

2002

Sale of AMPORTS Aviation division completed for **£32m**

Dibden public inquiry ended

Hams Hall Railfreight Terminal acquired for **£0.3m**

2003

Annualised savings of at least **£3m** per annum generated by review of UK cost base

Significant progress on planning applications in relation to investment plans for the **Humber**

And this is how it all adds up...

2003

Financial highlights	Ports & transport – UK £m	%	Ports & transport – USA £m	%	Property investment & property development £m	%	Associates £m	%
Turnover – continuing operations	349.1		36.0		16.2		49.5	
Growth	+23.4	+7	-0.1	–	-23.9	-60	+5.4	+12
Operating profit – before goodwill and exceptional items	152.3		2.5		9.8		12.0	
Growth	+10.9	+8	+1.0	+67	-9.0	-48	+1.5	+14

Revenues earned from:

Ports & transport – UK

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

Ports & transport – USA

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

Property investment & property development

- Property investment – property income from tenants on port estates not using the port facilities
- Property development – income from sales of surplus non-operational land and property

Associates

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

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

  Rental income from a portfolio of properties on Cardiff Bay estate

Where it all happens...

Ports & transport – UK

Hull & Goole
Port Director, Doug Morrison
Turnover – unchanged
Growth in roll-on/roll-off traffic, imports of forest products and grain exports.
Reduction in coal and scrap metal volumes.

Grimsby & Immingham
Port Director, John Copping
Turnover – up 2%
UK's number-one port.
Growth in vehicles, coal imports, grain exports, container and roll-on/roll-off traffic.

Southampton
Port Director, Andrew Kent
Turnover – up 10%
UK's number-one cruise port.
Growth in cruise and container traffic, grain exports and vehicles.

South Wales Ports
Port Director, Budha Majumdar
Turnover – unchanged
Growth in timber imports and scrap exports.
Recovery in iron ore and coal imports.
Reduction in steel imports.

Shortsea Ports
Port Director, Nick Palmer
Turnover – up 13%
Growth in roll-on/roll-off traffic and grain exports.

ABP Connect
Managing Director, Paul Allen
Turnover – up 16%
New business secured in 2002 and 2003.

ABP's ports handled more than 124 million tonnes of cargo during the year. They range in size from Grimsby & Immingham, the UK's largest port complex based on tonnage handled, to smaller-sized specialist ports such as Teignmouth.

The group is committed to supplying a fast, efficient, cost-effective and reliable service for customers and a comprehensive range of high-quality facilities that can handle any cargo.

Good locations, modern facilities, excellent road and rail links and substantial capital investment ensure that ABP's ports are fully equipped to meet the changing needs of customers operating in an increasingly competitive market place.

Hull & Goole
1 Hull
2 Goole

Grimsby & Immingham
3 Immingham
4 Grimsby

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

South Wales Ports
11 Newport
12 Cardiff
13 Barry
14 Port Talbot
15 Swansea

Southampton
8 Southampton

ABP Connect
22 National coverage

...and the cargoes we handle

Cargo mix chart

Port	Liquid bulks	Coal/coke	Iron ore	Agribulks	Other dry bulks	Forest products	Fresh produce & perishables	Other break bulk & general cargo	Containers	Roll-on/ roll-off	Vehicles	Ferry/cruise passengers
Hull & Goole												
Hull	O	O		O	O	O	O	O	O	O	O	O
Goole	O			O	O	O		O	O			
Grimsby & Immingham												
Grimsby	O		O	O	O	O	O	O	O	O	O	
Immingham	O	O	O	O	O	O	O	O	O	O	O	O
Southampton	O			O	O		O	O	O	O	O	O
South Wales Ports												
Barry	O			O	O	O						
Cardiff	O				O	O		O	O			
Newport		O		O	O	O		O	O			
Port Talbot	O	O	O		O							
Swansea	O	O		O	O	O		O	O	O		O
Shortsea Ports												
Ayr	O	O		O	O	O		O				
Barrow	O				O			O				
Fleetwood	O						O			O		O
Garston		O		O	O	O		O				
Ipswich	O	O		O	O	O	O	O	O	O		
King's Lynn	O			O	O	O		O				
Lowestoft	O			O	O	O	O	O	O			
Plymouth	O									O	O	O
Silloth	O			O		O						
Teignmouth				O	O	O		O				
Troon	O					O				O		O
2003 Tonnes (millions)	51.4	12.8	10.4	5.9	5.7	2.9	0.3	4.9	12.3	15.4	2.1	

£10m

CRUISE
£10m investment

Mayflower Cruise Terminal, Southampton, benefited from a £6.5 million major reconstruction following a new 10-year agreement.

Queen Elizabeth II Terminal, Southampton, was refurbished following a £2.0 million investment underpinned by an agreement through to 2009.

Southampton's £1.5 million third cruise terminal became operational in August.

See page 12

£24m

SMALLER PROJECTS
£24m investment

Each year the group invests in a variety of smaller projects, for example, the Port of Newport is investing £3.5 million in infrastructure works to support a scrap metal and fridge-recycling operation on the back of a 20-year agreement with Sims Group.

See page 14

£14m

ROLL-ON/ROLL-OFF
£14m investment

Marine works at Plymouth to accommodate Brittany Ferries' new superferry at a cost of £4.3 million will become operational in July 2004.

The Port of Ipswich is to invest £6.1 million to build a second roll-on/roll-off berth for Ferryways following a 20-year agreement.

Immingham's £2.0 million investment in terminal facilities associated with Sea-Cargo A/S became operational in August 2003.

Southampton has invested £1.2 million in facilities for Channel Freight Ferries.

See page 16

Keeping our customers smiling...

Our customers demand first-class service and dedicated facilities. We deliver.

Significant new capital expenditure-backed contracts secured since early 2000

Cumulative investment in new contracts secured since early 2000

£74m

ABP

Keeping our customers smiling

A selection of our customers

UK ports & transport contracted revenue: maturity profile by *number of contracts*

UK ports & transport contracted revenue: maturity profile by contract value

Aarhus United
AEP Energy
Ahlmark Lines
Ansa
Logistics
Bacardi
Martini
BAE Systems
Bob Martin
Bowater
BP
British Gas
British
Nuclear Fuels
Brittany
Ferries
Canary
Islands Fruit
Cargill
Carrs Milling
Castle
Cement
Celtic Energy
Channel
Freight
Ferries
CMA CGM
Conoco
Corus
Cunard Line

Danzas
DFDS
Dow
Chemicals
Dow Corning
Duferco
EDF Energy
Ferryways
Finnforest
Finnlines
Ford
Foster
Yeoman
Freightliner
Freshney
Cargo
Services
Gleadell
Agriculture
Grainfarmers
Grange
Fencing
Grimaldi
Group
Grosvenor
Grain
Hanson
Aggregates

HM Customs
& Excise
HUAL
Hydro Agri
IAWS
Imerys
Minerals
Immingham
Storage
Innogy
International
Power
Kuwait
Petroleum
Lafarge
Aggregates
Lys-Line
MoD
North Sea
Lumber
P&O Cruises
P&O Ferries
PAL Line
PD Port
Services
Peacock Salt
Pentalver
Transport
Rank Hovis
Red Funnel

Rexam
RMC
Materials
RMS Europe
Rowlinson
Timber
Saint-Gobain
Samskip
SeaCat
Scott Timber
Group
Sims Group
Stora Enso
Tarmac
Texaco
Titan Cement
Toyota
Travis Perkins
UECC
UPM
Kymmene
Volkswagen
Group
Vopak
Wallenius
Wilhelmsen
Lines
WBB
Minerals
W. E. Dowds

Various customers
£1.5m investment
Upgrade of facilities at bulk-handling terminal, Southampton, February 2003

Grange Fencing
£0.5m investment
Extension of timber terminal, Hull, March 2003

Bowater
£1.0m investment
Construction of forest products terminal, Immingham, May 2003

Saint-Gobain
£4.6m investment
Forest products terminal, Newport, June 2003

From cars to coal and salt to steel, no single cargo accounts for more than 10% of the group's UK ports business

ABP manages more UK ports than any other port operator. The geographic spread of our 21 ports around the UK means that we can provide the very best facilities for every size of vessel from Lowestoft on the east coast and Swansea in South Wales to Troon in Scotland and Plymouth in Devon. During 2003 over 25 of our major customers operated from more than one of our UK ports.

Even some of the smallest of our facilities, such as Troon, are capable of handling a range of different cargoes. Our larger ports at Hull, Grimsby & Immingham and Southampton handle a wide variety of cargo from all over the world. Consequently, our UK ports business is not over-dependent on any one cargo or market for its revenues. In 2003 no single type of cargo accounted for more than 10 per cent of our UK ports' revenue. We expect this to continue in the future.

Forecast 2004 UK ports revenue under contract at December 2003

50%

RMS Europe
£0.7m investment
Expansion of storage and distribution facilities, Goole, July 2003

Duferco
£0.6m investment
Steel import and distribution facility, Cardiff, October 2003

Rowlinson Timber
£1.0m investment
Storage and distribution terminal, Immingham, January 2004

Marshall Maritime Services
£1.1m investment
Bespoke steel import facility, Cardiff, April 2004

IAWS
£1.1m investment
Agribulk facility, Immingham, August 2003

Humber Timber Terminals
£0.8m investment
Expansion of forest products terminal, Immingham, November 2003

North Sea Lumber
£0.7m investment
Improvements to timber terminal, Hull, March 2004

Rix Shipping
£0.7m investment
New storage facilities, Hull, May 2004

Mole Valley Farmers
£4.0m investment
Redevelopment of port facilities, Teignmouth, Spring 2005

How we keep them

Business doesn't just cruise into our ports, we compete for it by offering customers major capital investment in exchange for long-term commitment

ABP's CRUISE PORTS: 6
LOCATIONS: Ayr, Barrow, Hull, Plymouth, Southampton and Swansea.

THE OPPORTUNITY
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 behind North America: between 1990 and 2002, the UK cruise market more than trebled in size to over 500,000 passengers per year.

The global market is projected to exceed 16 million passengers by 2009 (2000: 10 million). Growth factors include operator investment of more than US$12 billion in new ships, growing numbers of younger passengers, greater demand for short cruises and a booming Mediterranean market.

The European market is expected to grow faster than the global average. Recent investments combined with their unique locations and history mean that the group's UK ports are well equipped to benefit from the increased demand.

ABP's Port of Southampton is the UK's number-one cruise port. Cruise-ship calls increased by 15 per cent in 2003 and the number of calls handled by the port has more than doubled during the past six years.

With facilities capable of handling at least five cruise ships simultaneously, Southampton is home to the UK cruise fleets of Cunard and P&O, and the port of choice for cruise lines promoting new vessels and holding naming ceremonies. It is also the home port of Queen Mary 2, the world's largest cruise liner.

To support our customers and the anticipated growth in their requirements, we have recently improved and expanded our facilities at the Port of Southampton at a total cost in excess of £10 million. In return, key cruise customers have extended and strengthened their commitments to the port.

Braemar, operated by Fred Olsen Cruise Lines, is a regular visitor to the new City Cruise Terminal.

As a result of ABP's 2003 investments, the Port of Southampton has further upgraded its award-winning cruise facilities and services. Improvements introduced during 2003 include improved embarkation lounges, extended waiting halls, covered set-down areas and automated airbridges and baggage-handling systems.

ABP 2002 UK cruise market share

61%

MAYFLOWER CRUISE TERMINAL, Southampton, £6.5m investment, May 2003

CITY CRUISE TERMINAL, Southampton, £1.5m investment, August 2003

Estimated worldwide cruise growth 2000 – 2009

+60%

QUEEN ELIZABETH II TERMINAL, Southampton, £2.0m investment, June 2003

Increase in cruise-ship calls at Southampton during the past six years

+122%

The little things still count

They might be diverse, but smaller projects all add to the bottom line

ABP's SMALLER PROJECT PORTS: 21
LOCATIONS: all UK ports.

THE OPPORTUNITY
In addition to developing its ports to support continued growth in major cargoes, the group invests in smaller projects to facilitate a range of activities on its port estates.

Although they are not necessarily linked to the group's major trades, these projects provide an important area of growth. Recent projects have included the development of a yacht marina, a glass-recycling facility, a pallet-production facility and capital infrastructure works to support a scrap-metal facility.

During 2003, the group invested in 17 new revenue-earning smaller projects with total investment of approximately £24 million.

Leading metals-recycling company Sims Group set up a fridge-recycling facility at the Port of Newport in July 2002. It was already a customer of the port in its processing and exporting of scrap metal. Encouraged by the rapid success of this environment-enhancing development, Sims doubled the capacity of this facility to 400,000 units per annum during 2003.

The world's largest single-site fridge recycling plant.

Also in 2003, supported by a Welsh Assembly Freight Facilities Grant, Sims decided to invest £8.0 million in an extended metal-shredding facility and to expand the scope of all of its activities at the port. The expanded operation will be one of Sims' flagship facilities.

Around two million fridges come to the end of their useful lives in the UK each year. Sims Group's recycling facility located at the Port of Newport operates to the highest environmental standards in Europe and is designed to maximise Ozone Depleting Substance recovery during the recycling process.

ABP is investing £3.5 million in major capital infrastructure works to support this expansion on the back of a 20-year agreement.

Percentage of capital investment relating to small projects

50%

SALT STORAGE AND DISTRIBUTION WAREHOUSE, Ayr, £1.0m investment, June 2003

YACHT MARINA, Lowestoft, £1.0m investment, December 2003

PALLET-PRODUCTION FACILITY, Barry, £0.8m investment, December 2003

We love a challenge

Our roll-on/roll-off customers need facilities for bigger ships, more berths for extra sailings, additional space for vehicles, faster turnarounds and some added value too

ABP's ROLL-ON/ROLL-OFF PORTS: 9
LOCATIONS: Fleetwood, Grimsby, Hull, Immingham, Ipswich, Plymouth, Southampton, Swansea and Troon.

THE OPPORTUNITY
Roll-on/roll-off vessels carry everything from cars, buses, lorries, motorcycles and motor/mobile homes to agricultural and earth-moving equipment and cranes. Many have 12 decks and capacity for up to 6,600 cars or several hundred freight trucks.

Roll-on/roll-off is one of the faster-growing trades handled by the ports industry. Total volumes are expected to increase by 45 per cent between 2000 and 2010.

Factors driving this growth include the centralisation and rationalisation of production by motor manufacturers, the increasing requirement for the UK to import finished goods, and roll-on/roll-off's status in Europe as the transport method of choice for finished goods.

NEW TERMINAL, Immingham, £2.0m investment, August 2003

UK ports roll-on/roll-off volumes 1996-2002

+35%

ROLL-ON/ROLL-OFF FACILITIES, Southampton, £1.2m investment, February 2004

Import vehicles at the Port of Grimsby, our 2003 import/export ratio was 51/49.

Around 57 per cent of our 2003 roll-on/roll-off volumes related to import/export vehicles. Grimsby & Immingham and Southampton provide some of the best port-side facilities for import/export vehicles in the UK. ABP is the UK's number-one port operator for the handling of import/export vehicles and our volumes for this important part of the roll-on/roll-off market have increased by over 47 per cent during the past four years.

Roll-on/roll-off traffic at the group's ports grew by 7.2 per cent to 2.5 million units during 2003. Our volumes have now increased by 54 per cent during the past six years.

The rapid expansion of the market means that customers are increasingly looking for facilities that can accommodate larger ships and open up new routes or additional services. Competitive pressures mean that they also want faster turnaround times and value-added services to help reduce costs.

Our ports are meeting the challenge by partnering with customers to develop state-of-the-art facilities and services backed by long-term agreements.

New marine works at Plymouth will accommodate Brittany Ferries' new superferry from March; at Ipswich, we are increasing berthing capacity so that Ferryways can increase the frequency of its services to and from Ostend; improved terminal facilities at Immingham enable Sea-Cargo to operate larger and faster vessels to and from Norway; and Southampton's commitment enables Channel Freight Ferries to launch a daily service to and from Radicatel in France in February 2004.

ENHANCEMENT OF ROLL-ON/ROLL-OFF FACILITY, *Plymouth, £4.3m investment,* July 2004

ROLL-ON/ROLL-OFF BERTH, Ipswich, £6.1m investment, December 2004

ABP's 2002 UK roll-on/roll-off market share

22%

ABP's operational management

The key to success is to recruit and keep the best in the business

Paul Allen
Managing Director, ABP Connect

Andrew Kent
Port Director, Southampton

Stephen Walsh
General Counsel

Richard Adam
Group Finance Director

David Twidle
Assistant to Group Chief Executive

Phillip Williams
Group Property Director

Budha Majumdar
Port Director, South Wales Ports

Ian Schofield
Engineering Director

The team's depth of experience is detailed on pages 24 and 25

Keeping our shareholders smiling...

Once again, our shareholders have benefited from our rigorous investment criteria

ABP

Keeping our shareholders smiling

Nick Palmer
Port Director, Shortsea Ports

Bo Lerenius
Group Chief Executive

Doug Morrison
Port Director, Hull & Goole

John Copping
Port Director, Grimsby & Immingham

Hywel Rees
Company Secretary & Head of Group Personnel

Chairman's statement

The group's continued profitability is the result of strategic capital investment, supported by long-term agreements with quality customers

CHAIRMAN:
ROSS SAYERS

18 FEBRUARY 2004

I am pleased to report another solid performance by the group during 2003. Our core UK ports business performed particularly well and was the main factor in underlying pre-tax profit increasing to £141.6 million (2002: £138.1 million) and underlying earnings per share increasing to 31.0 pence per share (2002: 30.4 pence per share).

Results

The group's core UK ports and transport business contributed £152.3 million to operating profit in 2003, an improvement of 8 per cent on 2002 (£141.4 million). The much smaller US ports and transport business added £2.5 million to operating profit from continuing operations, up 67 per cent on 2002 (£1.5 million). As anticipated, the programme of non-core property sales resulted in lower rental income and a slightly reduced profit from property investment activities of £6.6 million (2002: £6.8 million). The delay in the sale of 29 acres of land at the Port of Garston, which was originally scheduled for 2003, contributed to the more significant decline in profit from property development to £3.2 million (2002: £12.0 million).

Operating profit of £12.0 million (2002: £10.5 million) from the group's associated companies reflected strong performances from the two container-handling businesses, Southampton Container Terminals and Tilbury Container Services. Profit from the sale of fixed assets rose to £4.8 million (2002: £0.7 million) while, at £0.9 million, goodwill amortisation was lower than last year (2002: £1.6 million), following the disposal of the AMPORTS Aviation division in the USA towards the end of 2002. With the benefit of lower interest charges, pre-tax profit and basic earnings per share increased by 5 per cent to £145.5 million (2002: £139.1 million) and by

3 per cent to 31.7 pence per share (2002: 30.9 pence per share), respectively.

Business highlights
The group continues to concentrate capital investment on commercially attractive projects generating an internal rate of return on investment of at least 15 per cent, supported by long-term contracts with quality customers. During the year, we invested £8.5 million in cruise terminal improvements and £1.5 million in the development of a third cruise terminal at Southampton, and £4.6 million in a new forest products terminal for Saint-Gobain at Newport. In our Humber ports we completed £4.0 million of investment in timber-related facilities and we have agreed to invest a further £1.4 million in this area to support new business. We are also investing £4.3 million in the enhancement of Brittany Ferries' facility in Plymouth and £6.1 million in an additional roll-on/roll-off berth for Ferryways at Ipswich. Our agreement with Sims Group to invest £3.5 million in new facilities at Newport represents another highlight of the year.

Future developments
We expect a decision by the government on our application to develop Dibden Terminal, the planned deep-sea container port at Southampton, in 2004. The inspector's report on the public inquiry was submitted to government, on schedule, at the beginning of October 2003. In November, the House of Commons' Transport Select Committee recognised the clear need for additional container-port capacity in the UK in its report on the UK ports sector. It stated that: "Suitable berths are essential in the United Kingdom if it is to retain direct shipping services rather than being served by transshipment from Continental ports."

As part of our plans to develop four new river terminals on the Humber, we have recently reached an agreement for a 25-year contract with DFDS Tor Line PLC for the development of a £27.5 million two-berth roll-on/roll-off facility at the Port of Immingham.

Dividend
The directors are recommending a final dividend of 8.5 pence per share (2002: 8.25 pence per share), which makes a total of 15.25 pence per share for 2003 (2002:14.75 pence per share). If approved by shareholders, the final dividend will be paid on 30 April 2004 to shareholders who are on the register at 26 March 2004.

Board of directors
George Duncan, non-executive Deputy Chairman and Senior Independent Director, retired from the board at the Annual General Meeting on 15 April 2003. He served the company as a non-executive director for 17 years, during which time the group benefited greatly from his considerable wisdom and boardroom experience. The board and I wish him well.

Andrew Simon, who joined the board in 1994, replaced George Duncan as Senior Independent Director.

I would also like to report that I have informed the board that I do not intend to stand for re-election at the end of my current term. I have recently taken on additional, external responsibilities and for these reasons, combined with the fact that my departure at the end of my term of appointment would have fallen during a strategically important period for the company, it has been agreed that I will formally step down as Chairman and as a director of the company immediately after the Annual General Meeting on 21 April 2004. The company is in fine shape and I retire fully confident of its future and continuing success.

The process of selecting a new Chairman is underway.

Prospects
While any significant improvement in the general economic climate is uncertain, the group's UK ports business is in the strong position of having many long-term contracts with quality customers. We are confident that our healthy cash flow, diverse spread of geographical and cargo risk and increased growth during the second half of 2003, combined with new contracts secured over the past four years, will underpin the continued growth of the group's UK ports business in 2004.

Ross Sayers
Chairman
18 February 2004

Over 75 per cent of our UK employees hold shares in the group and, in a year of economic uncertainty, I would like to take this opportunity to thank them for their continued dedication and commitment to increasing shareholder value.

Southampton continued to benefit from the growth in cruise traffic during 2003

The new forest products terminal at Newport

Our Humber ports announced a number of new investments in timber facilities

UK ports and transport operating profit

+8%

Group Chief Executive's review

It has been a year of steady growth driven by new business wins

GROUP CHIEF EXECUTIVE:
BO LERENIUS

18 FEBRUARY 2004

I am very pleased with the performance of our core ports and transport business this year, and our UK operations in particular. They had another good year and contributed 86 per cent of the group's total operating profit for 2003. The 12 new contracts that we signed during the year take the total number of major contracts we have won since the beginning of 2000 to over 65.

Included within our ports and transport business is ABP Connect, our value-added services business, which has also performed well. Turnover increased by 16 per cent to £70.3 million and operating profit increased by almost 30 per cent to £5.4 million during the year, which is in line with our expectations. We have set ABP Connect another tough target for 2004 and expect further growth in this area.

Even though our UK ports business has outgrown the quoted UK ports sector over the past four years, we believe that there is still more to come. We will therefore maintain our strategy of growing the business in a low-risk way. Assuming we get the necessary approvals, we plan to invest more than £1 billion over the next 10 years. Up to £600 million is expected to be invested in a deep-sea container terminal at Dibden, Southampton, four new river terminals planned for the Humber will cost around £140 million, with the balance of the planned investment being utilised by regular growth projects in all of our ports.

As the recent Transport Select Committee report acknowledged, the UK's competitive position is being seriously undermined by an imminent lack of deep-sea container capacity. Unless our current deep-sea facilities are expanded, Southampton Container Terminals is expected to be at full capacity within two years. We expect a decision on Dibden in 2004.

Of the Humber projects, we recently reached an agreement with DFDS Tor Line PLC for the development of a two-berth roll-on/roll-off facility at the Port of Immingham, involving an investment of £27.5 million under a 25-year agreement. It is anticipated that this facility will become operational towards the end of 2005. The proposed coal terminal at Immingham, for which we already have the necessary approvals, continues to be progressed. We expect to receive permission for both the planned roll-on/roll-off facility at Immingham and the short-sea container terminal at Hull by the end of the first half of the year. The fourth terminal will take longer to develop.

We will only build these new terminals once we have secured customers for them. Our strong strategic position – ABP's 21 ports are in some of the UK's best locations – means that we can afford to be disciplined in how we do business. We only make significant investment once we have secured solid, long-term contracts, usually of 10 years or more, offering an internal rate of return of at least 15 per cent.

Although returns from our six vehicle-processing terminals in the USA are improving – volumes have almost doubled over the past three years and we have won a lot of new car import and export business – we do not anticipate any further significant investment or expansion in the near future. We will continue to grow the existing business, but it is a small part of our overall ports and transport operations.

Our commitment to organic growth and the potential in our core UK ports business mean that we do not expect to make any major acquisitions in the near future. We believe that developing new projects within our own business that can deliver the required rate of return represents a much more efficient use of capital than paying a premium and increasing our risk profile by buying another business.

Turning to other operational matters, we have made the company leaner and more efficient during the year through the successful implementation of a cost-reduction exercise. We cut over £1.5 million from our cost base in 2003 by reducing headcount by over 150, or 4 per cent, across all areas of the business. We expect these savings to increase to at least £3 million in 2004.

Our non-core property and land disposal programme is very much on target and should be completed in 2004. As promised, since 1 January 2000 we have sold £279 million of non-core assets, completed a share repurchase programme and invested the surplus proceeds in our core UK ports business to generate higher returns. Approximately £176 million has come from sales of non-core property and land. We will continue to sell surplus land. As we own approximately 13,000 acres of land and seabed in the UK, there is plenty of capacity. Our strategy is to get planning permission before selling non-operational land. This is purely to optimise its value; we are not interested in speculative property development or property projects that are not port-related.

The only other potential area of expenditure that I want to mention relates to the UK government's new security measures to combat terrorism, which are due to be implemented by 1 July 2004. The government has been realistic in terms of the enhancements it requires and we do not expect the cost implications to be dramatic. We have already notified our customers that our intention is to pass on any additional costs to them.

Health and safety is discussed in detail in the corporate social responsibility section of this report on pages 86 and 87. I want to draw attention to it here because there were two fatal accidents at our facilities during 2003, which is clearly unacceptable and casts a shadow over the positive progress that we have made in this extremely important area over recent years. Our health and safety targets will remain extremely demanding during 2004 and I promise you that we will continue to work hard to improve this area.

I am positive about our growth prospects for the coming year. It is undeniable that Dibden Terminal has the potential to transform our business by increasing the group's operating profit substantially over a number of years. But even without it, there is still more than enough growth capacity in the rest of our core UK ports and transport business.

Our business model is stable, resilient and highly transparent. Half of the group's forecast UK ports business for 2004 is already under contract. While any significant improvement in the global economy is uncertain it is improving slowly, which is good for business in general. We also finished 2003 strongly, which offers further encouragement for the year to come.

Thank you for your continued support.

Bo Lerenius

Bo Lerenius
Group Chief Executive
18 February 2004

Our container volumes continued to grow during 2003

AMPORTS continued to add new business

Our coal import facilities at Immingham operated at close to capacity during 2003

Potential future investment on the Humber

£140m

ABP's operational management

Each member of our operational team offers unique skills; together they create a formidable team

Paul Allen, 47
Managing Director, ABP Connect

Paul has been the Managing Director of ABP Connect since its launch in April 2001, when he also joined the operational board. He is responsible for the strategy and development of the growing value-added services division, which now employs more than 1,000 people. Paul has spent much of his career in the logistics and supply chain management sector. He joined ABP from Exel, where he was Global Customer Director for Nokia. He started out as a research chemist at ICI in 1978 before going on to work for Mars in a number of management roles and for MSAS McGregor Cory.

John Copping, 56
Port Director, Grimsby & Immingham

John joined ABP in 1985, since when he has held a number of senior management positions. He was appointed Port Manager for the Port of Ipswich following its acquisition in 1997. As Port Director for the South Wales Ports, he was instrumental in consolidating Barry, Cardiff, Newport, Port Talbot and Swansea into a single, cohesive business unit. Since taking over at Grimsby & Immingham, John has led a number of initiatives to increase operational capacity, including Humber International Terminal Phase 2 and the Immingham Outer Harbour development. Before joining ABP, he worked at the cutting edge of port development in the UK and internationally.

Andrew Kent, 56
Port Director, Southampton

Andrew was appointed Port Director in 1989 and has been a board member since 1999. He has worked in the ports and transport industry for more than 30 years. As Port Director, Andrew has overseen the growth in Southampton's container business, which now handles 50 per cent of the UK's entire trade with the Far East. He has also led his team in growing the port's cruise business to establish Southampton as the UK's premier cruise port and establishing it as the UK's principal port for importing and exporting vehicles. He has held a number of senior management roles in the company, including Marketing Manager and Operations Manager at Southampton, and Port Manager at King's Lynn. Andrew is also a director of two of ABP's associated companies – Southampton Container Terminals and Tilbury Container Services.

Budha Majumdar, 57
Port Director, South Wales Ports

Budha joined ABP in 1998 from Mersey Docks & Harbour Co., where he held a number of senior management posts. He joined the operational board in 1999 when he was promoted to Port Director for the Shortsea Ports, where he was responsible for establishing Troon as a major ferry port and building a modern and versatile silo facility at King's Lynn. Much of Budha's focus in his current role is on cultivating closer personal relationships with major customers and increasing awareness of the importance of the South Wales ports to the Welsh economy. Important customers he has secured on long-term contracts include Saint-Gobain Building Distribution and Sims Group.

Doug Morrison, 52
Port Director, Hull & Goole

Doug has worked at ABP for his entire career; he joined the company from school in 1968. Doug worked in ports administration for 11 years before moving to the dock operation 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 and won considerable volumes of new business under his leadership. Since taking control of Hull & Goole and joining the operational board in 2003, Doug has overseen considerable investment in new facilities at the ports.

Photographs of the team can be found on pages 18 and 19
Biographies of Richard Adam and Bo Lerenius are set out on pages 68 and 69, respectively.

Nick Palmer, 44
Port Director, Shortsea Ports

Nick was appointed Port Director and became a member of the operational board in 2002, since when he has supervised the development of a number of new facilities across ABP's 11 shortsea ports. Nick 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 former ABP subsidiary Red Funnel Group as General Manager for Ferries. In 1997, he returned to ABP as Deputy Port Manager for Grimsby & Immingham, where he played a leading role in the development of Humber International Terminal.

Hywel Rees, 45
Company Secretary & Head of Group Personnel

Hywel joined ABP in 1984. By 1987, he had been promoted to Secretary of ABP and he became Company Secretary two years later. He was 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 flexible working hours. Hywel has also worked to extend employee choice by reactivating ABP's relationship with the Transport and General Workers' Union.

Stephen Walsh, 39
General Counsel

Stephen was appointed to the new role of General Counsel in May 2002. He is responsible for providing the group with legal support. As ABP had not had in-house legal representation for several years before his arrival, he has had to learn quickly about the unique legal circumstances of each ABP port. Before joining ABP, Stephen worked for British Airways for more than 10 years; latterly as Legal Director.

Ian Schofield, 42
Engineering Director

Ian became Engineering Director in 2002. In addition to overseeing engineering matters at the ports, he is responsible for health and safety across the group. He is working consistently to improve the company's safety culture. Current initiatives include externally accredited health and safety training and a programme to reduce the number of work-related accidents. Ian joined ABP in 1991 as Assistant Port Engineer for Goole; he then worked at Hull and the group's North-East ports before he was appointed Port Manager for King's Lynn in 1999. He spent 11 years in the mining industry prior to joining ABP.

David Twidle, 55
Assistant to Group Chief Executive

David has been Assistant to Bo Lerenius since 1999. He has worked for ABP for 36 years in a variety of senior management and accounting roles at head office and the ports, and consequently has a thorough knowledge of the business and the ports industry. He was Group Management Accountant at head office in London for 10 years and prior to that 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.

Phillip Williams, 46
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 long-term property disposal 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.

Operating and financial review

The group's core UK ports and transport performance in 2003 was once again very strong

GROUP FINANCE DIRECTOR:
RICHARD ADAM FCA

18 FEBRUARY 2004

Group overview
The group's core ports and transport businesses and associated undertakings produced a strong performance for the year. They benefited from a significant contribution from new business contracts secured over recent years, cost-reduction initiatives implemented in 2003, and improving economic conditions in the latter part of the year.

As expected, the contribution from the group's property investment activities continued to decline as a result of the ongoing property disposal programme. The exact timing of property disposals is always difficult to predict and the delay in the sale of 29 acres of land at the Port of Garston, originally planned for 2003, contributed to a reduced performance from the group's property development activities.

As a result of the reduced property sales, group turnover from continuing operations decreased marginally to £401.3 million (2002: £401.9 million). However, the strong performance of the core UK ports and transport business, which contributed £152.3 million to operating profit, an increase of 7.7 per cent on 2002 (£141.4 million), enabled total operating profit from continuing operations, before goodwill and exceptional items, to grow by 2.6 per cent to £176.6 million (2002: £172.2 million).

Benefiting from reduced interest costs, underlying pre-tax profit increased by 2.5 per cent to £141.6 million (2002: £138.1 million) and underlying earnings per share increased by 2.0 per cent to 31.0 pence (2002: 30.4 pence). With the benefit of reduced goodwill amortisation of £0.9 million (2002: £1.6 million) and increased profit from the sale of fixed assets of £4.8 million (2002: £0.7 million), pre-tax profit and basic earnings per share increased by 4.6 per cent to £145.5 million (2002: £139.1 million) and by 2.6 per cent to 31.7 pence per share (2002: 30.9 pence per share), respectively. Taking into account the proposed final dividend of 8.5 pence per share, the total dividend per share increased by 3.4 per cent to 15.25 pence (2002: 14.75 pence).

Turning to operational matters, the group successfully implemented a cost-reduction programme at its UK ports and transport business, streamlined and relocated the head office of its USA business, following the disposal of AMPORTS Aviation division towards the end of 2002, and continued to make good progress with its planned strategic investments on the Humber and at Dibden, Southampton. In line with its strategy of growing its core business through capital investment, the group has entered into a further 12 new long-term customer contracts during 2003 which will result in £23.5 million of capital expenditure before they become operational.

A detailed segmental analysis of the operations that have produced the group's results is given in note 2 to the financial statements on page 44; the group's strategy is discussed in the Group Chief Executive's review on pages 22 and 23. Significant features of the operating performance of each business segment are discussed on the following pages.

	Total 2003 £m	Total 2002 £m	Change from 2002 %
Ports & transport – UK	**152.3**	141.4	+7.7
Ports & transport – USA	**2.5**	1.5	+66.7
Property investment	**6.6**	6.8	-2.9
Property development	**3.2**	12.0	-73.3
Share of operating profit in associated undertakings	**12.0**	10.5	+14.3
Total underlying operating profit – continuing operations	**176.6**	172.2	+2.6
Goodwill amortisation – continuing	**(0.9)**	(0.9)	–
Exceptional items	**–**	(5.5)	n/a
Discontinued operations	**–**	2.9	n/a
Total operating profit	**175.7**	168.7	+4.1

Ports & transport – UK
Background
The UK's ports handle approximately 95 per cent of the country's international trade by tonnage and approximately 75 per cent by value. Overall trade volumes are influenced by the changes in the UK's gross domestic product (GDP), although the actual growth of individual cargoes can be impacted by factors such as the increased internationalisation of trade, exchange rates, the imposition or removal of tariffs and changes in the relative production efficiencies of a country's key trading partners.

After two years of declining volumes, the UK's ports are expected to have increased throughput during 2003. Based on the most recent publicly available data, the table below sets out the total volumes handled by the UK ports and by ABP, the group's principal UK operating entity, during the four years ended 31 December 2002:

Total tonnage (million tonnes)	**2002**	**2001**	**2000**	**1999**
Total UK ports	558.3	566.4	573.1	565.6
Change (%)	-1.4	-1.2	+1.3	-0.5
Total ABP ports	120.0	124.6	126.9	119.2
Change (%)	-3.7	-1.8	+6.5	-2.3

The top 20 UK ports, most of which are owned by trusts, local authorities or private enterprises, handled in excess of 85 per cent of the total UK port volumes for 2002.

ABP, which is the largest port operator in the UK, handled 21.5 per cent of UK port volumes during the same period. The company owns 21 ports located around the country, including the number-one port by volume handled – the Port of Grimsby & Immingham – and three more of the top 20 – Hull, Port Talbot and Southampton. The size and number of ABP's ports mean that the group is able to handle virtually any type of cargo and has the largest customer and cargo base within the UK ports sector. The geographical diversity of its ports means that ABP is not heavily reliant on any of the UK's main trading partner regions (the Americas, Middle East, Far East, Western Europe and Ireland), or any one cargo. It should also be noted that ABP's performance is driven by the rate at which it is able to add new business to its ports and trade volumes are only one of the factors which affect its results.

The volume decreases ABP experienced during 2002 and 2001 were the result of reductions in volumes of oil – a commodity for which profitability is not particularly sensitive to changes in volumes – and iron ore – where the impact on the group's profitability is cushioned by minimum volume guarantees. These reductions offset the growth the company achieved in the remaining trades it handled. The impact of excluding these factors is illustrated below:

Total tonnage excluding oil and iron ore (million tonnes)	**2002**	**2001**	**2000**	**1999**
Total UK ports	290.6	295.6	282.2	271.6
Change (%)	-1.7	+4.7	+3.9	-2.3
Total ABP ports	63.2	62.2	59.3	54.5
Change (%)	+1.6	+4.9	+8.8	-1.5

During 2003, volumes handled by ABP's ports increased by 3.4 per cent to 124.1 million tonnes. The Department for Transport (Dft) is expected to publish overall market data for 2003 in October 2004.

Notwithstanding the relatively flat volumes handled by the UK ports industry, individual cargoes such as containers, roll-on/roll-off and certain dry bulks, e.g. coal and agribulks, have grown by more than 5 per cent per annum over recent years. Charts set out in figure 1 provide a graphical illustration of the group's throughput volumes for roll-on/roll-off including vehicles, coal and containers from 1999 through to 2003. These rates of growth are forecast to continue into the future, and the group has developed capital plans to target those cargoes that it believes are capable of delivering significant and sustained returns. Further details of the group's strategic plans are set out in the Group Chief Executive's review on pages 22 and 23; further information on the roll-on/roll-off market is provided on pages 16 and 17.

ROLL-ON/ROLL-OFF: Increase in units handled 2003 compared with 2002

+7%

COAL: Increase in tonnage handled 2003 compared with 2002

+10%

CONTAINERS: Increase in teus handled in 2003 compared with 2002

+6%

ABP's roll-on/roll-off volumes including vehicles 1999-2003 (units)

99 1.73m
00 1.85m
01 2.03m
02 2.32m
03 2.48m

ABP's coal volumes (tonnes)

99 8.63m
00 9.67m
01 13.74m
02 11.62m
03 12.76m

ABP's container volumes 1999-2003 (teus)

99 1.38m
00 1.56m
01 1.65m
02 1.73m
03 1.83m

Fig 1

UK Ports 2002 –
Volumes by major cargo

ABP 2002 –
Volumes by major cargo

Fig 2

Based on the 2002 data published by the Dft, the group's exposure to the lower margin and lower growth liquid bulks volumes, at 43 per cent of total volumes, is lower than the market average of 50 per cent. The charts set out in figure 2 provide an analysis of the UK market and ABP's port volumes by major cargo type for 2002.

In addition to general cargoes, UK ports handle ferry and cruise passengers. During 2002, the UK's ports handled 28.7 million international ferry passengers. That represented growth of 3.5 per cent on the previous year. ABP's ports, in particular Hull and Plymouth, accounted for around 6 per cent of the total market. The volume of international ferry passengers through the company's ports grew by around 6 per cent on the previous year to 1.8 million (2001: 1.7 million). Southampton remains, by some distance, the number-one cruise port in the UK; during 2002, it handled 328,000 international cruise passengers – 61 per cent of the overall market in the UK – compared with 296,000 in 2001.

Results

Turnover in the UK ports and transport business increased by 7.2 per cent to £349.1 million in 2003 (2002: £325.7 million) and underlying operating profit grew by 7.7 per cent to £152.3 million (2002: £141.4 million). The cost-reduction programme which was announced in 2002 resulted in savings of over £1.5 million during 2003. These savings more than balanced the impact on the group's margins of the increased insurance costs previously reported and the lower-margin growth achieved by the group's value-added services operation, ABP Connect. The cost-reduction programme will generate at least £3.0 million of savings per annum from 2004. Total annual throughput at the group's 21 UK ports increased by 3.4 per cent to 124.1 million tonnes (2002: 120.0 million tonnes). Excluding iron ore imports driven by Corus in South Wales and low margin oil, both of which had limited impact on the group's results, throughput at the group's UK ports grew by 5.7 per cent. Importantly, key trades such as roll-on/roll-off trade, deep-sea container traffic, vehicle imports and exports, agribulks, forest products, imported coal and cruise-ship calls continued to grow.

Significant developments in the operating performance of each business unit are discussed below.

Hull & Goole

Turnover increased marginally by 0.5 per cent, with growth in imports of forest products, roll-on /roll-off traffic and grain exports being partly offset by reductions in coal and scrap metal volumes. During the year, a £0.6 million investment in timber storage facilities to accommodate new business from Grange Fencing, suppliers of value-added products to B&Q and Jewson, was completed at Hull. In addition, towards the end of the year the group agreed to invest £1.4 million in additional storage facilities on the back of 10-year agreements with North Sea Lumber (Sales) Ltd and Rix Shipping. Container traffic handled by Hull was significantly higher than the previous year. A public inquiry into Quay 2005, the proposed riverside berth development to enable the port to handle larger short-sea container vessels, was held in July 2003. The group expects the government's decision by the end of the first half of 2004.

At Goole, the group completed a £0.7 million investment in new storage and distribution facilities under a long-term agreement with RMS Europe. A new £1.0 million railfreight terminal became operational in December, improving the port's rail infrastructure and enabling a higher proportion of cargo – including imports of steel coils and import/export containers – to be transported by rail. The Strategic Rail Authority awarded the group a £0.7 million Freight Facilities Grant towards the cost of constructing the terminal in recognition of the scheme's environmental benefits.

Grimsby & Immingham

Turnover increased by 2.4 per cent, with growth in container volumes, grain exports, roll-on/roll-off traffic, coal imports and vehicle imports/exports. Grimsby & Immingham maintained its position as the UK's number-one port in the tonnage statistics for 2002 published by the Dft towards the end of 2003. Immingham's forest products trade was boosted by two developments which became operational during the year: the £1.0 million Immingham Forest Products Terminal, constructed under a term agreement with Bowater Incorporated and a new £0.8 million warehouse, built under a five-year agreement with Humber Timber Terminals Ltd. In addition, a new £1.0 million storage terminal for Rowlinson Timber, built on the back of a 10-year agreement, became operational during January 2004.

A new £1.1 million agribulk facility for IAWS, built at Immingham under a 15-year contract, became operational in August, and the £2.0 million ABP Freshney Cargo Services Terminal, which was developed on the back of a long-term agreement, also commenced service in August. The new terminal enabled Sea-Cargo AS – a long-term customer of Freshney Cargo Services – to relocate from Grimsby to Immingham and improve its services by using larger and faster vessels.

Grain export volume, handled by our UK ports, increased significantly during 2003

Grimsby & Immingham remained the UK's number-one port by tonnage

ABP's 2003 international ferry passengers

1.7m

The group has also increased capacity at Grimsby to support the continued growth of Volkswagen Group's vehicle volumes. Following the decision by Cobelfret to move from the Port of Immingham at the end of 2004, the group is actively seeking new roll-on/roll-off business to fill the spare capacity.

Southampton
Turnover rose by 9.9 per cent, with growth in grain exports, vehicle imports and container traffic. The port's cruise business continued to grow, with 202 cruise calls in 2003 (2002: 176), including more inaugural cruise-ship visits than in any previous year.

Three projects totalling £10.0 million to improve and expand the port's cruise facilities were completed in 2003. The Mayflower Cruise Terminal, P&O Cruises' UK base, benefited from a £6.5 million major reconstruction following a new 10-year agreement. Queen Elizabeth II Terminal was refurbished following a £2.0 million investment underpinned by an agreement with Cunard Line, confirming Southampton as Cunard's UK base until 2009. It is also the home port of Queen Mary 2, the world's largest cruise liner. The £1.5 million City Cruise Terminal, the port's third cruise terminal, became operational in August.

ABP also invested £1.2 million in a new roll-on/roll-off facility built under a term agreement with Channel Freight Ferries at Southampton. Services from this facility are due to commence in February 2004.

South Wales Ports
Turnover declined by 0.2 per cent compared with the previous year. A reduction in the imports of steel slab by Corus was balanced by growth in timber imports and scrap exports, together with a recovery in iron ore and coal import volumes. The region also saw a number of significant new developments during the year.

Timber business benefited from new developments at Newport and Barry. At Newport, a £4.6 million investment in new storage facilities, following a 20-year agreement with Saint-Gobain, became operational in June. In December, a new £0.8 million pallet-production facility backed by a 10-year agreement with the Scott Timber group, the UK's leading pallet manufacturer, became operational at Barry.

In excess of £2.5 million is being invested in steel-handling facilities at Cardiff and Newport. Investment in Cardiff is backed by two new customer contracts: a 10-year agreement with Marshall Maritime Services for a new, bespoke steel-importing facility; and a five-year agreement with Duferco UK Ltd for the modification of an existing warehouse. At Newport, the group's £0.8 million investment in a new mobile harbour crane was backed by a three-year agreement with Corus.

The group is also investing £3.5 million in major capital infrastructure works at Newport on the back of a 20-year agreement with Sims Group. As a separate project, Sims Group is to invest £8.0 million in its scrap metal and fridge-recycling operations at the port to make it one of their flagship facilities. This project is discussed in more detail on pages 14 and 15.

Shortsea Ports
Turnover increased by 12.5 per cent, with growth in grain exports and roll-on/roll-off traffic. At the Port of Ayr, a £1.0 million investment in a warehouse facility built under a 20-year contract with Peacock Salt became operational in June. A £4.3 million investment in marine works at Plymouth to accommodate Brittany Ferries' new superferry, Pont Aven, is due to become fully operational in July 2004. This investment is supported by a 15-year agreement with Brittany Ferries.

The £1.0 million Lowestoft Haven Marina development, which has a 140-berth capacity, was completed in December. At the Port of Ipswich, we are investing £6.1 million on the construction of a second roll-on/roll-off berth following a 20-year agreement with Ferryways NV. This facility will enable Ferryways to expand its services. A public inquiry into a proposed £4.0 million project to develop port facilities at Teignmouth was held in September. The group expects the government's decision during 2004.

ABP Connect
Turnover in the group's value-added services business increased by 16.3 per cent. New developments in 2003 included B&Q's decision to handle containerised UK imports through ABP Connect's Exxtor Terminal at the Port of Immingham. Exxtor Terminal also won new container business from Samskip Ltd and CMA CGM. Hams Hall Railfreight Terminal in Birmingham underwent a £2.2 million expansion following a £1.2 million grant from the Strategic Rail Authority. The grant was awarded on the back of a new daily railfreight service between Hams Hall and Scotland that has reduced the amount of goods transported by road.

CMA CGM commenced a new weekly service to ABP Connect's Exxtor Terminal at Immingham during June 2003

South Wales Ports completed three investments in steel *facilities*

Throughput capacity at Hams Hall Railfreight Terminal was doubled during 2003

Analysis of 2003 group turnover

Analysis of 2003 total operating profit before goodwill amortisation and exceptional items

Ports & transport – USA

Background

Following the disposal of the Aviation business towards the end of 2002, the group's USA ports and transport operation now comprises six vehicle-processing terminals located at five port locations on both the East and West Coasts of the country. These facilities are operated by AMPORTS, the group's 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.

Results

Turnover from AMPORTS' continuing ports and transport operations (which excludes property investment income) increased by 8.5 per cent on a local currency basis; however, the weakening of the US dollar against sterling meant that reported turnover fell marginally to £36.0 million (2002: £36.1 million). Reported operating profit, which benefited from an improvement in the US dollar revenue earned per vehicle processed and a reduction in overhead costs following the sale of the Aviation division, increased by 66.7 per cent to £2.5 million (2002: £1.5 million).

AMPORTS processed 587,000 vehicles during 2003, a slight increase on the 582,000 vehicles handled during the previous year. The company continued to win new business, with KIA importing vehicles through Baltimore, Maryland, and General Motors importing vehicles through Benicia, California, during the latter part of the year.

Property investment

Background

The group's property investment activities comprise income generated from tenants on its port estates who do not make use of its port facilities. The group expects income from this source to decline as it continues with its programme of disposing of non-core property and land.

Results

Non-core property and land sales during 2002 and 2003 led to a 7.5 per cent decline in total turnover from UK and USA property investment to £8.6 million (2002: £9.3 million). Consequently, operating profit from UK and USA property investment declined by 2.9 per cent to £6.6 million (2002: £6.8 million).

Property development

Background

The group's 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 protracted and complex planning requirements that need to be satisfied prior to a disposal.

Results

The delayed sale of 29 acres of land at the Port of Garston, originally planned for 2003 and which is now to be the subject of a public inquiry, was a key factor in turnover from property development declining to £7.6 million (2002: £30.8 million). Operating profit from property development activities was £3.2 million (2002: £12.0 million).

Non-core property and land sold since 1 January 2000

£176m

Growth in AMPORTS vehicle volumes since 1 January 2000

86%

2003 growth in operating profit contribution from associates

+14%

During 2003, the group sold a further £6.7 million of non-core property and land. This brings the value of non-core property and land sold since 1 January 2000 to £175.7 million. The group remains on track to achieve its target of £200.0 million of non-core property and land sales by the end of 2004.

Associates

Background

The group's associates comprise a 49 per cent interest in Southampton Container Terminals (SCT), a 33 per cent interest in Tilbury Container Services (TCS) and a 45 per cent interest in The Cardiff Bay Partnership (CBP).

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 operator in the UK and handles a significant percentage of the UK's trade with the Far East. CBP is engaged in the ownership, letting and management of office properties in Cardiff Bay. The majority of properties that CBP owns are now fully let.

Results

The group's share in the turnover of associates increased by 12.2 per cent to £49.5 million (2002: £44.1 million). Its share of operating profit rose 14.3 per cent to £12.0 million (2002: £10.5 million).

Both SCT and TCS experienced increased container throughput in 2003. SCT handled 1,378,000 container units, an increase of 8.0 per cent, and TCS handled 322,000, an increase of 16.1 per cent. CBP produced a result similar to the previous year, as expected.

Interest

Net interest payable of £35.0 million was £2.7 million below the previous year (2002: £37.7 million). The reduced net charge was the result of both lower average net borrowings and historically low USA and UK interest rates. Interest received amounted to £0.6 million (2002: £0.7 million). Amounts capitalised, primarily in relation to costs incurred in the group's plans to develop Dibden Terminal at Southampton, totalled £1.3 million (2002: £1.1 million).

The group's underlying average rate of interest increased slightly to 7.6 per cent (2002: 7.4 per cent); underlying interest cover improved to 5.0 times (2002: 4.7 times).

Taxation

The underlying tax charge for the year of £39.5 million (2002: £38.7 million) equates to an underlying effective tax rate of 27.9 per cent, similar to the 28.0 per cent effective tax rate for 2002. This rate compares favourably with the weighted standard rate of tax of 30.2 per cent for the UK and the USA, the two countries in which the group operates and benefits from the utilisation of brought forward capital losses against its UK property sales.

Goodwill amortisation and exceptional items

Goodwill amortisation of £0.9 million was £0.7 million lower than the previous year following the disposal of AMPORTS Aviation division during December 2002.

Exceptional items included a profit of £4.8 million on the sale of fixed assets (2002: £0.7 million). This related primarily to the further proceeds from an insurance claim used to reconstruct a damaged pier in the USA.

Earnings per share

Underlying earnings per share, before goodwill amortisation and exceptional items, increased by 2.0 per cent to 31.0 pence per share (2002: 30.4 pence per share).

Basic earnings per share, which benefited from the £4.8 million profit arising from the sale of fixed assets, increased by 2.6 per cent to 31.7 pence per share (2002: 30.9 pence per share).

Dividend

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 8.50 pence per share; this would make a total dividend for the year of 15.25 pence per share, an increase of 3.4 per cent on 2002.

Underlying dividend cover of 2.0 times remains close to that for the previous year.

Balance sheet

Shareholders' funds increased by £63.1 million to £1,072.4 million and represent 326 pence per share (2002: 308 pence per share). The increase in shareholders' funds comprises:

- Retained earnings of £54.1 million
- An unrealised revaluation surplus of £7.8 million on the revaluation of tangible property assets
- The net increase in share capital of £1.7 million
- A reduction resulting from currency translation differences of £0.5 million on foreign currency net investments.

The group's tangible property assets constitute 53.2 per cent of its net assets. These properties are revalued internally by qualified surveyors on an annual basis and by an independent firm of surveyors at least once every five years. Following the five-yearly independent revaluation of its entire tangible property portfolio by Cushman & Wakefield Healey & Baker, the group recorded a revaluation surplus of £7.8 million for the current year.

The group intends to adopt Financial Reporting Standard (FRS) 17 – Retirement Benefits in relation to the accounting of its pension costs for the reporting period beginning 1 January 2004, following the completion of the triennial valuation of its principal defined benefits scheme as at 31 December 2003. During 2003, the group accounted for these costs under the Statement of Standard Accounting Practice (SSAP) 24 – Accounting for Pension Costs and provided the disclosures required under the transitional requirements of FRS 17. Under SSAP 24, the group recorded a pension prepayment of £88.1 million in its balance sheet at 31 December 2003. Based on the disclosures reported under the transitional requirements, it is estimated that the group's pension surplus on full adoption of FRS 17 would be £34.4 million.

Return on capital employed

A key part of the strategy implemented in early 2000 was to improve the group's return on capital employed through a disciplined approach to capital expenditure and disposal of non-core assets. Given the significant progress to date, future improvements in the return on capital employed are likely to be modest. Nonetheless, the group remains committed to this approach going forward.

2003 return on capital employed

10.7%

2003 interest cover

5 times

2003 dividend cover

2 times

Analysis of 2003 free cash flow:

Inflow £187.0m

Outflow £126.7m

Inflow	
Net cash inflow from operating activities including dividends received from associated undertakings	£178.8m
Other	£8.2m
Outflow	
Gross capital expenditure	£68.0m
Net interest	£34.7m
Tax	£24.0m

The group's 10.7 per cent underlying return on capital employed was similar to the previous year; both compare favourably with the 1999 level of 9.5 per cent, when the current strategy was implemented.

Cash flow
The group's business model generates strong operating cash flow. Its underlying operating cash conversion from total underlying operating profit was 101.2 per cent. Cash flow from operations, which includes dividends from associated undertakings, totalled £178.8 million for the year, compared with £201.5 million in 2002. At £60.3 million, free cash flow was below the 2002 level of £66.7 million.

Gross capital expenditure of £68.0 million (2002: £76.7 million) included £4.8 million of further capital expenditure on the Dibden Terminal project at Southampton, £5.9 million on the reconstruction of a damaged pier in the USA and £5.1 million on the Mayflower Cruise Terminal at the Port of Southampton.

There are two elements to the group's capital expenditure: maintenance or infrastructure expenditure; and revenue-earning capital projects. Maintenance expenditure during 2003 was just below the level of depreciation and the group aims to maintain this performance in 2004. 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 £41.7 million (2002: £52.0 million). As many of these new projects will become operational in the near future, their impact on the results for 2003 was negligible.

Assuming that it is able to obtain the necessary consents and customer agreements, the group intends to invest in excess of £1 billion over the next 10 years, principally in further riverside terminals on the Humber, at Dibden Terminal, Southampton, and in regular growth projects at its other ports.

Borrowings and gearing
Due to the strong underlying operating cash flow, net borrowings decreased by £13.3 million to £436.8 million (2002: £450.1 million). Gearing reduced to 40.7 per cent (2002: 44.6 per cent) as a result.

Share price
The group's share price increased by 12.4 per cent during the year and closed at 449.0 pence on 31 December 2003. The group's total shareholder return for the year was 17.1 per cent, compared with 20.3 per cent for the FTSE top-250, 17.9 per cent for the FTSE 100 and 27.7 per cent for the FTSE transport sector. The underperformance of the group's stock against these indices was primarily due to two factors: the recovery in stock prices of constituents which had significantly underperformed during the past few years; and cyclical rotation by portfolio managers, respectively. The group continues to outperform the FTSE 100, FTSE top-250 and the FTSE transport sector over three- and five-year comparative periods. During 2003, the share price ranged from a high of 454.75 pence in December to a low of 359.0 pence in February.

2003 total shareholder return

Accounting standards and policies
The group has not adopted any new accounting standards during the year. The financial statements for the year ended 31 December 2003, included within this annual report, are in full compliance with all applicable accounting standards.

Significant accounting policies
As the group is an infrastructure-based provider of services, a significant proportion of its balance sheet is represented by tangible operating assets such as land, buildings, dock structures, roads, quays, floating craft and plant and equipment. The depreciation charge applied to these assets affects both their carrying value and the group's profit and loss account. The group determines depreciation rates by referring to engineering assessments of the useful economic lifespan of each asset. It considers the current rates to be consistent with normal practice and appropriate given its past experience.

Revenue earning capital expenditure 2003

£42m

Gearing at 31 December 2003

40.7%

Five-year total shareholder return from 1 January 1999 to 31 December 2003

97%

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 £570.3 million by Cushman & Wakefield Healey & Baker as at 31 December 2003.

The group adopted FRS 17 – Retirement Benefits under its transitional arrangements in 2001 and continued to report on this basis during 2003. The disclosures required under the transitional arrangements are given in note 5 to the financial statements on pages 46 to 49. An actuarial valuation of the group's main defined benefit pension scheme was carried out in accordance with FRS 17 as at 31 December 2003. This confirmed that the pension scheme remains in surplus. Under FRS 17, the group's pension arrangements had a surplus of assets over liabilities of £34.4 million at the end of 2003. The group is therefore maintaining its contribution holiday in 2004. Full adoption of FRS 17 during 2003 would have reduced the group's pre-tax profit by £10.5 million.

The group provides deferred tax for all timing differences that have originated but not reversed at the balance sheet date except in relation to property revaluation gains and capital losses. Non-provision in relation to property revaluation gains is permitted under FRS 19 – Deferred Tax. The group does not recognise the deferred tax asset in relation to capital losses as their future utilisation cannot be assessed with reasonable certainty.

International accounting standards
The group is aware of the challenges involved in adopting international accounting standards (IAS). During 2003, the group began its preparations for the adoption of IAS from 1 January 2005. An initial assessment of the impact of IAS has been performed and presented to the Audit Committee; further detailed work will continue during 2004.

Risk management
The group maintains a risk management working group to identify the major risks it faces and to formalise its risk objectives and risk management processes. The group's embedded risk management processes, which are described on page 77 in the corporate governance statement, take into account the significance of any potential social, environmental and ethical issues applicable to its operations. They enable the board to receive quality information on all significant risks and facilitate the formulation of effective responses on a timely basis. All risks, including significant social, environmental and ethical risks, which could have an impact on the group's short and long term objectives are identified, quantified, assessed for likelihood and addressed appropriately.

Operational risks
The group's core UK ports and transport business generates in excess of 86 per cent of both its turnover and 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.

These include:

- Its market leadership of the UK ports industry
- The geographic spread of its facilities
- The diversity of the cargoes it handles
- The strength of its customer base
- The contracted nature of its future revenues.

Nonetheless, both its short and medium term performance could be impacted by a number of factors which are discussed below.

Port volumes
While approximately 50 per cent of the revenue generated by the group's UK ports business over the next year is underpinned by customer contracts, changes in volumes handled by the UK ports could impact operating performance. Overall volume changes are broadly linked to changes in the UK's GDP, although this does not necessarily hold true at individual cargo level.

Operating costs
Insurance costs continued to rise during 2003, albeit more slowly than in previous years. Also, in response to the increased threat of terrorist activity, the Dft announced its intention to introduce additional security measures which port operators are expected to implement by 1 July 2004. The group has already notified customers of its intention to pass on to them any resulting increase in security costs. The cost-reduction programme that the group implemented in 2003 will deliver cost savings of at least £3.0 million per annum from the beginning of 2004. Nonetheless, any increase in overall costs which the group is unable to pass on to its customers can be expected to impact its financial performance.

Pension scheme surplus at 31 December 2003

£34m

Publication of 2003 CSR report

May 04

Annual cost savings generated by cost-reduction programme

£3m

Gearing

99	59.9%
00	45.3%
01	53.1%
02	44.6%
03	40.7%

Operating profit to cash flow conversion

99	113.8%
00	114.9%
01	99.2%
02	114.6%
03	101.2%

Property
The group's ongoing non-core property disposal programme means that income generated from property investment activities can be expected to decrease as further disposals are completed. In addition, 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.

Capital expenditure
The group's strategic focus remains on driving growth through capital investment in its core business. It plans to invest in excess of £1 billion in its UK ports and transport business over the next 10 years. The group has an extremely successful track record of managing projects and operates stringent criteria in relation to capital appraisals. The efficient management of this expenditure will impact on the value the group is able to deliver to its shareholders both in the short and long term.

A major part of the group's planned future capital expenditure relates to the development of a deep-sea container terminal at Dibden, Southampton. The outcome from a government public inquiry into this development is currently expected during 2004 and the group remains confident about the prospects for this project. However, if the decision is taken not to proceed, project costs of £40.4 million capitalised to date will be written off to the profit and loss account.

Key performance indicators
In order to manage the performance of the business, the group has developed key performance indicators that support the strategy and objectives of the ports. Several form an integral part of the senior management incentive bonus scheme. The key measures include:

- UK ports and transport growth rates
- Underlying pre-tax profit growth
- Underlying earnings per share growth
- Return on capital employed.

Treasury risk
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 capital structure and funding, liquidity, interest rate, foreign exchange and credit risk. The group aims to manage these risks to an acceptable level. It does not enter into speculative transactions in financial instruments.

Capital structure and funding
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. Its policy is to maintain its overall gearing at between 50 and 70 per cent. Its strategy is to have in place sufficient funding to meet its anticipated trading and capital expenditure requirements. The 40.7 per cent gearing ratio at 31 December 2003 is beneath the lower end of the group's target range, leaving the group well placed to fund its planned capital expenditure programme for its core UK ports business.

Liquidity risk
Borrowing facilities are maintained at a level that is forecast to provide a reasonable surplus beyond the future needs of the group. At 31 December 2003, the group had £204.7 million of undrawn committed bank facilities (2002: £192.7 million). Liquidity risk is managed by varying the maturities of outstanding debt and by sourcing the overall debt requirement from a variety of lenders. Further, liquidity risk is mitigated by ensuring that covenants take into account the group's expected performance and debt requirements for the foreseeable future.

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, 70 per cent of the group's borrowings were fixed (2002: 68 per cent). 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 conducts a proportion of its business in the USA. Movements in the sterling/US dollar exchange rate can therefore 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. The group does not hedge its profit translation exposure due to the uncertainty attached to profit forecasts and the timing of any remittances to the UK. It does not speculate in foreign currency.

The average sterling exchange rate used to translate US dollar profits was US$1.6355 (2002: US$1.5036). The year-end exchange rate used to translate US dollar assets and liabilities was US$1.7902 (2002: US$1.6099).

Our five-year progress report can be found on page 36

The group's prospects and its ability to deliver returns to its shareholders are closely linked to the performance of its core UK ports and transport business. The group believes that its core business is well positioned to deliver sustainable returns to its shareholders due to its market leadership of the UK ports industry, the geographic spread of its facilities, the spread of its cargo and customer bases and the contracted nature of its future revenues.

Amount of undrawn committed bank facilities at 31 December 2003

£205m

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 those counterparties with an investment-grade credit rating. Debtor exposures with counterparties are reviewed on a regular basis to avoid any excessive reliance on a single counterparty.

Other key risks
The risk management working group has identified the following as key risks that could adversely affect the group's ability to achieve its objectives, unless managed effectively.

Competition
All of the group's ports and terminals are subject to competition from facilities operated under a variety of ownership structures. The group aims to mitigate this by building long-term contractual relationships with its key customers and developing facilities and services to meet their requirements.

Key customers
Although no single customer accounts for more than 10 per cent of the group's operating profit, like all businesses the group is dependent upon retaining and winning customers. This risk is managed by providing first-class facilities and services to all existing and potential customers.

Health and safety
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. 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. Employees within the group's UK business are set the objective of improving health and safety performance.

Planned total capital expenditure for UK ports over the next 10 years

+£1bn

Environmental
The UK port estates comprise over 13,000 acres of seabed and land. The group's obligations in relation to environmental stewardship are a significant risk. In operating its business to meet the demands of the country's trade, the group has in place policies and procedures designed to ensure that its activities are conducted with due regard for their potential impact on the environment.

Industrial relations
Industrial action by the group's employees can affect the group's ability to provide facilities and services to its customers. The group manages this potential risk by maintaining an ongoing dialogue and constructive relationships with employee representatives.

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

Richard Adam
Group Finance Director
18 February 2004

Fixed rate debt as a percentage of net gearing

70%

Five-year progress report

		2003	2002	2001	2000	1999
Profit and loss account						
Group turnover – continuing operations	£m	401.3	401.9	375.8	342.7	308.9
UK ports and transport turnover – continuing operations	£m	349.1	325.7	304.2	261.3	244.0
Underlying UK ports and transport operating profit – continuing operations*	£m	152.3	141.4	137.2	126.5	118.6
UK ports and transport operating profit	£m	151.4	140.5	136.3	126.0	118.2
Total underlying operating profit – continuing operations*	£m	176.6	172.2	167.1	161.1	149.8
Exceptional items	£m	4.8	2.6	0.6	15.4	(76.9)
Underlying interest cover*	Times	5.0	4.7	4.3	3.8	3.6
Underlying profit before taxation*	£m	141.6	138.1	130.4	124.3	113.5
Profit before taxation	£m	145.5	139.1	129.5	138.9	32.8
Underlying earnings per share*	Pence	31.0	30.4	28.1	26.3	23.1
Basic earnings per share	Pence	31.7	30.9	27.8	30.6	0.1
Dividends						
Dividend per share	Pence	15.25	14.75	13.75	12.75	11.50
Underlying dividend cover*	Times	2.0	2.0	2.1	2.1	2.1
Cash flow statement						
Net cash inflow from operating activities including dividends received from associated undertakings	£m	178.8	201.5	168.8	193.5	179.1
Underlying operating profit cash conversion*	Percentage	101.2	114.6	99.2	114.9	113.8
Gross capital expenditure	£m	68.0	76.7	62.4	88.9	64.6
Free cash flow	£m	60.3	66.7	46.0	121.4	105.6
Repurchase of shares	£m	3.7	–	68.3	18.4	54.2
Balance sheet						
Net borrowings	£m	436.8	450.1	508.9	440.7	542.2
Gearing	Percentage	40.7	44.6	53.1	45.3	59.9
Net assets	£m	1,072.4	1,009.3	958.4	972.2	904.7
Net asset per share	Pence	326	308	294	285	262

* Before goodwill amortisation and exceptional items.

All comparatives for the years 1999 to 2001 have been restated for the effects of Financial Reporting Standard 19 – Deferred Tax.

Our accounts...

- UK ports and transport operating profit before goodwill amortisation and exceptional items £152.3m (2002: £141.4m)
- Profit before tax £145.5m (2002: £139.1m)
- Earnings per share 31.7p (2002: 30.9p)
- Dividend per share 15.25p (2002: 14.75p)

UK ports and transport operating profit

+8%

Profit before tax

+5%

Earnings per share

+0.8p

Dividend per share

+0.5p

ABP

Our accounts

Group profit and loss account

for the year ended 31 December

	Note	Total 2003 £m	Total 2002 £m
Turnover including share of associated undertakings			
Continuing operations		450.8	446.0
Discontinued operations		–	27.9
		450.8	473.9
Less: share of turnover *in associated undertakings*		(49.5)	(44.1)
Group turnover	2	401.3	429.8
Cost of sales		(192.1)	(211.8)
Gross profit		209.2	218.0
Administrative expenses	3	(45.5)	(59.8)
Group operating profit		163.7	158.2
Analysed between:			
Continuing operations before goodwill amortisation and exceptional items		164.6	161.7
Goodwill amortisation – continuing		(0.9)	(0.9)
Exceptional items – continuing	3	–	(5.5)
Discontinued operations before goodwill		–	3.6
Goodwill amortisation – discontinued		–	(0.7)
Share of operating profit *in associated undertakings*		12.0	10.5
Total operating profit		175.7	168.7
Profit on disposal of discontinued operations	3,25	–	7.4
Profit on sale of fixed assets	3	4.8	0.7
Profit on ordinary activities before interest	2,4	180.5	176.8
Net interest payable	6	(35.0)	(37.7)
Profit on ordinary activities before taxation		145.5	139.1
Analysed between:			
Underlying profit before tax, goodwill amortisation and exceptional items		141.6	138.1
Goodwill amortisation		(0.9)	(1.6)
Exceptional items	3	4.8	2.6
Taxation on profit on ordinary activities	8	(41.2)	(38.0)
Profit on ordinary activities after taxation		104.3	101.1
Dividends	10	(50.2)	(48.5)
Retained profit for the group and its share of associated undertakings	27	54.1	52.6
Earnings per share – basic	11	31.7p	30.9p
Earnings per share – diluted	11	31.5p	30.6p
Earnings per share – underlying	11	31.0p	30.4p

Balance sheets

as at 31 December

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	12	**14.5**	15.4	**–**	–
Tangible operating assets	13	**871.5**	834.0	**–**	–
Tangible property assets	14	**570.3**	568.8	**–**	–
Investments	15	**51.8**	50.2	**994.5**	939.6
		1,508.1	1,468.4	**994.5**	939.6
Current assets					
Property developments and land held for sale	16	**41.6**	38.3	**–**	–
Debtors – due within one year	17	**95.3**	93.4	**544.8**	549.6
Debtors – due after one year	17	**88.1**	82.9	**–**	–
Cash and short-term deposits	18	**7.1**	6.4	**–**	–
		232.1	221.0	**544.8**	549.6
Creditors – amounts falling due within one year	19	**(126.7)**	(129.9)	**(37.5)**	(38.9)
Net current assets		**105.4**	91.1	**507.3**	510.7
Total assets less current liabilities		**1,613.5**	1,559.5	**1,501.8**	1,450.3
Creditors – amounts falling due after more than one year	20	**(436.1)**	(449.5)	**(429.4)**	(441.0)
Provisions for liabilities and charges	23	**(94.4)**	(92.0)	**–**	–
Deferred income	24	**(10.6)**	(8.7)	**–**	–
Net assets		**1,072.4**	1,009.3	**1,072.4**	1,009.3
Capital and reserves					
Called-up share capital	26	**82.3**	82.0	**82.3**	82.0
Share premium account	27	**84.1**	77.4	**84.1**	77.4
Revaluation reserve	27	**634.2**	627.9	**669.8**	614.3
Other reserves	27	**37.2**	37.0	**52.0**	51.8
Profit and loss account	27	**234.6**	185.0	**184.2**	183.8
Equity shareholders' funds		**1,072.4**	1,009.3	**1,072.4**	1,009.3

The financial statements on pages 38 to 65 were approved by the board of directors on 18 February 2004.

Richard Adam FCA
Group Finance Director

Group cash flow statement

for the year ended 31 December

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	28	175.4	199.1
Dividends received from associated undertakings		3.4	2.4
Returns on investments and servicing of finance			
Interest received		0.5	0.8
Interest paid		(34.9)	(36.9)
Interest element of finance lease rental payments		(0.3)	(1.0)
Net cash outflow from returns on investments and servicing of finance		(34.7)	(37.1)
Taxation		(24.0)	(25.7)
Capital expenditure and financial investment			
Tangible operating assets		(62.4)	(70.0)
Tangible property assets		(7.3)	(6.7)
Grants received		1.7	–
Sale of fixed assets		7.3	3.4
Movement on investment in own shares	15	0.9	1.3
Net cash outflow from capital expenditure and financial investment		(59.8)	(72.0)
Free cash flow		60.3	66.7
Acquisitions and disposals			
Purchase of business and subsidiary undertakings		–	(0.3)
Sale of subsidiary undertakings	25	(1.9)	29.4
Net cash (outflow)/inflow from acquisitions and disposals		(1.9)	29.1
Equity dividends paid		(49.3)	(46.6)
Cash inflow before use of liquid resources and financing		9.1	49.2
Management of liquid resources	28	(0.6)	(2.0)
Financing			
Issue of shares		5.4	4.8
Repurchase of shares		(3.7)	–
Decrease in borrowings		(8.6)	(48.8)
Capital element of finance lease rental payments		(3.5)	(3.3)
Net cash outflow from financing		(10.4)	(47.3)
Decrease in cash in the year	28	(1.9)	(0.1)

Reconciliation of net cash flow to movement in net borrowings

for the year ended 31 December

	Note	2003 £m	2002 £m
Decrease in cash in the year	28	(1.9)	(0.1)
Cash outflow from decrease in borrowings and lease finance		12.1	52.1
New finance leases		(2.6)	–
Cash outflow from movement in liquid resources	28	0.6	2.0
Currency translation differences	28	5.1	4.8
Change in net borrowings resulting from cash flows		13.3	58.8
Net borrowings at 1 January		(450.1)	(508.9)
Net borrowings at 31 December	21,28	(436.8)	(450.1)

Statement of group total recognised gains and losses

for the year ended 31 December

	Note	2003 £m	2002 £m
Profit on ordinary activities after taxation		**104.3**	101.1
Surplus/(deficit) arising on revaluation of tangible property assets	14	**7.8**	(5.5)
Currency translation differences on foreign currency net investments	27	**(0.5)**	(0.9)
Total recognised gains for the year		**111.6**	94.7

Note of group historical cost profits and losses

for the year ended 31 December

	Note	2003 £m	2002 £m
Profit on ordinary activities before taxation		**145.5**	139.1
Realisation of property revaluation surpluses of previous years	27	**1.5**	8.3
Historical cost profit on ordinary activities before taxation		**147.0**	147.4
Taxation on profit on ordinary activities		**(41.2)**	(38.0)
Dividends		**(50.2)**	(48.5)
Historical cost profit for the year retained for the group and its share of associated undertakings		**55.6**	60.9

Reconciliation of movements in equity shareholders' funds

for the year ended 31 December

		Group		Company	
	Note	2003 £m	2002 £m	2003 £m	2002 £m
Profit on ordinary activities after taxation		**104.3**	101.1	**56.1**	75.4
Dividends		**(50.2)**	(48.5)	**(50.2)**	(48.5)
		54.1	52.6	**5.9**	26.9
New share capital subscribed		**5.4**	4.7	**5.4**	5.3
Repurchase of shares	26	**(3.7)**	–	**(3.7)**	–
Surplus/(deficit) arising on revaluation of tangible property assets	14	**7.8**	(5.5)	**–**	–
Unrealised surplus on revaluation of subsidiary undertakings	27	**–**	–	**55.5**	18.7
Currency translation differences on foreign currency net investments	27	**(0.5)**	(0.9)	**–**	–
Net increase in equity shareholders' funds		**63.1**	50.9	**63.1**	50.9
Equity shareholders' funds at 1 January		**1,009.3**	958.4	**1,009.3**	958.4
Equity shareholders' funds at 31 December		**1,072.4**	1,009.3	**1,072.4**	1,009.3

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with applicable accounting standards and the Companies Act 1985, except as noted below, under the historical cost convention as modified by the revaluation of operational land, investment properties, land at ports held for development and investments in subsidiary and associated undertakings.

Basis of consolidated financial statements

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

New financial reporting standards

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

Turnover and profit recognition

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

Financial instruments

Derivative financial instruments utilised by the group comprise interest rate swaps and forward foreign exchange contracts. All such instruments are used for hedging purposes to manage the risk profile of an existing underlying exposure of the group in line with the group's risk management policies, which are set out in the operating and financial review on page 34. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contract. Exchange gains and losses on *forward foreign exchange contracts are recognised on* maturity of the underlying transaction. Profits or losses arising on the early termination of interest rate swap transactions and forward foreign exchange contracts are recognised when the agreement is terminated or transferred to a third party.

Goodwill

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

Tangible operating assets

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

Depreciation is provided on a straight-line basis with reference to the expected useful lives of the various types of asset. These lives range up to a maximum of 50 years for capital dredging costs, dock structures, roads, quays and buildings; up to 30 years for floating craft; and between two and 30 years for plant and equipment. Freehold land is not depreciated. Significant capital investment grants are credited to the profit and loss account over the useful lives of the assets concerned. The balance of such grants not yet transferred to the profit and loss account is included as deferred income. Any transfers of tangible operating assets to investment properties are reflected net of any unamortised capital investment grants.

Tangible property assets

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

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

1 Accounting policies (continued)

Tangible property assets (continued)

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

Leased assets

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

Property developments and land held for sale

Property developments and land held for sale are stated at the lower of cost (or transfer value if transferred from tangible operating assets or tangible property assets) and net realisable value.

Retirement benefits

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

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

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

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

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

Taxation

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The group's deferred tax provision is measured on an undiscounted basis.

Foreign currencies

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

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

Notes to the financial statements

2 Segmental analysis

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

	UK 2003 £m	USA 2003 £m	Total 2003 £m	UK 2002 £m	USA 2002 £m	Total 2002 £m
Group turnover						
Ports and transport						
Continuing operations	349.1	36.0	385.1	325.7	36.1	361.8
Discontinued operations	–	–	–	–	27.9	27.9
	349.1	36.0	385.1	325.7	64.0	389.7
Property investment	6.8	1.8	8.6	7.3	2.0	9.3
Property development	7.6	–	7.6	30.8	–	30.8
Group turnover	363.5	37.8	401.3	363.8	66.0	429.8
Profit on ordinary activities before interest						
Ports and transport						
Continuing operations	152.3	2.5	154.8	141.4	1.5	142.9
Discontinued operations	–	–	–	–	3.6	3.6
	152.3	2.5	154.8	141.4	5.1	146.5
Property investment	5.0	1.6	6.6	5.0	1.8	6.8
Property development	3.2	–	3.2	12.0	–	12.0
Share of operating profit in associated undertakings	12.0	–	12.0	10.5	–	10.5
Total underlying operating profit	172.5	4.1	176.6	168.9	6.9	175.8
Goodwill amortisation (note 12)	(0.9)	–	(0.9)	(0.9)	(0.7)	(1.6)
Exceptional items – administrative expenses (note 3)	–	–	–	(5.5)	–	(5.5)
Total operating profit	171.6	4.1	175.7	162.5	6.2	168.7
Profit on disposal of discontinued operations (note 3)			–			7.4
Profit on sale of fixed assets (note 3)			4.8			0.7
Profit on ordinary activities before interest			180.5			176.8
Net assets						
Net operating assets						
Ports and transport	1,420.4	43.2	1,463.6	1,355.2	42.5	1,397.7
Property investment	67.8	11.3	79.1	73.2	9.4	82.6
Property development	39.7	–	39.7	39.2	–	39.2
Share of associated undertakings	51.8	–	51.8	49.3	–	49.3
Continuing operations	1,579.7	54.5	1,634.2	1,516.9	51.9	1,568.8
Less: group items						
Goodwill (note 12)			14.5			15.4
Net borrowings (note 21)			(436.8)			(450.1)
Net liabilities			(139.5)			(124.8)
Net assets			1,072.4			1,009.3

The group's share of associated undertakings is stated after deducting the group's share of net borrowings of £23.1 million (2002: £22.1 million).

3 Exceptional items

Net profit arising from the sale of fixed assets totalled £4.8 million (2002: £0.7 million), which includes £5.1 million (2002: £0.5 million) relating to an insurance claim resulting from a damaged pier in the USA. The exceptional tax charge arising from these items totalled £1.7 million.

During the year ended 31 December 2002, the group recorded £5.5 million of exceptional operating expenses in relation to a review of its cost base, generated a profit of £7.8 million in respect of the sale of AMPORTS Aviation division and a £0.4 million charge on the closure of Southern Emergency Vehicles, a small vehicle-modification business located in the USA. The exceptional tax credit arising from these items totalled £0.7 million, comprising a £1.7 million credit for the restructuring charge in respect of the group's review of its cost base and a £1.0 million charge relating to the sale of AMPORTS Aviation division.

4 Profit before interest and taxation

Profit before interest and taxation is after charging/(crediting):	2003 £m	2002 £m
Depreciation (note 13)		
Owned tangible fixed assets	**26.2**	23.5
Leased tangible fixed assets	**2.0**	1.6
Grant amortisation (note 24)	**(0.6)**	(0.6)
Operating lease rentals		
Plant and machinery	**3.9**	3.7
Property	**5.1**	5.6
Auditors' remuneration		
Audit services – statutory audit	**0.3**	0.3
Tax services – advisory services	**0.1**	0.2
Other services – internal audit	**–**	0.1

Non-audit services in excess of specified limits require pre-approval by the Audit Committee. Included in auditors' remuneration is £50,000 (2002: £45,000) in respect of the audit of the company. In addition to the above services, PricewaterhouseCoopers LLP acted as auditors 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.

Profit before interest and taxation is stated after charging £0.1m (2002: £nil) for breaches of section 3 of the Health and Safety at Work, etc. Act 1974.

Notes to the financial statements

5 Retirement benefits

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

a SSAP 24 – Accounting for Pension Costs

The group participates in a number of pension schemes, principally in the UK. The major scheme is a funded defined benefits scheme – The Associated British Ports Group Pension Scheme (ABPGPS). The defined benefits section of this scheme was closed to new members with effect from 1 April 2002. New members joining ABPGPS from 1 April 2002 are *offered membership of a defined contributions* section which at 31 December 2003 constituted less than 0.3 per cent of the total asset value. The assets of the group's pension schemes are held in trust funds independent of its finances.

For ABPGPS, the pension costs under SSAP 24 have been assessed in accordance with the advice of a firm of actuaries, Hewitt, Bacon & Woodrow.

The most recent valuation of ABPGPS, the group's largest funded defined benefit scheme, was undertaken as at 31 December 2000. The market value of the assets of the scheme at the valuation date was £484.4 million. The value of the assets represented 137 per cent of the benefits which had accrued to members after allowing for future expected increases in earnings and certain benefit improvements. The regular cost has been assessed on the basis of the projected unit method. The assets of the scheme have been taken into account at their market value. Consistent with this, the liabilities were valued using financial assumptions derived from yields on index-linked and fixed-interest government securities. In particular, it was assumed that pensions would increase by 2.5 per cent per annum (the implied rate of inflation), salaries would increase by 4.0 per cent per annum and investments would yield 5.0 per cent per annum (4.5 per cent per annum post-retirement on accrued liabilities).

In deriving the pension costs under SSAP 24, the surplus in the scheme is being spread over the future working lives of existing members.

Analysis of pension credit:	2003 £m	2002 £m
Group scheme		
Amortisation of past service surpluses including interest on the balance sheet prepayment	**13.9**	13.9
Regular annual cost of providing current and future service benefits	**(7.1)**	(7.2)
Total added to prepayment of pension contributions	**6.8**	6.7
Cost of pension benefits in other group schemes	**(1.3)**	(1.2)
Net pension credit	**5.5**	5.5

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

b FRS 17 – Transitional disclosures

The pension costs reported in 5a above have been calculated in accordance with SSAP 24. Under the transitional arrangements of FRS 17 – Retirement Benefits, the group is disclosing the following information that would have been reported if the group calculated its pension costs for the year ended 31 December 2003 and valued its scheme assets and liabilities as at 31 December 2003 in accordance with FRS 17.

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

5 Retirement benefits (continued)

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

Financial assumptions:	As at 31 December 2003 %	As at 31 December 2002 %	As at 31 December 2001 %
Inflation	**2.5**	2.35	2.50
Rate of increase in pensionable salaries	**4.0**	3.85	4.00
Rate of increase for pensions in payment	**2.5**	2.35	2.50
Rate of increase for deferred pensions	**2.5**	2.35	2.50
Discount rate	**5.4**	5.50	5.75

(iii) The assets and liabilities of the pension scheme, along with the expected rates of return on the scheme's assets under FRS 17 as at 31 December 2003, 31 December 2002 and 31 December 2001 were as follows:

	As at 31 December 2003		As at 31 December 2002		As at 31 December 2001	
	%	£m	%	£m	%	£m
Equities	**7.5**	**200.3**	7.0	174.5	7.0	233.1
Bonds	**5.1**	**206.8**	5.1	193.7	5.4	182.3
Cash and other investments	**4.8**	**3.9**	4.5	17.6	5.0	8.3
Total market value of pension scheme assets		**411.0**		385.8		423.7
Present value of pension scheme liabilities		**(373.4)**		(352.0)		(320.0)
Unfunded retirement benefit liabilities		**(3.2)**		(3.5)		(3.6)
Net pension surplus		**34.4**		30.3		100.1
Deferred tax liability		**(10.3)**		(9.1)		(30.0)
Net pension asset under FRS 17		**24.1**		21.2		70.1

(iv) If the amounts set out in 5b (iii) had been recognised in the financial statements, the group's net assets and profit and loss account reserve under FRS 17 as at 31 December 2003 *and 31 December 2002 would be as follows:*

Net assets:	As at 31 December 2003 £m	As at 31 December 2002 £m
Net assets (note 2)	**1,072.4**	1,009.3
Amount representing SSAP 24 pension prepayment (note 17)	**(88.1)**	(82.9)
Deferred tax liability on SSAP 24 pension prepayment (note 23)	**26.6**	24.9
Unfunded retirement benefit liabilities (note 23)	**2.2**	3.3
Pension asset net of deferred tax liability under FRS 17 (note 5b (iii))	**24.1**	21.2
Net assets – as adjusted under FRS 17	**1,037.2**	975.8

Notes to the financial statements

5 Retirement benefits (continued)

Profit and loss account reserve:	As at 31 December 2003 £m	As at 31 December 2002 £m
Profit and loss account reserve (note 27)	234.6	185.0
Amount representing SSAP 24 pension prepayment (note 17)	(88.1)	(82.9)
Deferred tax liability on SSAP 24 pension prepayment (note 23)	26.6	24.9
Unfunded retirement benefit liabilities (note 23)	2.2	3.3
Pension scheme asset net of deferred tax liability under FRS 17 (note 5b (iii))	24.1	21.2
Profit and loss account reserve – as adjusted under FRS 17	**199.4**	151.5

(v) The following amounts would have been recognised in the group's profit and loss account and the statement of *group total recognised gains and losses in respect of* pension costs under FRS 17 for the year ended 31 December 2003 and 31 December 2002:

	2003 £m	2002 £m
Operating profit		
Current service cost	(7.2)	(7.1)
Past service cost	–	–
Total charge to operating profit	(7.2)	(7.1)
Finance income		
Expected returns on pension scheme assets	22.6	26.6
Interest on pension scheme liabilities	(19.1)	(18.6)
Interest on retirement benefit liabilities	(0.2)	(0.3)
Net credit to *finance income*	3.3	7.7
Net pension (charge)/credit under FRS 17	(3.9)	0.6

Statement of *group total recognised gains and losses:*	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	16.5	(71.2)
Actual return less expected return on pension scheme liabilities	6.8	5.4
Changes in assumptions underlying the present value of pension scheme liabilities	(15.8)	(5.0)
Changes in assumptions underlying the present value of unfunded retirement benefit liabilities	0.2	–
Actuarial gain/(loss) recognised in statement of group total recognised gains and losses under FRS 17	7.7	(70.8)

5 Retirement benefits (continued)

(vi) The movement in the pension scheme surplus and details of experience gains and losses under FRS 17 during the years ended 31 December 2003 and 31 December 2002 were as follows:

Movement in the pension scheme surplus during the year:	2003 £m	2002 £m
Net pension surplus at 1 January under FRS 17	30.3	100.1
Movement in year:		
Current service cost	(7.2)	(7.1)
Employer contributions	0.3	0.4
Past service costs	–	–
Other financial income	3.3	7.7
Actuarial gain/(loss) recognised in statement of group total recognised gains and losses	7.7	(70.8)
Net pension surplus at 31 December under FRS 17	34.4	30.3

Details of experience gains and losses in the years ended 31 December 2003 and 31 December 2002:	2003 £m	2003 %	2002 £m	2002 %
Actual return less expected return on pension scheme assets	16.5	4	(71.2)	(18)
Actual return less expected return on pension scheme liabilities	6.8	2	5.4	2
Actuarial gain/(loss) recognised in statement of group total recognised gains and losses	7.7	2	(70.8)	(20)

6 Net interest payable

	Fixed rate 2003 £m	Variable rate 2003 £m	Total 2003 £m	Total 2002 £m
Interest payable and similar charges				
Eurobonds	28.0	–	28.0	28.0
Bank loans	0.2	5.3	5.5	7.8
Bank overdraft and other borrowings	–	0.2	0.2	0.2
Finance leases	1.1	–	1.1	1.0
Liabilities for retirement benefits (note 23)	–	0.2	0.2	0.3
Other	0.2	0.2	0.4	0.7
Less: finance costs capitalised on payments for fixed assets	–	(1.3)	(1.3)	(1.1)
	29.5	4.6	34.1	36.9
Interest receivable and similar income	–	(0.6)	(0.6)	(0.7)
Total group	29.5	4.0	33.5	36.2
Share of interest in associated undertakings	1.2	0.3	1.5	1.5
	30.7	4.3	35.0	37.7

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

Notes to the financial statements

7 Directors and employees

Full details of directors' emoluments, including shareholdings and options, are shown in the remuneration report on pages 82 to 84.

	2003 £m	2002 £m
Staff costs		
Wages and salaries	81.4	90.1
Social security costs	7.1	7.2
Other pension costs – net credit (note 5a)	(5.5)	(5.5)
	83.0	91.8

	2003 Number	2002 Number
Monthly average number of persons employed	3,336	3,536

8 Taxation on profit on ordinary activities

	2003 £m	2002 £m
UK corporation tax at 30.0% based on the profit for the year	31.5	27.0
Adjustment in respect of prior years	(1.8)	–
Total UK taxation charge	29.7	27.0
Overseas taxation – current year	(0.8)	2.4
Total current tax	28.9	29.4
Deferred taxation (note 23)	9.4	6.3
Total group	38.3	35.7
Share of taxation of associated undertakings	2.9	2.3
	41.2	38.0

The exceptional tax charge included within the above totalled £1.7 million (2002: £0.7 million credit, comprising £1.7 million credit for restructuring charge in respect of the group's review of its cost base and £1.0 million charge for the sale of AMPORTS Aviation division).

8 Taxation on profit on ordinary activities (continued)

The current tax charge for the year is lower (2002: lower) than the standard rate of taxation in the UK of 30.0%. The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**145.5**	139.1
Less: share of associates' profit before tax	**(10.5)**	(9.0)
Group profit on ordinary activities	**135.0**	130.1
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0%	**40.5**	39.0
Effects of:		
Exceptional tax charge/(credit)	**0.4**	(0.7)
Expenses not deductible for tax purposes	**0.3**	1.9
Accelerated capital allowances and other timing differences	**(9.4)**	(6.3)
Adjustment to tax charge in respect of prior years	**(1.8)**	–
Utilisation of capital losses	**(1.1)**	(4.5)
Current tax charge for the group	**28.9**	29.4

9 Profit attributable to shareholders

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The parent company's result for the financial year amounted to a profit of £56.1 million (2002: £75.4 million).

10 Dividends

	2003 £m	2002 £m
Interim dividend paid of 6.75p (2002: 6.5p) per ordinary 25p share	**22.2**	21.4
Proposed final dividend of 8.5p (2002: 8.25p) per ordinary 25p share	**28.0**	27.1
	50.2	48.5

If approved, the final dividend would be payable on 30 April 2004 to shareholders on the register at the close of business on 26 March 2004.

Notes to the financial statements

11 Earnings per share

The calculation of the earnings per share is based on 329.0 million (2002: 327.0 million) ordinary shares being the weighted average number of shares in issue and ranking for dividend during the year.

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

Reconciliation of the profit used for calculating the basic and underlying earnings per share:	Profit 2003 £m	Profit 2002 £m	Earnings per share 2003 p	Earnings per share 2002 p
Profit on ordinary activities after taxation – basic earnings per share	**104.3**	101.1	**31.7**	30.9
Goodwill amortisation (note 12)	**0.9**	1.6	**0.2**	0.5
Exceptional items – administrative expenses (note 3)	–	5.5	–	1.7
Profit on disposal of discontinued operations (note 3)	–	(7.4)	–	(2.3)
Profit on sale of fixed assets (note 3)	**(4.8)**	(0.7)	**(1.4)**	(0.2)
Attributable tax	**1.7**	(0.7)	**0.5**	(0.2)
Profit on ordinary activities after taxation – underlying earnings per share	**102.1**	99.4	**31.0**	30.4

Reconciliation of weighted average number of shares used for calculating basic and diluted earnings per share:	Number of shares 2003 m	Number of shares 2002 m	Earnings per share 2003 p	Earnings per share 2002 p
Weighted average number of shares – basic earnings per share	**329.0**	327.0	**31.7**	30.9
Dilution arising from share option schemes	**2.0**	3.0	**(0.2)**	(0.3)
Weighted average number of shares – diluted earnings per share	**331.0**	330.0	**31.5**	30.6

12 Intangible assets

	Goodwill £m
Cost	
At 1 January 2003 and at 31 December 2003	**18.7**
Amortisation	
At 1 January 2003	3.3
Charge for year (note 2)	0.9
At 31 December 2003	**4.2**
Net book value	
At 31 December 2002	15.4
At 31 December 2003	**14.5**

13 Tangible operating assets

	Operational land £m	Buildings £m	Dock structures, roads, quays and dredging £m	Floating craft £m	Plant and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation							
At 1 January 2003	361.2	91.7	356.2	45.3	159.5	69.3	1,083.2
Additions	–	12.6	6.2	1.4	15.3	30.1	65.6
Transfers within tangible operating assets	–	12.4	18.5	1.5	5.1	(37.5)	–
Transfers from land held for sale	0.2	–	–	–	–	–	0.2
Transfers from/(to) tangible property assets (note 14)	4.5	3.4	0.5	–	–	(1.6)	6.8
Disposals	–	(1.5)	(1.5)	(2.7)	(5.3)	(0.1)	(11.1)
Exchange adjustments	(1.6)	(1.5)	(2.5)	–	(0.4)	(0.1)	(6.1)
At 31 December 2003	**364.3**	**117.1**	**377.4**	**45.5**	**174.2**	**60.1**	**1,138.6**
Depreciation							
At 1 January 2003	–	23.5	117.6	20.2	87.9	–	249.2
Transfer to tangible property assets (note 14)	–	(0.1)	(0.1)	–	–	–	(0.2)
Charge for year	–	3.7	10.2	3.3	11.0	–	28.2
Disposals	–	(1.4)	(0.3)	(2.0)	(4.8)	–	(8.5)
Exchange adjustments	–	(0.6)	(0.7)	–	(0.3)	–	(1.6)
At 31 December 2003	**–**	**25.1**	**126.7**	**21.5**	**93.8**	**–**	**267.1**
Net book value							
At 31 December 2002	361.2	68.2	238.6	25.1	71.6	69.3	834.0
At 31 December 2003	**364.3**	**92.0**	**250.7**	**24.0**	**80.4**	**60.1**	**871.5**

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

Operational land, buildings and dock structures are held freehold with the exception of short leasehold properties with an historic net book value of £1.6 million (2002: £1.9 million).

Floating craft includes assets held under finance leases with a book cost and accumulated depreciation at 31 December 2003 totalling £30.2 million (2002: £29.9 million) and £14.2 million (2002: £12.5 million), respectively. The depreciation charge for the year includes £1.7 million (2002: £1.6 million) in respect of these assets.

Plant and equipment includes assets held under finance leases with a book cost and accumulated depreciation at 31 December 2003 totalling £3.1 million (2002: £0.5 million) and £0.8 million (2002: £0.5 million), respectively. The depreciation charge for the year includes £0.3 million (2002: nil) in respect of these assets.

The cost of tangible operating assets includes £9.1 million (2002: £7.8 million) of cumulative finance costs capitalised.

Costs in respect of Dibden Terminal total £40.4 million (2002: £35.4 million), of which £35.2 million (2002: £30.2 million) is included within assets in the course of construction and £5.2 million (2002: £5.2 million) is included within land at ports held for development (note 14). The inspector's report on the public inquiry into the application to develop Dibden Terminal was submitted to the UK government in October 2003. The government's decision is expected in 2004. The group remains confident about the prospects for this project; however, if the decision is taken not to proceed with the project, the costs capitalised will be written off to the profit and loss account.

Notes to the financial statements

14 Tangible property assets

	Port-related investment properties £m	Other investment properties £m	Land at ports held for development £m	Total £m
At 1 January 2003	486.4	53.5	28.9	568.8
Additions	7.0	–	–	7.0
Transfers within tangible property assets	2.8	(1.5)	(1.3)	–
Transfers to land held for sale	(1.4)	(2.0)	(1.7)	(5.1)
Transfers to tangible operating assets (note 13)	(4.9)	0.6	(2.7)	(7.0)
Disposals	–	(0.1)	–	(0.1)
Exchange adjustments	0.1	(0.9)	(0.3)	(1.1)
	490.0	49.6	22.9	562.5
Surplus on revaluation (note 27)	2.1	5.0	0.7	7.8
At 31 December 2003	**492.1**	**54.6**	**23.6**	**570.3**
Historic cost at 31 December 2003	190.7	22.3	11.5	224.5

Tangible property assets, other than investment properties in the course of construction, have been valued on the basis of open market value in accordance with the Appraisal and Valuation Manual issued by The Royal Institution of Chartered Surveyors. The valuations were carried out as at 31 December 2003 by independent valuers, Cushman & Wakefield Healey & Baker. 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 £0.7 million (2002: £0.6 million) in respect of these properties are included in the carrying value of port-related investment properties. All the above properties are owned freehold with the exception of £0.8 million (2002: £0.9 million) of port-related investment properties which are owned leasehold. The cost of tangible property assets includes £0.3 million (2002: £0.3 million) of cumulative finance costs capitalised.

15 Investments

	Group			Company		
	Interest in associated undertakings £m	Own shares £m	Total £m	Subsidiary undertakings £m	Own shares £m	Total £m
At 1 January 2003	49.3	0.9	50.2	938.7	0.9	939.6
Share of profit for the year	7.6	–	7.6	–	–	–
Dividends receivable	(5.1)	–	(5.1)	–	–	–
Investment in subsidiary undertakings	–	–	–	0.3	–	0.3
Surplus arising on revaluation of subsidiary undertakings (note 27)	–	–	–	55.5	–	55.5
Other movements	–	(0.9)	(0.9)	–	(0.9)	(0.9)
At 31 December 2003	**51.8**	**–**	**51.8**	**994.5**	**–**	**994.5**

In presenting the figures for the company's investments in subsidiary and associated undertakings, the company has adopted the alternative accounting rules under the terms of schedule 4, part II, Section C to the Companies Act 1985 and revalued these assets at 31 December 2003 to directors' valuations.
The company has an Employee Share Ownership Trust (ESOT) to acquire from the market and hold shares to meet the exercise of options arising from grants under the Executive Share Option Scheme as an alternative to the issue of new shares. At 31 December 2003, the ESOT held nil shares (2002: 0.3 million shares with a nominal value of £0.1 million. The market value of these shares at 31 December 2002 was £1.3 million). *The dividends on the shares held have been waived by the trustees with the exception of 0.01p per share.*

16 Property developments and land held for sale

Property developments and land held for sale include £4.1 million (2002: £4.3 million) of land held for future development and £37.5 million (2002: £34.0 million) of land and completed developments held for sale.

Property developments and land held for sale are stated at the lower of their cost or transfer value, and net realisable value as determined by the directors at 31 December 2003. The historic cost of property developments and land held for sale totalled £32.8million (2002: £33.0 million) and includes £0.2million (2002: £0.2 million) of finance costs capitalised.

17 Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Due within one year				
Trade debtors	**57.8**	54.1	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**544.6**	549.2
Amounts owed by associated undertakings	**9.7**	7.1	**–**	–
Other debtors	**10.0**	10.1	**0.2**	0.4
Corporation tax recoverable	**0.7**	3.2	**–**	–
Prepayments and accrued income	**15.5**	14.8	**–**	–
Property completions due	**1.6**	4.1	**–**	–
	95.3	93.4	**544.8**	549.6
Due after one year				
Prepayment of pension contributions	**88.1**	82.9	**–**	–
	183.4	176.3	**544.8**	549.6

18 Cash and short-term deposits

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Short-term deposits	**5.5**	4.9	**–**	–
Cash at bank and in hand	**1.6**	1.5	**–**	–
	7.1	6.4	**–**	–

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

Notes to the financial statements

19 Creditors – amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings				
Bank overdraft	**4.0**	1.9	**2.0**	0.7
Bank loans	**0.3**	2.2	**–**	–
Obligations under finance leases	**3.8**	3.4	**–**	–
	8.1	7.5	**2.0**	0.7
Other				
Trade creditors	**24.7**	21.4	**–**	–
Amounts owed to associated undertakings	**0.2**	1.2	**–**	–
Other creditors	**11.8**	13.9	**–**	–
Taxation and social security	**23.1**	21.8	**–**	–
Dividends	**28.0**	27.2	**28.0**	27.2
Accruals	**30.8**	36.9	**7.5**	11.0
	126.7	129.9	**37.5**	38.9

20 Creditors – amounts falling due after more than one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings				
Eurobonds 2008 (6 5/8%)	**120.0**	120.0	**120.0**	120.0
Eurobonds 2011 (11 7/8%)	**100.0**	100.0	**100.0**	100.0
Eurobonds 2015 (10 7/8%)	**75.0**	75.0	**75.0**	75.0
Bank loans – unsecured	**135.6**	147.9	**135.4**	147.3
Obligations under finance leases – secured	**6.2**	7.5	**–**	–
Less: deferred borrowing costs to be amortised	**(1.0)**	(1.4)	**(1.0)**	(1.3)
	435.8	449.0	**429.4**	441.0
Other				
Accruals	**0.3**	0.5	**–**	–
	436.1	449.5	**429.4**	441.0

The bank loans are repayable between 2005 and 2006. Of the unsecured bank loans, £0.3 million (2002: £0.6 million) are repayable by instalments and bear interest at a fixed rate of 12.35 per cent. The remaining £135.3 million (2002: £147.3 million) bear interest linked to national inter-bank rates.
Obligations under finance leases are secured on related leased assets.

21 Group net borrowings

	2003 £m	2002 £m
Creditors – amounts falling due within one year (note 19)	8.1	7.5
Creditors – amounts falling due after more than one year (note 20)	435.8	449.0
	443.9	456.5
Less: cash and short-term deposits (note 18)	(7.1)	(6.4)
	436.8	450.1

The group's share of net borrowings of associated undertakings not included in the balance sheet total £23.1 million (2002: £22.1 million).
An analysis of maturity of gross financial liabilities is given in note 22a.

22 Financial instruments

The group's policies as regards derivatives and financial instruments are set out in the operating and financial review on page 34 and the accounting policies on page 42. Short-term debtors and creditors have been excluded from these disclosures.

a Maturity profile of gross financial liabilities

Amounts falling due:	Debt 2003 £m	Finance leases 2003 £m	Other 2003 £m	Total 2003 £m	Debt 2002 £m	Finance leases 2002 £m	Other 2002 £m	Total 2002 £m
Within one year or less, or on demand	4.3	3.8	0.9	9.0	4.1	3.4	6.1	13.6
More than one year, but not more than two years	0.3	4.0	1.0	5.3	0.3	3.6	1.1	5.0
More than two years, but not more than five years	254.3	0.7	1.3	256.3	147.0	3.8	1.6	152.4
More than five years	175.0	1.5	2.5	179.0	294.3	–	3.4	297.7
	433.9	10.0	5.7	449.6	445.7	10.8	12.2	468.7

Other gross financial liabilities comprise accruals due after more than one year of £0.3 million (2002: £0.5 million) and provisions – excluding deferred taxation – for retirement benefits of £2.2 million (2002: £3.3 million), restructuring £0.3 million (2002: £5.5 million), onerous contracts £2.8 million (2002: £2.7 million) and other £0.1 million (2002: £0.2 million).

Undrawn borrowing facilities expiring:	2003 £m	2002 £m
Within one year or less – uncommitted	37.4	39.6
More than two years – committed	204.7	192.7
	242.1	232.3

Notes to the financial statements

22 **Financial instruments** (continued)

b ***Interest rate profile***

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

Gross financial liabilities:	Fixed rate 2003 £m	Floating rate 2003 £m	Other non-interest bearing 2003 £m	Total 2003 £m	Fixed rate 2002 £m	Floating rate 2002 £m	Other non-interest bearing 2002 £m	Total 2002 £m
Sterling	304.9	97.9	3.2	406.0	307.8	116.7	8.9	433.4
US dollar	–	43.3	0.3	43.6	–	35.3	–	35.3
	304.9	141.2	3.5	449.6	307.8	152.0	8.9	468.7

The weighted average interest rate for fixed rate financial liabilities is 9.4 per cent (2002: 9.4 per cent). The weighted average period for which the rate is fixed is 7.7 years (2002: 8.5 years).
Interest on floating rate liabilities is based on the relevant national inter-bank rate and is fixed in advance for periods of up to six months.

Gross financial assets:	Floating rate 2003 £m	Other non-interest bearing 2003 £m	Total 2003 £m	Floating rate 2002 £m	Other non-interest bearing 2002 £m	Total 2002 £m
Sterling	4.3	0.1	4.4	3.6	0.4	4.0
US dollar	2.7	–	2.7	2.4	–	2.4
	7.0	0.1	7.1	6.0	0.4	6.4

Gross financial assets comprise short-term deposits of £5.5 million (2002: £4.9 million) and cash at bank and in hand of £1.6 million (2002: £1.5 million).
Interest on floating-rate deposits is based on the relevant national inter-bank rate and is fixed in advance for periods of up to six months. Other non-interest bearing financial assets comprise current bank accounts.

c **Fair values of financial assets and liabilities**

Gross financial liabilities:	Carrying amount 2003 £m	Estimated fair value 2003 £m	Carrying amount 2002 £m	Estimated fair value 2002 £m
Debt	433.9	503.8	445.7	521.8
Finance leases	10.0	11.7	10.8	11.3
Other liabilities	5.7	5.7	12.2	12.2
	449.6	521.2	468.7	545.3

The carrying value of financial assets equates to the estimated fair value for both 2003 and 2002.
Market values have been used to determine the fair value of all foreign currency contracts and listed instruments. The fair value of other items has been calculated by discounting expected cash flows at prevailing interest rates at the year end.

22 Financial instruments (continued)

d Hedging

As explained in the operating and financial review on page 34, the group's policy is to hedge certain interest rate and foreign exchange risks by using interest rate swaps and forward foreign currency contracts.

Unrecognised gains and losses on instruments used for hedging and the movements therein:	2003 £m	2002 £m
Unrecognised losses at 1 January	**(1.2)**	(0.5)
Gains/(losses) arising during the year that were not recognised	**0.5**	(0.7)
Unrecognised losses on hedges at 31 December	**(0.7)**	(1.2)
Losses expected to be recognised in next financial year	**(0.2)**	(0.3)
Losses expected to be recognised after one year	**(0.5)**	(0.9)
Unrecognised losses on hedges at 31 December	**(0.7)**	(1.2)

e Currency exposures

The extent to which the group's operating entities hold monetary assets and liabilities in currencies other than in their local currency has been reviewed. Taking into account the impact of forward foreign exchange currency contracts, the group had no material profit and loss exposure to foreign exchange gains or losses on monetary assets and liabilities denominated in foreign currency as at 31 December 2003.

23 Provisions for liabilities and charges

						Group
	Retirement benefits £m	Deferred taxation £m	Restructuring £m	Onerous contracts £m	Other £m	Total £m
At 1 January 2003	3.3	80.3	5.5	2.7	0.2	92.0
Foreign exchange	–	(0.4)	–	–	–	(0.4)
(Credit)/charge for year	(1.0)	9.1	–	0.6	–	8.7
Utilised in year	(0.3)	–	(5.2)	(0.5)	(0.1)	(6.1)
Interest	0.2	–	–	–	–	0.2
At 31 December 2003	2.2	89.0	0.3	2.8	0.1	94.4

Notes to the financial statements

23 Provisions for liabilities and charges (continued)

Retirement benefits

The provision for retirement benefits represents the present value, estimated on an actuarial basis following an independent assessment carried out as at 31 December 2002, net of attributable taxation of £0.9 million (2002: £1.2 million), of liabilities in respect of pensions and allowances of former employees of predecessor undertakings and of unfunded and non-tax-exempt pension arrangements.

Deferred taxation

	Group 2003 £m	2002 £m
Excess of capital allowances over depreciation	**63.0**	54.8
Retirement benefits	**26.6**	24.9
Other	**(0.6)**	0.6
	89.0	80.3

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

Restructuring

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

Onerous contracts

The provision for onerous contracts represents amounts provided in relation to property leases 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.

Other

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

24 Deferred income

Movements on capital investment grants are set out below:	Group 2003 £m	2002 £m
Balance not yet credited to profit and loss account at 1 January	8.7	8.9
Grants receivable	2.5	0.4
	11.2	9.3
Credited to profit and loss account	(0.6)	(0.6)
Balance not yet credited to profit and loss account at 31 December	10.6	8.7

25 Disposal

During the year ended 31 December 2002, the group received £32.0 million cash proceeds from the sale of AMPORTS Aviation division and paid disposal costs of £2.6 million. During the year ended 31 December 2003, £1.9 million of related costs were paid in respect of this transaction.

26 Share capital

	2003 £m	2002 £m
Authorised		
500,000,000 ordinary shares of 25p	**125.0**	125.0
Issued, called-up and fully paid		
329,235,303 (2002: 328,123,684) ordinary shares of 25p	**82.3**	82.0

During the year, the company repurchased and subsequently cancelled 850,000 ordinary shares with a nominal value of £0.2 million. These shares, representing 0.3 per cent of the ordinary shares in issue at 31 December 2002, were purchased to offset most of the new shares issued during the second half of 2003 as the result of the exercise of options by employees under the company's various share option schemes. The total cost of the purchase (including expenses and stamp duty) of £3.7 million was charged to the profit and loss account reserve.

Share option schemes

During the year, options exercised under the schemes resulted in the issue of *1,839,734 ordinary shares of 25p each. The company received a total of £4.9 million in respect of these shares.* A summary of options granted to employees (including executive directors) and outstanding at 31 December 2003 under share option schemes is given below:

	Date granted	Price per share	Date option normally exercisable	Number of options outstanding
Savings-related scheme	October 1996	234.0p	until 2004	180,400
Savings-related scheme	October 1997	222.0p	until 2005	246,698
Savings-related scheme	October 1998	208.0p	until 2006	608,816
Savings-related scheme	March 1999	217.0p	until 2007	503,258
Savings-related scheme	October 1999	249.0p	until 2007	478,932
Savings-related scheme	October 2000	255.0p	2004 to 2008	690,412
Savings-related scheme	October 2001	320.0p	2005 to 2009	720,122
Savings-related scheme	October 2002	327.0p	2006 to 2010	1,012,117
Savings-related scheme	October 2003	337.0p	2007 to 2011	793,256
Executive scheme	September 1996	296.0p	until 2006	20,000
Executive scheme	September 1997	293.5p	until 2007	28,000
Executive scheme	September 1997	285.0p	until 2007	10,000
Executive scheme	September 1998	253.0p	until 2008	11,500
Executive scheme	September 1998	255.0p	until 2008	32,500
Executive scheme	September 1999	293.0p	until 2009	61,000
Executive scheme	September 2000	311.0p	until 2010	375,760
Executive scheme	April 2001	406.5p	2004 to 2011	50,000
Executive scheme	September 2001	400.0p	2004 to 2011	1,139,350
Executive scheme	April 2002	466.0p	2005 to 2012	34,334
Executive scheme	September 2002	419.0p	2005 to 2012	1,314,957
Executive scheme	September 2003	422.0p	2006 to 2013	1,499,867
US Stock Purchase Plan	October 2001	361.0p	January 2004	37,790
US Stock Purchase Plan	October 2002	348.0p	January 2005	22,994
US Stock Purchase Plan	October 2003	357.0p	January 2006	33,837
Californian Stock Purchase Plan	October 2001	361.0p	January 2004	21,159
Californian Stock Purchase Plan	October 2002	348.0p	January 2005	20,486
Californian Stock Purchase Plan	October 2003	357.0p	January 2006	3,667
				9,951,212

Notes to the financial statements

26 Share capital (continued)

Share option schemes *(continued)*

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.

ABP Share Incentive Plan

In respect of the ABP Share Incentive Plan, the company received a total of £0.5 million (2002: £0.4 million) for the 121,885 (2002: 101,604) ordinary shares issued.

27 Reserves

					Group
			Other reserves		
	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2003	77.4	627.9	19.8	17.2	185.0
Issue of ordinary shares	4.9	–	–	–	–
Qualifying Employee Share Trust	1.8	–	–	–	(1.8)
Surplus arising on revaluation of tangible property assets (note 14)	–	7.8	–	–	–
Realisation of property revaluation surpluses of previous years	–	(1.5)	–	–	1.5
Repurchase of shares (note 26)	–	–	–	0.2	(3.7)
Retained profit for the year	–	–	–	–	54.1
Currency translation differences on foreign currency net investments	–	–	–	–	(0.5)
At 31 December 2003	**84.1**	**634.2**	**19.8**	**17.4**	**234.6**

During the year, £4.3 million was received by the company upon the exercise of options awarded under the Savings-Related Share Option Scheme. Employees paid £2.5 million to the group for the issue of these shares and the balance of £1.8 million comprised contributions to the Qualifying Employee Share Trust from the employing company.

At 31 December 2003, cumulative goodwill written off was £20.9 million (2002: £20.9 million), including £4.2 million (2002: £4.2 million) in respect of associated undertakings.

27 Reserves (continued)

			Other reserves		Company
	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2003	77.4	614.3	34.6	17.2	183.8
Issue of ordinary shares	4.9	–	–	–	–
Qualifying Employee Share Trust	1.8	–	–	–	(1.8)
Surplus arising on revaluation of subsidiary undertakings (note 15)	–	55.5	–	–	–
Repurchase of shares (note 26)	–	–	–	0.2	(3.7)
Profit for the year	–	–	–	–	5.9
At 31 December 2003	**84.1**	**669.8**	**34.6**	**17.4**	**184.2**

28 Group cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities:	2003 £m	2002 £m
Group operating profit	**163.7**	158.2
Non-cash items:		
Depreciation and grant amortisation	**27.6**	24.5
Amortisation of goodwill	**0.9**	1.6
Pension prepayment movement	**(5.2)**	(6.7)
Cash inflow/(outflow) from movements in working capital:		
Property developments and land held for sale	**1.7**	11.9
Debtors	**(3.0)**	(3.4)
Creditors	**(3.9)**	6.7
(Decrease)/increase in provisions	**(6.4)**	6.3
Net cash inflow from operating activities	**175.4**	199.1

During the year ended 31 December 2002, included within net cash inflow from operating activities, is £4.4 million in relation to discontinued operations. These operations utilised £0.3 million in relation to capital expenditure and financial investment.

Analysis of decrease in borrowings and lease finance during the year:	2003 £m	2002 £m
Borrowings due within one year:		
Decrease in unsecured loans	**(1.9)**	(1.4)
Increase in finance leases	**0.4**	0.2
Borrowings due after one year:		
Decrease in unsecured loans	**(7.1)**	(47.8)
Decrease in finance leases	**(1.3)**	(3.5)
Decrease in amortised costs	**0.4**	0.4
	(9.5)	(52.1)

Notes to the financial statements

28 Group cash flow statement (continued)

Analysis of changes in net borrowings during the year:	At 1 January 2003 £m	Cash flow 2003 £m	Effect of foreign exchange rates 2003 £m	At 31 December 2003 £m
Cash at bank and in hand	1.5	0.2	(0.1)	**1.6**
Bank overdraft	(1.9)	(2.1)	–	**(4.0)**
	(0.4)	(1.9)	(0.1)	**(2.4)**
Borrowings – amounts falling due within one year (excluding overdrafts)	(5.6)	1.5	–	**(4.1)**
Borrowings – amounts falling due after more than one year	(449.0)	8.0	5.2	**(435.8)**
	(455.0)	7.6	5.1	**(442.3)**
Liquid resources	4.9	0.6	–	**5.5**
Net borrowings	(450.1)	8.2	5.1	**(436.8)**

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

29 Related party transactions

The group has interests in three associated undertakings: Southampton Container Terminals Limited, Tilbury Container Services Limited and The Cardiff Bay Partnership. The nature of these investments is described more fully in note 32 to the financial statements.

During the year, the group charged these undertakings a total of £21.7 million (2002: £23.8 million) in respect of property management and operational services. At the year end, £5.7 million (2002: £5.2 million) remained owing by these undertakings in respect of these charges.

The amounts disclosed in this note as owing by these undertakings at the year end are aggregated with other loans made to or temporary deposits made by these associated undertakings of the group for the purposes of the disclosure of the balances with associated undertakings in notes 17 and 19.

30 Financial commitments

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Capital expenditure contracted but not provided for	**7.2**	19.8	**–**	–
Operating leases				
Commitments during the next financial year in respect of operating lease payments are as follows:				
Land and buildings				
Leases which expire within one year	**1.5**	0.3	**–**	–
Leases which expire within two and five years	**0.2**	2.9	**–**	–
Leases which expire after five years	**3.3**	2.4	**0.9**	0.9
Other leases				
Leases which expire within one year	**0.3**	0.4	**–**	–
Leases which expire within two and five years	**1.6**	1.5	**–**	–
Leases which expire after five years	**0.2**	0.4	**–**	–
	7.1	7.9	**0.9**	0.9

31 Contingent liabilities

Contingent liabilities under claims, indemnities and bank guarantees:	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank guarantees in respect of subsidiary undertakings	–	–	**0.6**	2.8
Other guarantees and contingencies	**3.9**	4.0	–	–

Other guarantees and contingencies primarily relate to performance bonds.

32 Principal subsidiary and associated undertakings

	% held by group
Subsidiary undertakings	
Ports and transport	
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	100
American Port Services Inc. (registered and operating in the USA)	100
AMPORTS Cargo Services Limited	100
AMPORTS Vehicle Terminals Limited	100
Property	
Grosvenor Waterside (Holdings) Limited	100
Grosvenor Waterside Developments Limited	100
Grosvenor Waterside Investments Limited	100
Associated undertakings	
Ports and transport	
Southampton Container Terminals Limited	49
Tilbury Container Services Limited	33†
Property	
The Cardiff Bay Partnership	45

* Under the Transport Act 1981, the company has powers over Associated British Ports corresponding to the powers of a holding company over a wholly-owned subsidiary undertaking.
† Associated British Ports also owns 49 per cent of the issued preference share capital in Tilbury Container Services Limited.

All subsidiary and associated undertakings are registered and operate in England and Wales except for American Port Services Inc., which is registered in the USA, and The Cardiff Bay Partnership, which is unincorporated and has its principal place of business at 150 Holborn, London, EC1N 2LR. The group's interest in subsidiary undertakings is represented by ordinary shares. All shares held are of the same class with voting rights in the same proportion to the shareholding.

Group Chief Executive

"Our business has many stakeholders. We strive constantly to ensure that we understand, monitor and manage our obligations to them."
Bo Lerenius

Group Finance Director & chairman, CSR management committee

"Whilst we were pleased with the feedback received on our inaugural CSR report, which we published in May 2003, we have continued our efforts to further develop our reporting and practices in this important area during the year."
Richard Adam

Company Secretary & Head of Group Personnel

"The group continues to believe that financial participation is key to aligning the interests of its employees and shareholders. We are pleased that over 75 per cent of our UK employees hold an interest in the shares of the company."
Hywel Rees

Engineering Director

"The health and safety at work of its employees is of paramount importance to the company. In 2004, we will once again work to reduce our reportable injuries per thousand employees to 12 as compared to our actual incidence rate of 17.7 for 2003."
Ian Schofield

Our accountability...

We are committed to maintaining the highest standards of corporate governance

Customer

"Duferco UK has been working with ABP throughout the UK for some time. ABP understands our requirements and this agreement serves to underline our faith in the long-term success of a partnership with ABP South Wales in achieving the Duferco group's future objectives."
Bob Brannan,
Managing Director, Duferco UK

Environment

"The reality is we disagree with a lot of companies about what they are doing and we are delighted there is a company we can pat on the back after some discussion and debate. They have been very *positive*."
Michael Krause,
Yorkshire Wildlife Trust

Community

"The Port of Southampton is at the *heart of the maritime industry here* on the South Coast, supporting thousands of local jobs. It is a vital artery for the UK's international *trade, providing essential* shipping connections from the UK to destinations all over the world."
David Jamieson, MP,
Parliamentary Under-Secretary of State for Transport

ABP
Our accountability

Board of directors

Our board is made up of people who will both inspire and challenge the business

Richard Adam
Group Finance Director, 46

Since joining the company in 1999, Richard has pioneered 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, at the time, held the ITV franchise for the South and south-east of England; he raised £300 million 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 now owned by WH Smith. 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 of SSL International plc.

Aubrey Adams
Non-executive, 54

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, Aubrey was Financial Director at Peachey Property Corp plc; he was instrumental in reorganising the group and increasing its market capitalisation from £20 million to £300 million by 1988. He joined Peachey from Price Waterhouse. A Fellow of the Institute of Chartered Accountants, Aubrey is also Chairman of the Accounting Committee, a non-executive director of Wigmore Hall and sits on the General Council of the British Property Federation.

Tim Bowdler
Non-executive, 56

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. He has more than doubled the size of Johnston Press, one of the UK's major regional newspaper publishers, since becoming Chief Executive in 1997. He joined Johnston Press plc as Group Managing Director in 1994 from Cape plc's building and architectural products companies, where he was managing director of a division. 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, a director of the Press Standards Board of Finance and a non-executive director of The Press Association Ltd.

Stuart Chambers
Non-executive, 47

Stuart became a member of the board in 2002 and is a member of the Nomination and Remuneration Committees. He shares his expertise as a highly experienced chief executive of a public company 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 and market analyst 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 the vice-president for sales and marketing of Mars Electronics International in 1995.

Bo Lerenius
Group Chief Executive, 57

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-essential assets. He is a member of the Nomination Committee. Although he had not worked in the ports industry directly, Bo had a comprehensive understanding of ports and port users' requirements when he joined the group due to his experience as Vice-Chairman and Chief Executive of Stena Line. He was responsible for Stena's strategic investments and managed the merger of the cross-Channel ferry operations with P&O in 1998. Previously, Bo was Group President of building materials group Ernstromgruppen and a director of Tarkett and Nordjsö Färg. He has also held a number of non-executive directorships in Swedish listed and private companies. Bo is president of the government-funded Sea and Water Advisory Board, an executive committee member of the Swedish Chamber of Commerce for the UK, a director of International Association of Ports and Harbors and a member of the UK Trade & Investment Ports and Logistics Advisory Group and the CBI London Council.

Derek Sach
Non-executive, 55

Derek has been a member of the board since 1998. He is Chairman of the Remuneration Committee and a member of the Audit 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 Banking and Financial Markets at the Royal Bank of Scotland (RBS). He joined RBS in 1992 to establish SLS, which provides businesses in trouble or showing signs of difficulty with strategic advice. He has since held a number of posts. 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. He was also seconded to Tesco Personal Finance as Chief Executive for a year in 1997 as part of a joint venture. Previously, Derek was a director of 3i Group plc, where he was UK managing director and chairman of its property companies and investment committee. He is President and Chairman of the London Chamber of Commerce and Industry.

Ross Sayers
Chairman, 62

Ross joined the board as a non-executive director in October 2001 and became Chairman after the 2002 AGM; he is a member of the Nomination and Remuneration Committees. Ross has a wealth of experience in the transport industry following a long and distinguished career. As executive Chairman of State Rail Authority of New South Wales, he was responsible for introducing a major change programme that enhanced customer service standards, reduced operating costs and led to the upgrading of the railway infrastructure and rolling stock. Prior to this, he was executive Chairman of New Zealand Railways. Ross then moved into the utility industry to become Chief Executive and Managing Director of China Light and Power Limited (CLP), Hong Kong's ninth-largest listed company. He refocused CLP on improving customer service and performance standards and reducing operating costs. In 2000, Ross was appointed Chairman of Innogy, a position he held until RWE acquired the company in 2002. Ross is a Fellow Chartered Accountant (NZ), a non-executive director of Intertek Group plc and Network Rail, and chairman of the advisory panel, for Macquarie European Infrastructure Fund.

Andrew Simon, OBE
Non-executive, 58

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 significant experience in strategy process and development. Andrew has been involved in over 20 businesses as chairman or non-executive director during his career. He spent 23 years at Evode Group as managing director, Chief Executive Officer and Chairman; he developed the group's adhesives and sealants business from a £10 million to a £300 million international speciality chemicals and materials group and achieved a number of market-leadership positions. Since its 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.

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

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

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

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

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

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

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

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

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or 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 auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

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

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

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

Opinion
In our opinion:

- The financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the profit and cash flows of the group for the year then ended
- The financial statements have been properly prepared in accordance with the Companies Act 1985
- Those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
London
18 February 2004

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 USA.

The progress of business during the year and anticipated future developments are discussed in the Group Chief Executive's review on pages 22 and 23 and the operating and financial review on pages 26 to 35.

Results and dividends
Group pre-tax profit on ordinary activities for the year was £145.5 million (2002: £139.1 million). See the consolidated profit and loss account on page 38 for further information.

The company paid an interim dividend of 6.75 pence per share on 1 November 2003. The directors recommend a final dividend of 8.5 pence per share, making a total for the year of 15.25 pence per share. This is an increase of 3.4 per cent on the 2002 dividend of 14.75 pence per share. If approved at the forthcoming Annual General Meeting (AGM), the company will pay the final dividend on 30 April 2004 to ordinary shareholders on the register at close of business on 26 March 2004.

Directors and their interests
Derek Sach and Tim Bowdler retire by rotation as independent non-executive directors at the forthcoming AGM. As they continue to be eligible under the company's Articles of Association, they offer themselves for re-election.

Andrew Simon, who has been a non-executive director for nine years, became the Senior Independent Director following the retirement of George Duncan at the 2003 AGM. He will continue in this role for at least one more year, subject to the passing of an ordinary resolution at the 2004 AGM.

The board considers that Andrew Simon, Derek Sach and Tim Bowdler are independent of management, free from any business or other relationship that could interfere materially with their independent judgment, and bring wide and varied commercial experience to its deliberations.

None of the directors offering themselves for re-election has a service agreement with the company. 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 78 to 84.

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.

Further details on the backgrounds and abilities of the directors are set out in their biographies on pages 68 to 69. For details of the independence of non-executive directors, see the report on corporate governance on pages 74 to 77.

Investment property
The group's tangible property assets as at 31 December 2003 were valued at £570.3 million (2002: £568.8 million) on an open market basis. As a result, the group increased its revaluation reserve by £7.8 million.

Payment of suppliers
The group's policy is to establish a fair and transparent relationship with suppliers based on mutual trust. This includes agreeing reasonable terms and conditions before business takes place. The group's policy and practice is to settle invoices on the terms agreed.

At year end, the group owed the equivalent of 38 days of purchases (2002: 30 days) to trade creditors based on the average daily amount invoiced by suppliers during the year.

Purchase of own shares
During 2003, the company purchased and subsequently cancelled 850,000 shares with a nominal value of £0.2 million, or 0.3 per cent of the share capital as at 31 December 2002. The total cost was £3.7 million, which has been charged to the profit and loss account reserve. The company purchased these shares to offset most of the new shares issued during the second half of the financial year following the exercise of options by employees under its various share schemes.

Substantial shareholdings
An analysis of substantial holdings in the company's shares at the year end is provided on page 85.

Charitable and political donations
The group donated £78,000 (2002: £74,000) to charities during the year. It did not make any contributions for political purposes (2002: £2,000).

Employees and employment policies
The company strives for excellence in treating its employees as individuals. It provides opportunities for active participation and personal development with the twin goals of motivating individuals and helping them to enhance their skills.

Its commitment to employees is based on three principles:

- Creating a 'level playing field' through the development and implementation of policies and practices which provide equal opportunities for all existing and potential employees
- Ensuring employees have access to information that enables them to contribute to and participate in the group's success
- Providing employees with clear and fair terms of employment and access to a wide range of benefits.

The company uses share schemes to give employees a direct stake in the business and align their interests with those of other shareholders. During 2003, the company made an offer under the Share Incentive Plan (SIP) and granted options under both the Savings-Related Share Option Scheme (SRSOS) and the Executive Share Option Scheme (ESOS). In 2004, the company intends to grant options under the SRSOS and make further offers under the SIP and ESOS, the latter being at the full, undiscounted market price of the shares at the date of the grant. The company also made offers to employees under the US and Californian Stock Purchase Plans in 2003; further offers are scheduled for 2004.

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
The approval of the remuneration report set out on pages 78 to 84 will be put to the AGM as an ordinary resolution.

At the AGM of 15 April 2003, shareholders approved an ordinary resolution to permit the directors to allot 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 AGM in 2004. 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 18 February 2004, one-third of the issued equity share capital equalled £27,498,996 or 109,995,987 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 allot shares worth up to £4,124,849 (16,499,396 ordinary shares), representing approximately five per cent of the issued equity share capital of the company as at 18 February 2004, without offering them first to existing shareholders. The authority would expire at the AGM in 2005. 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 32.9 million 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 2005. Before buying any shares, the directors commit to take into account the company's cash resources, capital requirements and the effect of any purchase on earnings per share. The purpose of the authority is to mitigate the market impact of share issues from employee share schemes.

It is the group's policy not to make donations to political parties. The Political Parties, Elections and Referendums Act 2000 (PPER Act), which came into force in 2001 and covers activities throughout the European Union, provides very broad definitions of political donations and EU political expenditure. The broadness of these definitions may well allow for the inclusion of a number of normal business activities that might not be thought of as political expenditure in the conventional sense. These could include sponsorship of industry forums, involvement in marketing activity, seminars and functions to which politicians might be invited and granting employees time off to campaign for and hold public office or take part in union activities. It is unfortunate that the PPER Act's definition of these matters involves a number of areas of uncertainty and ambiguity that require guidance and clarification by government or the courts. As a precaution and to avoid contravening the legislation, we and other companies have been advised that it would be prudent to obtain approval from shareholders to incur a reasonable level of expenditure in the course of these normal business activities. Resolution 9 seeks the authority to incur total expenditure of up to £50,000 in total over a period of four years expiring at the 2008 AGM. The board of directors emphasises that it will not use this authority to make any political donations as that expression would have been understood before the PPER Act was introduced.

Shareholders' approval will be sought at the AGM to make a change to the employee share schemes that the company operates for the benefit of the group's employees. The change, following recent changes in the guidelines of the Association of British Insurers, will be to simplify the equity dilution limits so that they are as follows:

(i) on any date, the aggregate nominal amount of shares which may be allocated under a scheme may not, when added to the nominal amount of shares allocated in the previous 10 years under all employee share schemes of the group, exceed 10 per cent of the equity share capital of the company; and

(ii) on any date, the aggregate nominal amount of shares which may be allocated under a scheme for the benefit of selected senior employees of the group may not, when added to the nominal amount of shares allocated in the previous 10 years under all such schemes, exceed 5 per cent of the equity share capital of the company.

For these purposes, shares are allocated when rights to acquire or obtain them are granted and otherwise when they are issued or transferred. Rights which lapse, by reason of non-exercise or otherwise, cease to count. No account is taken of shares which are acquired by purchase rather than by subscription except where such shares were first issued to an employee trust for the purpose of satisfying a participant's rights. No account is taken of shares which an employee purchases at market value using his own funds.

It is proposed that the company's Articles of Association (which were last updated in 2002) be amended to take account of the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"). The Regulations are effective whether or not the Articles of Association are formally amended, the amendments relating to treasury shares pursuant to Resolution 14 are being made in order to make the Articles of Association consistent with the Regulations. The Regulations came into force on 1 December 2003 and made certain amendments to the UK Companies Act 1985 in relation to treasury shares. The amendments allow companies to retain any of their own shares they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them as had previously been required by legislation. If the company were to purchase any of its own shares pursuant to the authorities sought in Resolution 13 it would consider holding them as treasury stock, provided that the number did not at any one time exceed 10 per cent of the company's issued share capital. This would give the company the ability to re-issue treasury shares quickly and cost effectively, and would provide the company with additional flexibility in the management of its capital base.

Auditors
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

Hywel Rees
Company Secretary
18 February 2004

Corporate governance

Combined Code
The board of directors is responsible for and committed to the maintenance of the highest standards of corporate governance throughout the group. It supports the principles laid down in the Combined Code on Corporate Governance (the Combined Code) as updated following the Higgs Report ('Review of the role and effectiveness of non-executive directors') and Sir Robert Smith's recommendations in relation to audit committees.

As the revised code only became effective on 1 January 2004, the company was not required to comply with it for the year ended 31 December 2003. However, as this report shows, the company already complies with almost all of the new principles and provisions. The board has agreed the additional steps required to achieve full compliance during the year ending 31 December 2004.

Board of directors
Composition of the board
The board comprises a non-executive Chairman, five independent non-executive directors and two executive directors. The role of non-executive Chairman is separate from the role of Group Chief Executive and there is a clear division of responsibilities between the two. Andrew Simon became the Senior Independent Director following the retirement of George Duncan on 15 April 2003.

The board operates as a team and no individual or group is encouraged to dominate the decisions it makes.

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 re-election at the company's forthcoming Annual General Meeting (AGM) are provided in the directors' report, together with the board's argument for their re-election. Further details on all directors are provided in their biographies on pages 68 to 69.

Independence of non-executive directors
The group's non-executive directors bring wide and varied commercial experience to the board's deliberations and fully participate in the resolution of matters reserved for the board.

Notwithstanding his presence on the board for a period of more than nine years, the board considers that Andrew Simon remains an independent and valuable member of the board. It benefits significantly from his background and experience and considers him to be free from any business or other relationship that could materially interfere with his independent judgment. In recognition of the experience he has gained through his non-executive involvement with a range of UK and international businesses, the board nominated Andrew as the Senior Independent Director from 15 April 2003.

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. As a result, he does not participate in any decisions in relation to the selection of the group's banking relationships or procurement of any financing or other derivative instrument from any financial institution. He is also excluded by the Royal Bank of Scotland plc from any decisions that relate to the group. Derek is considered by the board to be free from any business or other relationship that could materially interfere with his independent judgment.

All non-executive directors are therefore considered to be independent of management and free from any business or other relationship that could materially interfere with their independent judgment.

Management structure
The board of directors is responsible for:

- Setting the strategic direction of the group
- Establishing high standards of behaviour
- Establishing policies and internal controls to safeguard the company's assets
- Developing robust corporate governance and risk management procedures
- Supervising management
- Monitoring operational performance.

The board of Associated British Ports (ABP), the group's principal subsidiary, manages operational matters relating to the UK business. The ABP board consists of the Group Chief Executive, the Group Finance Director, the six Port/Managing Directors for the group's UK operating units, the Group Property Director and the 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 and the ABP and AMPORTS boards operate within clearly defined limits of authority and must refer any matters outside these limits to the board of directors for consideration.

How the board operates
The board meets eight times a year in the normal course of business and maintains close dialogue between meetings. Board meetings are held at the company's head office and the group's port locations around the UK.

In 2003, the board met eight times. With the exception of Stuart Chambers, who missed two meetings as a consequence of the dates being set prior to his appointment to the board, all directors were present at each meeting.

The schedule of matters reserved for the board includes health and safety, annual budgets, strategic plans, payment of dividends, reporting to shareholders, approval of acquisitions and divestments, approval of major capital expenditure projects and consideration of significant financing.

The Company Secretary would minute any unresolved concerns expressed by any director. Were a director to resign over an unresolved issue, the Chairman would bring the issue to the attention of the board.

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

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

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. Any directors without previous public company board experience would be provided with training on their roles and responsibilities. All directors are permitted to undertake subsequent training relevant to their duties at the company's expense. Any director may also take independent professional advice in furtherance of his duties at the company's expense.

During 2003, the independent non-executive directors, led by the Senior Independent Director, met to assess the Chairman's performance. It is intended that this process will take place each year and that the Chairman will hold at least one meeting a year with the non-executive directors in the absence of the executive directors. The board has also implemented a formal annual performance evaluation for the board, its committees and individual directors.

Board committees
There are three main committees of the board.

The Audit Committee
The Audit Committee comprises the following non-executive directors:

Aubrey Adams (Committee Chairman)
Tim Bowdler
Derek Sach
Andrew Simon

Aubrey Adams, who is a qualified Chartered Accountant and has previously worked as group finance director of a UK listed company, replaced Derek Sach as Chairman of the Audit Committee on 15 April 2003. The Committee's three meetings in 2003 were attended by all of its members. The company Chairman, Group Chief Executive, Group Finance Director, non-executive director Stuart Chambers, Head of Internal Audit and representatives from the company's external auditors were also invited to attend the meetings. The Committee also met with the Head of Internal Audit and representatives from the external auditors in the absence of executive directors. The Chairman of the Audit Committee maintains regular dialogue with the external audit partner and the Head of Internal Audit between Committee meetings.

The Committee's terms of reference were updated during the year and are now available from the group's website, www.abports.co.uk. Its key duties include:

- Keeping under review the scope, results and effectiveness of the external audit, and the independence and objectivity of the external auditors
- Making recommendations in relation to the appointment or dismissal of external auditors, their remuneration and terms of reference
- Reviewing the effectiveness of internal financial control and risk management systems, including the internal audit function
- Monitoring the integrity of annual and interim financial statements, particularly in relation to any significant financial reporting judgments and compliance with Stock Exchange and legal requirements
- Monitoring compliance with policies in relation to the procurement of non-audit services and employment of personnel previously employed by the company's external auditors
- Reviewing arrangements for the confidential reporting by employees of concerns relating to financial reporting or other matters.

The Remuneration Committee
A separate report on the Remuneration Committee is set out on pages 78 to 84 as part of the company's remuneration report. The Committee's terms of reference are available from the group's website, www.abports.co.uk.

The Nomination Committee
The Nomination Committee comprises the company's non-executive Chairman as Chairman, the Group Chief Executive and the following non-executive directors:

Aubrey Adams
Tim Bowdler
Stuart Chambers
Derek Sach
Andrew Simon

The Committee meets as and when necessary, and at least once a year. It held one meeting in the presence of all members, except for Stuart Chambers, during 2003. Members also maintain informal dialogue on an ongoing basis.

Corporate governance

The Committee's terms of reference have been updated recently and are available from the group's website at www.abports.co.uk. Its duties include reviewing the size, structure and composition of the board and succession planning. 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.

Relations with shareholders
The board is committed to maintaining good communications with shareholders. Other than during close periods, the Group Chief Executive and the Group Finance Director maintain a regular dialogue with institutional shareholders throughout the year. The executive directors 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 the 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 formally to all queries and requests for information from existing or potential shareholders. Ross Sayers, Chairman, and Andrew Simon, Senior Independent Director, also maintain contact with 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. All board members attend the AGM and, in particular, the chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions. Resolutions are proposed on each substantially separate issue and the agenda includes a resolution to adopt the group's Annual Report & Accounts. Notice of the AGM is sent to all shareholders at least 20 working days before the meeting. Details of the proxy votes for and against each resolution are announced after the result of the hand vote is known.

The group's Annual Report & Accounts, preliminary and interim announcements, trading statements and press releases are available on its website, www.abports.co.uk. All communications from the company can be obtained in electronic form by e-mailing pr@abports.co.uk.

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

Internal control
The board acknowledges that it has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage, rather than eliminate, risk in achieving business objectives. While it is subject to regular review and update, it should be recognised that such systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

During 2003, procedures were 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, 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 all reports for approval.

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, environment and information technology.

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

Risk management
As recommended by the Turnbull Committee, the group maintains a risk management working group to identify the major risks facing the group and formalise the group's risk objectives and risk management processes. This working group comprises senior executives from the group's operations and is chaired by the Group Finance Director. The working group's recommendations are reviewed and updated annually and have been adopted by the board.

The embedded risk management processes described below take into account the significance of any potential social, environmental and ethical issues applicable to the group's operations. These processes enable the board to receive information on all significant risks and facilitate the formulation of effective responses on a timely basis. All risks, including significant social, environmental and ethical risks, which could impact on the group's short- and long-term objectives are identified, quantified, assessed for likelihood and addressed appropriately.

The group's overall risk management objective is to take such strategic and commercial risks as 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 has identified five major risk management objectives:

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

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

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 original Combined Code throughout the year ending 31 December 2003.

Remuneration report

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 remuneration of directors.

The company will seek the approval of this report at the forthcoming Annual General Meeting on 21 April 2004. Directors of the company 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 within a formal terms of reference. The terms of reference for the Committee are available from the company's website.

In addition to Ross Sayers, the company's non-executive Chairman, the Remuneration Committee comprises the following independent non-executive directors:

Aubrey Adams
Tim Bowdler
Stuart Chambers
Derek Sach (Committee Chairman)
Andrew Simon

Derek Sach was appointed Chairman of the Remuneration Committee following the retirement of George Duncan on 15 April 2003. The Committee:

- Sets the company's broad policy on executive remuneration
- Oversees any major changes in employee-benefit structures throughout the group
- Determines targets for any performance-related pay schemes the company operates
- Agrees the terms and conditions of individual executive directors, including their annual remuneration.

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 has appointed New Bridge Street Consultants to provide independent advice on determining appropriate levels of remuneration. New Bridge Street Consultants also manage the measurement of performance against vesting targets for the company's Long Term Incentive Plan (LTIP). The Committee also has access to Hywel Rees, Company Secretary & 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 the directors of Associated British Ports, the group's main operating entity. The Group Chief Executive does not attend any Committee meetings at which his own remuneration is discussed.

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 this, remuneration packages for executive directors are reviewed annually and 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.

The policy also aims to ensure that rewards for executive directors are linked to the group's short- and long-term performance. The Committee keeps both the fixed and variable elements of each director's overall package under review. The variable element represents a significant percentage of the overall package for executive directors following the introduction of performance-related annual bonuses in 2000 and implementation of the LTIP in 2003. To further strengthen the link between the interests of shareholders and management, the company requires executive directors to retain a proportion of the shares they may receive through the LTIP until they are worth the same as their annual base salary.

Components of 2004 executive remuneration:

Richard Adam

Bo Lerenius

The percentage figures for base salary, annual bonus, benefits and pension contributions represent amounts expected to be paid in respect of 2004 for on-target performance; LTIP and share option percentages represent estimated values for 2004 grants using a Black Scholes model; the share option percentages assume that all vesting conditions are met in full; and the LTIP percentages have been discounted to reflect vesting conditions under a Black Scholes model.

The company maintains contact with its principal shareholders on remuneration matters as necessary and does not intend to make any changes to its remuneration policy for the coming year.

Executive directors

The remuneration package for executive directors comprises a competitive basic salary, a performance-related annual cash bonus, share-related incentive schemes, pensions supplement 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 the company's independent remuneration consultants as appropriate; any increases are awarded only after taking into account individual performance, changes in responsibilities and external advice as to appropriate salary levels for each position.

Following a review of executive directors' remuneration undertaken in October 2002, Bo Lerenius, Group Chief Executive, and Richard Adam, Group Finance Director, received base salary increases of 9.8 per cent and 22.4 per cent, respectively, for the year commencing 1 January 2003. These increases were designed to realign the base salaries of the executive directors with the market rates of salaries offered by the company's peer group as determined by the independent remuneration consultants, and granted after taking into account their input.

Following the most recent annual review of remuneration, base salaries for executive directors are to increase by 3.3 per cent for the year commencing 1 January 2004.

Performance-related bonus

In order to reward performance against short-term targets, the Committee has established a non-pensionable annual performance-related bonus scheme for executive directors and other senior management.

For executive directors, the maximum bonus is capped at 60 per cent of base salary, up to 30 per cent of base salary is payable for on-target performance; a further 30 per cent of base salary is payable for exceptional outperformance against targets. Other senior managers are eligible for payment of up to 20 per cent of base salary for on-target performance, and a further 20 per cent of base salary for exceptional outperformance of target.

The group's performance targets relate to some or all of the following:

- Growth in the group's underlying ports and transport operating profit
- Growth in the group's underlying earnings per share
- Attainment of return on capital employed targets
- Attainment of group health and safety targets.

The group will pay bonuses in the range of 2 per cent to 43 per cent for 2003, as it achieved its targets either partly or wholly in relation to the growth in its underlying ports and transport operating profit, underlying earnings per share and return on capital employed. Actual amounts payable based on the above criteria were reduced by 5 per cent as the group failed to meet its target of reducing reportable injuries per thousand employees to 12 or below.

Share-related incentives

Executive directors and other senior managers are entitled to participate in the following share-related incentive schemes which are designed to link their long-term interests with those of the company: the Executive Share Option Scheme (ESOS), the Savings-Related Share Option Scheme (SRSOS), the Share Incentive Plan (SIP) and the Long Term Incentive Plan (LTIP). Participation in the LTIP is currently limited to the executive directors of the company.

Executive Share Option Scheme

Options granted under the ESOS may only be exercised once the underlying earnings per share target has been achieved. They are issued annually at the share price prevailing on the date of grant.

The value of options granted annually to each executive director and senior manager is currently limited to one times their annual base salary. Details of grants made to the executive directors during the year are set out on page 83.

The target set in relation to the vesting of all outstanding ESOS options requires the growth of the group's underlying earnings per share to exceed the rate of inflation by at least 3 per cent per annum for a minimum period of three years. If this target is not achieved after three years, 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 the target has not been met by the end of the fifth year, the options will lapse.

Options granted to the executive directors in 2000 vested in full during 2003. The group's underlying earnings per share grew by 31.6 per cent in the three-year period from 1 January 2000 (from 23.1 pence to 30.4 pence), exceeding the movement in the retail price index (which increased by 6.7 per cent to 178.5) by more than the required 3 per cent per annum, taking the performance period as a whole.

The group uses growth in underlying earnings per share as the target for the remaining options held by executive directors and other senior managers as this is an externally audited indicator which can be verified independently and is closely aligned to shareholder value. The Committee reviews the appropriateness of its measure and target adopted at the time of each grant. Further details on the options held by each executive director under the ESOS are provided on page 83.

The company monitors and, when appropriate, manages the dilution impact arising from the exercise of share options granted to employees.

The targets set and actual performance of the group in relation to unvested option grants are detailed in the table below:

Grant	Base earnings per share (pence)	2003 target earnings per share growth required to trigger vesting of options (pence)	Actual earnings per share period to date (pence)
2001	26.3	30.4	31.0
2002	28.1	31.4	31.0
2003	30.4	32.2	31.0

Savings-Related Share Option Scheme

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 in the company at the option price. The company 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 on the options held by each executive director under the SRSOS are provided on page 83.

Share Incentive Plan
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.

Employees can also elect to be awarded free shares worth £250 each year; participating employees can receive further shares up to a maximum annual value of £375 if the group achieves 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.

Awards under the SIP for 2003 were limited to £250 for each participating employee as the group failed to achieve its underlying pre-tax profit target for the year. The SIP will be open to eligible employees once again in 2004.

Long-Term Incentive Plan
The company introduced an LTIP during 2003 to further strengthen the link between the most senior executives' 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 50 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 the 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 the 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 deciles; there is pro-rata vesting for performance between median and upper decile. No shares vest for below-median ranking. The company's 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.

During the year, Bo Lerenius, Group Chief Executive, and Richard Adam, Group Finance Director, received conditional awards of shares equivalent to their annual base salaries as at 1 January 2003. Further details on the number of shares issued to each director under the LTIP are provided on page 83. Figure 1 sets out the vesting status of this grant as at 31 December 2003.

Vesting status of 2003 LTIP grant

Grant	2003
Beginning of performance period	1 Jan 2003
End of performance period	31 Dec 2005
Number of companies in comparator group	71
Rank for 30% vesting	36
Rank for 100% vesting	7
Company's rank at 31 December 2003	49

Fig 1

Total shareholder returns
As required by the Directors' Remuneration Report Regulations 2002, the graph below sets out the group's TSR compared with the FTSE top-250 comparator group of companies over the five-year period to 31 December 2003.

The company has selected the FTSE top-250 comparator group as its FTSE ranking has ranged from 97 to 124 during 2003. 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 executive directors a supplement of 25 per cent of basic salary in lieu of pension arrangements.

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 existing 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. The table below sets out details of directors' contracts.

Executive director	Date of appointment	Notice period	Expected retirement age
Richard Adam	15.11.1999	One year	65
Bo Lerenius	17.05.1999	One year	65

External appointments
The company 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 company. The company's current policy on external appointments is to allow executive directors to accept one external non-executive appointment providing that the time commitments involved do not undermine the performance of their company duties. 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 2003 amounted to £38,524 and £4,000, respectively. Further details of current appointments held by executive directors are set out in their biographies on pages 68 to 69.

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 three years. They do not hold service contracts with the company.

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 the pension scheme.

All non-executive directors sit on the company's Remuneration and Nomination Committees and, except for Ross Sayers and Stuart Chambers, the Audit Committee also. Following the publication of the updated Combined Code on Corporate Governance, 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 and the Senior Independent Director an additional £7,500 a year, but that it was not appropriate to make additional payments to other committee members.

Audited information
The emoluments information disclosed on pages 82 and 83, which is required by Part 3 Schedule 7A of the Companies Act 1985, has been audited.

Remuneration report

Directors' emoluments

	Salary/fees 2003 £000	Performance-related bonus 2003 £000	Pension 2003 £000	Other benefits 2003 £000	Total 2003 £000	Salary/fees 2002 £000	Performance-related bonus 2002 £000	Pension 2002 £000	Other benefits 2002 £000	Total 2002 £000
Executive directors										
Richard Adam	300	129	75	13	517	237	89	59	15	400
Bo Lerenius (a)	450	193	113	17	773	403	150	101	17	671
Total	750	322	188	30	1,290	640	239	160	32	1,071
Non-executive directors										
Aubrey Adams	43	–	–	–	43	38	–	–	–	38
Tim Bowdler	33	–	–	–	33	33	–	–	–	33
Stuart Chambers (b)	32	–	–	–	32	8	–	–	–	8
George Duncan (c)	23	–	–	–	23	75	–	–	–	75
Derek Sach	40	–	–	–	40	40	–	–	–	40
Ross Sayers, *Chairman* (d)	138	–	–	–	138	104	–	–	–	104
Andrew Simon	38	–	–	–	38	33	–	–	–	33
Sir Keith Stuart (e)	–	–	–	–	–	50	–	–	–	50
Total	347	–	–	–	347	381	–	–	–	381
Total directors' emoluments	1,097	322	188	30	1,637	1,021	239	160	32	1,452

(a) The highest-paid director during the year was Bo Lerenius

(b) Stuart Chambers was appointed to the board on 15 October 2002

(c) George Duncan retired from the board on 15 April 2003

(d) Ross Sayers was appointed as Chairman on 16 April 2002, following Sir Keith Stuart's retirement

(e) Sir Keith Stuart retired from the board on 16 April 2002.

Payments to former directors

Peter Dean, who resigned as a director on 24 April 2001, has been retained as a consultant to advise the company on pension matters and received £15,000 (2002: £15,000) in respect of his services.

Lord Crickhowell, who retired as a director on 28 April 1999, has been retained as a consultant to advise the company on parliamentary matters and received £15,000 (2002: £15,000) in respect of his services.

James Shaw resigned as a director on 30 June 2001. *Under the terms of a compromise agreement, he is entitled to private medical insurance* until 31 March 2004 at an estimated cost of £2,429 per annum.

Directors' share options

Movements in the directors' holdings of options *under both the ESOS and the SRSOS during the year are as follows:*

Executive Share Option Scheme

	Options at 1 January 2003	Granted in year	Exercised in year	Options at 31 December 2003 (a)	Date of grant	Option price	Date normally exercisable
Richard Adam	68,816	–	(68,816)	–	Sep 2000	311.00p	n/a
	52,785	–	–	52,785	Sep 2001	400.00p	Sep 2004 to Sep 2011
	58,472	–	–	58,472	Sep 2002	419.00p	Sep 2005 to Sep 2012
	–	71,090	–	71,090	Sep 2003	422.00p	Sep 2006 to Sep 2013
	180,073	71,090	(68,816)	182,347			
Bo Lerenius	156,270	–	(156,270)	–	Sep 2000	311.00p	n/a
	95,738	–	–	95,738	Sep 2001	400,00p	Sep 2004 to Sep 2011
	97,852	–	–	97,852	Sep 2002	419.00p	Sep 2005 to Sep 2012
	–	106,635	–	106,635	Sep 2003	422.00p	Sep 2006 to Sep 2013
	349,860	106,635	(156,270)	300,225			

(a) Options held at 31 December 2003 are only exercisable should the performance criteria discussed on page 80 be achieved.

(b) The aggregate gains made by directors on the exercise of options during the year totalled £243,768 (2002: £712,145). On 23 September 2003, Richard Adam exercised options over 68,816 shares at 311.00 pence per share. The market price at the close of business on 23 September 2003 was 426.5204 pence per share. On 10 October 2003, Bo Lerenius exercised options over 156,270 shares at 311.00 pence per share. The market price at the close of business on 10 October 2003 was 416.1201 pence per share.

Savings-Related Share Option Scheme

	Options at 1 January 2003	Granted in year	Exercised in year	Options at 31 December 2003	Date of grant	Option price	Date normally exercisable
Richard Adam	3,799	–	–	3,799	Oct 2000	255.00p	6 months from Jan 2004
	–	2,737	–	2,737	Oct 2003	337.00p	6 months from Jan 2007
	3,799	2,737	–	6,536			
Bo Lerenius	3,799	–	–	3,799	Oct 2000	255.00p	6 months from Jan 2004
	–	2,737	–	2,737	Oct 2003	337.00p	6 months from Jan 2007
	3,799	2,737	–	6,536			

Conditional award of shares made under the LTIP

	At 1 January 2003	Awarded in year	Vested in year	At 31 December 2003	Market price at award date	Date of award	Earliest vesting date
Richard Adam	–	76,433	–	76,433	392.5	May 2003	1 May 2006
Bo Lerenius	–	114,649	–	114,649	392.5	May 2003	1 May 2006

Remuneration report

Directors' interests

Directors' beneficial interests, including family interests, *in the share capital of the company* as at 31 *December* 2003, *as recorded in the register maintained by the company under section 325 of the Companies Act 1985, are set out in the table below.*

	Ordinary shares of 25p each		Ordinary shares of 25p each held by the trustees of the Employee Share Ownership Scheme	
	2003	**2002**	**2003**	**2002**
Richard Adam	**3,244**	3,000	**1,095**	814
Aubrey Adams	**20,000**	20,000	**–**	–
Tim Bowdler	**5,000**	2,486	**–**	–
Stuart Chambers	**5,000**	–	**–**	–
Bo Lerenius	**20,136**	9,477	**1,095**	1,229
Derek Sach	**15,000**	15,000	**–**	–
Ross Sayers	**10,000**	10,000	**–**	–
Andrew Simon	**5,000**	5,000	**–**	–

On 27 January 2004, Bo Lerenius and Richard Adam each exercised 3,799 options held under the SRSOS with an option price of 255.00 pence per share and retained the shares.

On 20 January 2004, 28 shares were allotted to the trustees of the SIP on behalf of Richard Adam and 28 shares were allotted on behalf of Bo Lerenius. There have been no other changes in total shareholdings by directors in the period from 31 December 2003 to 18 February 2004. None of the directors had any non-beneficial interest in the share capital of the company during the period to 31 December 2003, nor the period from the year-end to 18 February 2004. The company's Register of Directors' Interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe.

Derek Sach
Chairman, Remuneration Committee
On behalf of the board
150 Holborn
London EC1N 2LR

18 February 2004

Shareholder analysis

as at 31 December 2003

Percentage of shareholders

Percentage of shares

Ordinary shares of 25 pence each – by number of shares held	Number of holders	%	Number of shares	%
1 – 1,000	5,276	41.77	2,743,808	0.83
1,001 – 2,000	2,481	19.64	3,783,232	1.15
2,001 – 4,000	2,080	16.47	6,227,676	1.89
4,001 – 20,000	2,214	17.53	18,092,817	5.50
20,001 – 400,000	467	3.70	42,849,936	13.01
400,001+	113	0.89	255,537,834	77.62
Total	**12,631**	**100.0**	**329,235,303**	**100.0**

Ordinary shares of 25 pence each – by category of holder	Number of holders	%	Number of shares	%
(i) Individuals	9,489	75.13	26,523,194	8.06
(ii) Bank or nominees	2,880	22.80	288,360,095	87.58
(iii) Insurance company	37	0.29	7,348,877	2.23
(iv) Other company	182	1.44	4,993,695	1.52
(v) Investment trust	21	0.17	189,065	0.06
(vi) Pension trust	5	0.04	727,673	0.22
(vii) Other corporate body	17	0.13	1,092,704	0.33
Total	**12,631**	**100.0**	**329,235,303**	**100.0**

Substantial shareholdings

The following had notified substantial share interests as at 18 February 2004

		Number of shares	% of issued ordinary capital
(i)	M&G Investment Management Ltd	24,233,004	7.34
(ii)	Harris Associates LP	23,053,454	6.99
(iii)	Jupiter Asset Management Limited	17,738,605	5.38
(iv)	Marathon Asset Management Ltd	17,173,647	5.20
(v)	Scottish Widows Investment Partnership	15,611,236	4.73
(vi)	Threadneedle Asset Management Ltd	13,209,392	4.00
(vii)	Schroder Investment Management Ltd	12,363,409	3.75
(viii)	Legal & General Investment Management	11,729,402	3.55
(ix)	Aegon Asset Management	10,700,000	3.24

Corporate social responsibility

Background and management
We believe that the effective management of our social responsibilities is a moral obligation that can also bring significant commercial benefits.

Corporate social responsibility (CSR) is closely aligned to the risk management activities described on page 77. The risk management process provides the board with information on all risks, including significant social, environmental and ethical risks, which could affect the group's short- and long-term objectives. Our CSR programme provides a formal mechanism through which to manage these risks over time and report progress to the group's many stakeholders.

The group has established a risk management working group to oversee its risk management activities and a CSR management committee to develop and manage its CSR programme. Both are chaired by Richard Adam, Group Finance Director. The committee is responsible for reviewing and co-ordinating the group's strategy and policies in all key areas of social responsibility including the environment, health and safety, employees, communities and corporate ethics.

The group continues to develop its CSR management systems and engagement mechanisms. It publishes an annual CSR report, engages positively with socially responsible investors, participates in various indices and responds to all requests for information from socially responsible investment funds.

Developments in 2003
We published our inaugural CSR report in May 2003 and were pleased with its reception. We aim to ensure that all of the feedback received is reflected in the next annual report which will be published later this year.

As in many other companies, CSR is a new concept for most employees. To help increase awareness of it within the group, we have provided all senior managers with training on the subject. The board also receives formal updates on the group's CSR activities. We developed our CSR management structure during the year by allocating local responsibility for CSR issues to senior management within our operating entities.

Our CSR programme aims to ensure that the group is able to monitor, manage and deliver on its obligations to its various stakeholders. Our goals are to:

- Ensure that the health and safety of our employees and third parties, such as visitors to our ports, is not put at risk by our activities
- Provide employees with opportunities for active participation through equal opportunities, access to information and clear and fair terms of employment
- Operate our business with due regard for its potential impact on the environment
- Interact positively 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.

Senior managers reporting to the Group Chief Executive are responsible for the management of the different elements of the group's CSR activities.

Employees
In an effort to improve our overall feedback to employees and goal setting, we redesigned and extended our performance development system to include all employees during the year. This aligned the feedback and objective-setting processes more closely to key indicators, including health and safety. Including manual grade employees on a mandatory basis is intended to improve both feedback and the quality of performance-related information. We believe focusing on front line manual grade employees should also help to improve safety practices.

We improved our internal communication processes by producing annual communication plans for each business unit, including an annual meeting between business heads and their employees, as well as publishing regular local newsletters.

The importance of corporate ethics was emphasised to employees at the time of the distribution of the group's first CSR report. This helped to raise awareness of our aims in this area. We also gathered feedback from a representative selection of employees on the introduction of employee forums to prepare for the new Information and Consultation Directive in 2005.

As part of the development of our CSR management systems, we increased the number of areas on which we collect and monitor employee-related data. In 2004, we intend to further extend the coverage of our systems by gathering data to support the measurement of the diversity of our workforce.

Health and safety
During 2003, the group suffered two work-related fatalities at its UK ports. It was also fined £100,000 in relation to a 2002 incident at the Port of Ipswich. These incidents illustrate why it is so important that the group maintains its commitment to health and safety. Our view is that injuries and cases of ill-health suffered at work are preventable.

Our policies are backed by a very strong commitment from all levels of our business. They were updated and reissued to all UK employees during 2003.

In addition, we developed our procedures for the management of contractors by providing in-house training and running four safety campaigns, the last of which focused specifically on contractors. In October 2003, the Institution of Occupational Safety and Health (IOSH) launched the first independently accredited 'safety induction passport' scheme for cargo-handling contractors in the ports industry, which it developed in partnership with ABP. We will begin rolling out the training programme in 2004 using our IOSH-accredited trainers.

Environment
We have continued to develop our environmental management systems and the application of our policies throughout our business. During the year, we broadened the scope of environmental data collated at head office and extended our management framework to our USA business.

Ongoing risk assessment continues to play an integral part in our environmental management. During 2003, we carried out major risk assessments at all of our UK ports, the findings from which will be incorporated into our management programme for each location. In October 2003, the EU introduced new legislation aimed at improving the management of ship waste. We took advantage of this opportunity to further develop our waste management practices while reviewing and updating port waste-management plans.

We continue to believe that education and awareness lead to improved environmental management. To this end, we launched a major campaign to raise awareness among employees, customers, tenants and other stakeholders of environmental issues and the potential benefits of improved environmental management. The campaign was timed to coincide with the re-launch of our environmental website, which can be accessed at www.abports.co.uk.

Engagement
We were pleased that ProShare recognised our continued focus on communication and engagement by adding our 2002 annual report to the shortlist for its best non-FTSE 100 annual report award.

As part of our 2003 interim report, we conducted a shareholder survey and were pleased to receive more than 1,000 responses. We welcome the views of all of our stakeholders and believe that discussion and debate is key to helping us to understand their needs. Comments received through this process and the feedback received on our 2002 CSR report will be taken into account in the development of future reporting.

Participating in socially responsible indices enables us to benchmark our performance against other companies and provides investors with an independent means of assessing our social responsibility credentials. During 2003, we maintained our membership of FTSE4Good and DJSI STOXX, Dow Jones's sustainability index for European listed companies. We were also pleased to be selected for the Kempen SNS Smaller Europe SRI Index during the year.

Future developments
CSR remains a developing area for our business and we are working to improve our policies and management systems. In our first CSR report, we committed to a range of initiatives and targets against which we have made progress of varying degrees during the year. We will provide full details in our 2003 CSR report and make new commitments based on our experience to date.

Electronic copies of our CSR reports can be obtained from our website at www.abports.co.uk; hard copies of the 2003 CSR report can be ordered using the enclosed form.

Richard Adam
Group Finance Director & Chairman,
CSR Management Committee
18 February 2004

Notice of meeting

The 22nd 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 21 April 2004 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 2003 be received and adopted.

Resolution 2
THAT the remuneration report, as set out on pages 78 to 84 of the Annual Report & Accounts, be approved.

Resolution 3
THAT a final dividend of 8.50 pence per ordinary share of the company be declared.

Resolution 4
THAT Mr A H Simon be re-elected as a director.

Resolution 5
THAT Mr D S Sach be re-elected as a director.

Resolution 6
THAT Mr T J Bowdler be re-elected as a director.

Resolution 7
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 8
THAT the directors be authorised to set the remuneration of PricewaterhouseCoopers LLP as auditors.

Resolution 9
THAT the company be authorised for the purposes of Part XA of the Companies Act 1985 to make Donations to EU Political Organisations and to incur EU Political Expenditure (as such terms are defined in Section 347A of the said Act) up to a maximum aggregate amount of £50,000 over a period of four years ending at the conclusion of the AGM in 2008; provided that the company may enter into a contract or undertaking under this authority before its expiry which would or might be performed wholly or partly after its expiry and may make Donations to EU Political Organisations and incur EU Political Expenditure pursuant to such contract or undertaking.

Resolution 10
THAT the directors be authorised to amend the Rules of the Associated British Ports Share Incentive Plan, the Associated British Ports Executive Share Option Scheme, the Associated British Ports Savings-Related Share Option Scheme, the Associated British Ports Long Term Incentive Plan and the Associated British Ports US and Californian Employee Stock Purchase Plans, as summarised in the Directors' Report, and to do all such acts and things as may be necessary to carry the same into effect.

Resolution 11
THAT the directors be authorised to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £27,498,996 (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 2005, and at any time afterwards, pursuant to any offer or agreement made by the company during that time.

Special resolutions

Resolution 12
THAT, subject to the passing of resolution 11, the directors be empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash and/or where such allotment constitutes an allotment of shares by virtue of Section 94(3A) of the said Act, as if Section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to 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 £4,124,849 (being not more than 5 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 allot shares to complete an offer or agreement made before the expiry date.

Resolution 13
THAT the company be authorised to make one or more market purchases of the company's own shares (see Section 163(3) of the Companies Act 1985) on the London Stock Exchange of up to the lesser of:

(i) 32.9 million ordinary shares of 25 pence each (being 10 per cent of the company's issued ordinary share capital as at 18 February 2004);

(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 AGM in 2005, although the company may still buy shares at any later date in order to fulfil a contract or contracts made before the expiry date.

All of the company's own shares purchased pursuant to said authority shall be either (a) cancelled immediately upon completion of the purchase; or (b) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 1985.

Resolution 14
THAT the Articles of Association in the form produced to the meeting and signed by the Chairman for identification purposes only be adopted as the Articles of the company in substitution for the existing Articles of Association.

By order of the board

Hywel Rees
Company Secretary
150 Holborn
London EC1N 2LR
9 March 2004

Copies of the amended rules of the employee share schemes referred to in Resolution 10 and of the revised Articles of Association referred to in Resolution 14 are available for inspection at the registered office of the company and at the offices at Slaughter and May, One Bunhill Row, London EC1Y 8YY from the date of this notice until the AGM and at the AGM itself from at least 15 minutes prior to the meeting until the conclusion of the meeting.

The register of directors' shareholdings will be available for reference at the AGM. Members entitled to attend and vote at the above meeting are entitled to appoint one or more proxies to attend and on a poll vote instead of them; a proxy need not be a member. To be effective, proxies must be lodged at Computershare Investor Services PLC, Registrars, The Pavilions, Bridgwater Road, Bristol, BS13 8FB, 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 19 April 2004 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 19 April 2004 will be disregarded in determining the rights of any person to attend or vote at the meeting.

Five-year summary

Group profit and loss account

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Group turnover					
Ports and transport – continuing operations	**385.1**	361.8	334.1	291.0	267.9
Ports and transport – discontinued operations	**–**	27.9	29.6	47.9	42.2
Ports and transport	**385.1**	389.7	363.7	338.9	310.1
Property investment	**8.6**	9.3	10.8	15.9	17.9
Property development	**7.6**	30.8	30.9	35.8	23.1
	401.3	429.8	405.4	390.6	351.1
Profit on ordinary activities before interest					
Ports and transport – continuing operations	**154.8**	142.9	137.6	128.6	119.3
Ports and transport – discontinued operations	**–**	3.6	3.0	7.3	7.6
Ports and transport	**154.8**	146.5	140.6	135.9	126.9
Property investment	**6.6**	6.8	8.0	12.6	15.0
Property development	**3.2**	12.0	13.0	11.5	8.2
Share of operating profit in associated undertakings	**12.0**	10.5	8.5	8.4	7.3
Total underlying operating profit*	**176.6**	175.8	170.1	168.4	157.4
Goodwill amortisation	**(0.9)**	(1.6)	(1.5)	(0.8)	(3.8)
Provision for restructuring	**–**	(5.5)	–	–	–
Exceptional items – other	**–**	–	–	(0.8)	–
Goodwill and fixed assets impairment	**–**	–	–	–	(80.2)
Total operating profit	**175.7**	168.7	168.6	166.8	73.4
Profit on disposal of discontinued operations	**–**	7.4	–	14.0	–
Profit on sale of fixed assets	**4.8**	0.7	0.6	2.2	3.3
Profit on ordinary activities before interest	**180.5**	176.8	169.2	183.0	76.7
Net interest payable					
Group	**(34.8)**	(37.3)	(39.9)	(45.8)	(44.9)
Associated undertakings	**(1.5)**	(1.5)	(1.0)	0.2	–
Interest capitalised	**1.3**	1.1	1.2	1.5	1.0
	(35.0)	(37.7)	(39.7)	(44.1)	(43.9)
Profit on ordinary activities before taxation	**145.5**	139.1	129.5	138.9	32.8
Underlying profit before taxation*	**141.6**	138.1	130.4	124.3	113.5

Group financial statistics

	2003	2002	2001	2000	1999
Earnings per share – basic	**31.7p**	30.9p	27.8p	30.6p	0.1p
Earnings per share – underlying*	**31.0p**	30.4p	28.1p	26.3p	23.1p
Dividend per share	**15.25p**	14.75p	13.75p	12.75p	11.50p
Net assets per share	**326p**	308p	294p	285p	262p
Net borrowings as a percentage of equity shareholders' funds	**40.7%**	44.6%	53.1%	45.3%	59.9%

* Before goodwill amortisation, provision for restructuring, exceptional items, goodwill and fixed asset impairment, profit on disposal of discontinued operations and profit on sale of fixed assets.

All comparatives for the years 1999 to 2001 have been restated for the effects of Financial Reporting Standard 19 – Deferred Tax.

Group balance sheet

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Fixed assets					
Intangible assets	**14.5**	15.4	23.9	23.3	10.4
Tangible operating assets	**871.5**	834.0	798.0	744.3	711.9
Tangible property assets	**570.3**	568.8	588.5	614.9	704.0
Investments	**51.8**	50.2	48.0	50.4	35.0
	1,508.1	1,468.4	1,458.4	1,432.9	1,461.3
Property developments and land held for sale	**41.6**	38.3	44.2	29.7	21.8
Net current assets, liabilities and deferred income	**(40.5)**	(47.3)	(35.3)	(49.7)	(36.2)
Net borrowings	**(436.8)**	(450.1)	(508.9)	(440.7)	(542.2)
Net assets	**1,072.4**	1,009.3	958.4	972.2	904.7
Capital and reserves					
Called-up share capital	**82.3**	82.0	81.6	85.2	86.2
Share premium account	**84.1**	77.4	70.9	63.1	57.7
Revaluation reserve	**634.2**	627.9	641.7	642.1	660.9
Other reserves	**37.2**	37.0	37.0	33.9	12.6
Profit and loss account	**234.6**	185.0	127.2	147.9	87.3
Equity shareholders' funds	**1,072.4**	1,009.3	958.4	972.2	904.7

Group cash flow

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Net cash inflow from operating activities	**175.4**	199.1	165.2	191.5	177.6
Dividends received from associated undertakings	**3.4**	2.4	3.6	2.0	1.5
Net interest paid	**(34.7)**	(37.1)	(39.9)	(46.6)	(44.4)
Taxation	**(24.0)**	(25.7)	(28.2)	(14.0)	(26.4)
Gross capital expenditure	**(68.0)**	(76.7)	(62.4)	(88.9)	(64.6)
Sales of fixed assets	**7.3**	3.4	2.1	75.0	64.5
Movement on investment in own shares	**0.9**	1.3	5.6	2.4	(2.6)
Free cash flow	**60.3**	66.7	46.0	121.4	105.6
Acquisitions and disposals	**(1.9)**	29.1	(5.5)	40.9	(2.4)
Equity dividends paid	**(49.3)**	(46.6)	(44.5)	(40.9)	(37.8)
Net cash inflow/(outflow) before financing	**9.1**	49.2	(4.0)	121.4	65.4
Issue of shares	**5.4**	4.8	5.6	3.9	3.7
Repurchase of shares	**(3.7)**	–	(68.3)	(18.4)	(54.2)
New finance leases	**(2.6)**	–	–	–	–
Borrowings on acquisition of subsidiary undertakings	**–**	–	–	(1.6)	–
Currency translation differences	**5.1**	4.8	(1.5)	(3.8)	(0.8)
Net increase/(decrease) in borrowings less cash	**13.3**	58.8	(68.2)	101.5	14.1
Net borrowings at 1 January	**(450.1)**	(508.9)	(440.7)	(542.2)	(556.3)
Net borrowings at 31 December	**(436.8)**	(450.1)	(508.9)	(440.7)	(542.2)

Company information

Associated British Ports Holdings PLC
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Board of directors
Non-executive directors
Ross Sayers (Chairman)[2,3]
Aubrey Adams[1,2,3]
Tim Bowdler[1,2,3]
Stuart Chambers[2,3]
Derek Sach[1,2,3]
Andrew Simon, OBE[1,2,3]

Executive directors
Bo Lerenius (Group Chief Executive)[2]
Richard Adam (Group Finance Director)

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

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

Auditors
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1 Embankment Place
London WC2N 6RH

Brokers
Cazenove & Co. Ltd
20 Moorgate
London EC2R 6DA

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

Investment Bankers
Deutsche Bank AG
Winchester House
1 Great Winchester Street
London EC2N 2DB

Registrars
Computershare Investor Services PLC
PO Box 82
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Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Financial calendar
9 March 2004
2003 Annual Report & Accounts

21 April 2004
Annual General Meeting

30 April 2004
Payment of 2003 final dividend

June 2004
Trading statement – pre-2004 interim results

September 2004
Publication of 2004 interim results

November 2004
Payment of 2004 interim dividend

December 2004
Trading statement – pre-2004 full-year results

February 2005
2004 preliminary results

March 2005
2004 Annual Report & Accounts

Shareholder services
Share dealing services
Computershare Investor Services PLC operate 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.

Cazenove & Co. Ltd, also provide a simple, low-cost, postal share dealing service. Further information, including the necessary forms, can be obtained from Cazenove & Co. Ltd, Share Schemes Department, 3 Copthall Avenue, London EC2R 7BH.
T +44 (0)20 7606 1768

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

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

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

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

Where we do business...

Ports & transport – UK

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Port Director: Doug Morrison

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Ports & transport – UK

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Port Director: Budha Majumdar

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Deputy Port Manager:
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Deputy Port Manager:
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Shortsea Ports
Port Director: Nick Palmer

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Port Manager:
Alastair MacFarlane

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Port Manager: Steven Young

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Port Manager: Robert Smith

ABP King's Lynn
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Port Manager: Nick Ridehalgh

ABP Lowestoft
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Port Manager: Nick Ridehalgh

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Port Manager: Colin Greenwell

ABP Teignmouth
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Port Manager: Colin Greenwell

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Managing Director: Ian Townend

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Managing Director:
Richard Brough

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General Manager: Ray Wolfe

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General Manager, West Coast: Jimmy Triplett

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Group Property Director:
Phillip Williams

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The group's share price ended the year at 449 pence

Our one, three and five-year total shareholder return at 31 December 2003 was 17, 37 and 97 per cent, respectively

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