FORTH PORTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2019

Registered number: SC134741

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CONTENTS | **PAGE**

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COMPANY INFORMATION

DIRECTORS	Lord Smith of Kelvin (Chairman) Charles Hammond Carole Cran Stuart Wallace Richard Chang Patrick Samson (Alternate) Patrick Charbonneau Stephen Kynaston Simon Davy Stewart Oades Michael Bryan Azhar Abidi
GROUP COMPANY SECRETARY	Pamela Smyth
REGISTERED OFFICE	Forth Ports Limited 1 Prince of Wales Dock Edinburgh Midlothian EH6 7DX
REGISTERED NUMBER	SC 134741
INDEPENDENT AUDITOR	Deloitte LLP Statutory Auditor 110 Queen Street Glasgow G1 3BX
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BANKERS	Lloyds Banking Group PLC New Uberior House Third Floor 11 Earl Grey Street Edinburgh EH3 9BN

FORTH PORTS LIMITED

STRATEGIC REPORT

Purpose

At Forth Ports, we do so much more than simply manage cargo. We are intrinsically connected to the long term success of the local and nationwide economies in which we operate. We work efficiently and effectively recognising that the commodities we handle allow economies to thrive and trade, and enhance the quality of life of many people in the UK and countries around the world.

Our people are at the heart of our purpose. We are motivated, dedicated, loyal and go the extra mile to find solutions and solve problems for our customers. Working as a team, we take pride in the communities we serve and strive for sustainability in all that we do.

Strategy

Our strategy is to invest in our ports and supply chain solutions for our customers through our people, infrastructure, skills and commercial networks in order to generate value for the business.

Values

	Our Core Values are at the heart of everything we do
Safe	An essential part of doing the job is doing it safely. It is a basic human value to care about others and we embed a SAFETY F1RST culture.
Collaborative	Our strength is in our teamwork allowing us to work faster and more effectively. We apply our resources to bring business solutions across the Group.
Progressive	We continually improve by being agile and challenging in what we do. We will drive the right results in all that we do both internally and externally.
Genuine	We are open, honest and ethical in everything we do. This underpins our professionalism.
Dependable	We are a trusted partner delivering the right solutions for everyone. We keep our promises by taking ownership individually and collectively.

The global COVID-19 pandemic

This Annual Report was prepared at a time of unprecedented uncertainty due to the global COVID-19 pandemic. Whilst this did not affect the financial performance for the year ended 31 December 2019 it is clearly important to explain to users of the Annual Report how we have responded as a business.

The vast majority of goods by volume that are imported and exported from the UK are moved by sea, and as the third largest ports group in the UK, Forth Ports Group plays an essential role in ensuring that staple products such as food, fuel and medical supplies reach people, especially those that are in particular need at this time.

Paramount to our operations are our people and their health and safety, both land and marine side. First and foremost we have complied with government guidelines, ensuring that the wide variety of tasks that are undertaken on a daily basis have been modified as required to accord with the guidance. In addition, the business is providing support to all its employees to ensure they can continue to work either in the ports or remotely, with those whose roles permit them to working from home. For colleagues in key operational roles, we have strict safety, hygiene and two metre social distancing measures. We have also taken steps to protect our colleagues who are considered most vulnerable across the Group.

The business has also been working closely with customers and suppliers to ensure that where possible service levels and payment practices continue on a 'business as usual' basis and liaising with government to ensure that the industry perspective and needs are considered in policy decision making. Our ports and marine teams remain operational and we are grateful to the efforts our whole workforce are making as well as our supply chain partners who support us.

Principal Activities

The principal activities of Forth Ports Limited (the Company) together with its subsidiaries (the Group) are the provision of port facilities and ancillary services across eight sea ports in the United Kingdom, as well as being the Statutory Harbour Authority for the Forth and Tay estuaries in Scotland.

The Group has extensive property interests, the vast majority of which are used for customers as well as port operations. Any land that is not required for port-related activity is kept under review to determine uses which can deliver sustainable returns to the Group.

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Forth Ports Limited and its subsidiary undertakings when viewed as a whole.

Performance Review

The Group revenue for the year was £238.5m which represents 5.6% growth on 2018. Gross profit was £115.0m, up £13.5m or 13.3% on 2018. Profits grew faster than revenue, benefiting from good cost control and the mix effect of a decrease in lower margin operations such as container handling, the sale of land in Leith as well as cost efficiency improvements achieved.

Administrative expenses, before exceptional items and revaluations, were £25.1m, up £0.5m or 2.0% on 2018, principally due to inflationary increases on certain core costs. In the current year, exceptional costs of £5.2m were incurred (explained further below), taking total administrative expenses to £30.3m.

Group operating profit, before exceptional items and revaluations, was £89.9m, up £8.8m or 10.8% on 2018, with the operating profit margin increasing to 37.7% from 35.9% in 2018 reflecting the aforementioned mix of operations and costs. Total Group operating profit was £102.3m, up £4.0m or 4.0% in 2018 reflecting a £17.6m investment property revaluation in 2019 compared to £21.4m in 2018.

Finance income was £18.7m in 2019, up from £17.6m in the previous year. The finance income is mainly due to Group interest receivable on inter-company loans with the immediate parent, Otter Ports Limited. Finance costs before revaluations were £27.7m, up £2.0m on 2018, due to increased borrowing facilities during the year, with total finance costs at £34.6m reflecting net losses on interest rate and cross currency swaps (explained further below).

Profit before tax, exceptional items and revaluations for the year, was £81.0m, £7.7m or 10.5% higher than last year.

The tax charge for the Group in 2019, excluding the impact of exceptional items and revaluations, was £15.9m, up on £13.6m last year, bringing the effective tax rate to 19.6% (2018 – 18.5%). Total tax charge for the year was £15.8m, representing an effective tax rate of 18.2% (2018 – 17.2%).

The following revaluation items (Note 7) recognised in the Group Income Statement relate to:

- £17.6m being the change in fair value of investment properties (2018 - £21.4m);
- losses recognised on interest rate swaps were £5.1m (2018 – gain of £8.1m) as well as a loss on cross currency hedges of £3.1m (2018 – gain of £8.2m); and
- the retranslation gain on the Series A US $ loan notes of £5.5m (2018 – loss of £7.5m), which was offset by a one-off gain of £2.6m arising on the amendment of the Group's bank facilities during the year.

The main exceptional items (Note 7) recognised in the Group Income Statement relate to:

- the re-measurement of the discount rate on the Pilots National Pension Fund (PNPF) provision of £1.1m (2018 - £0.2m);
- costs of £1.1m in relation to replacement tug hire costs due to damage caused to the Group's own vessel;
- £5.7m loss on a gilt lock which was put in place as part of the new PP fundraising issued in the year; and
- Long Term Incentive Plan (LTIP) charge of £1.9m (2018 – nil).

The tax effect of these exceptional items and revaluations was a credit of £0.1m (2018 – charge of £3.4m).

Profit after tax for the year at £70.7m (2018 - £81.8m) and the profit for the year of the Company was £59.0m (2018 - £65.3m).

Financial Position

In terms of the Group's financial position, as reflected in the Balance Sheet at 31 December 2019, the significant year on year changes are as follows:

- Increase in property, plant and equipment (PPE) of £117.8m due to additions of £124.0m (which primarily related to the investment in the expansion of the Port of Tilbury (Tilbury2), which will be operational in 2020), the recognition of £12.6m right-of-use assets (on adoption of IFRS 16 Leases) and net transfers from other asset categories of £6.2m in the year being offset by depreciation of £24.6m and net disposals of £0.4m.
- Investment properties increased in value by £19.7m in the year, due to additions of £7.0m and a revaluation uplift of £21.0m, primarily at Tilbury, offset by net transfers out of £6.6m and disposals of £1.7m;
- Trade and other receivables increased by £23.2m. This is mainly due to increased accrued income reflecting deferred consideration from the sale of Waterfront Plaza, and an increase in the amount due by the parent company of £16.7m due to interest charged on the indebtedness;
- Cash and cash equivalents held at the end of the year were £110.7m, an increase of £85.5m in the year reflecting additional borrowing facilities raised (explained further below);
- The total value of derivative financial instruments, both current and non-current, reduced by £8.3m as a result of the movement in the mark to market value of interest rate and cross currency hedges;
- Borrowings increased in the year reflecting the additional loan notes secured and drawdown during the year (explained further below), the drawdowns from the City of Edinburgh Council in relation to Harbour Gateway, offset by the repayment of the revolving credit facility and a gain on the translation of the Series A loan notes at the year end;
- Current trade and other payables increased by £4.2m principally due to reflecting current lease liabilities of £2.8m; and
- Retirement benefit obligations increased by £3.9m to £52.6m, with the increase in the value of assets held (£56.0m) being more than offset by the net increase in the value of liabilities (£59.9m). The impact of the decrease in discount rate and other financial assumptions were partially offset by changes in the demographic assumptions reflecting the Forth Ports Group Pension Scheme's (the FP Scheme) actual experience.

The value of shareholder's equity at 31 December 2019 was £451.9m, up from £394.4m last year.

Liquidity and Going Concern

To fund the completion of the expansion of Tilbury2 and other investment opportunities assumed in the Group's strategic five year plan, the Group successfully completed a further issuance to the Private Placement market during 2019, raising an additional £300m of loan notes (drawdown of £90m of which was deferred until July 2020). In addition to which, the bank facilities were refinanced for a further five years.

This takes the Group lending facilities to £905m, with the earliest maturity being £160m in December 2023. These facilities are a combination of £675m of US Private Placement Loan Notes which mature in 2023, 2026, 2029, 2031 and 2037 and £320m of bank facilities consisting of a term loan of £220m, a revolving credit facility of £95m and a £5m limit on the Group's overdraft and corporate credit card facilities, which mature in July 2024. In addition there are £30m of facilities relating to the National Housing Trust property developments at Harbour Gateway and Harbour Point.

The Group's current five year plan was approved by the Board of Directors in December 2019 and whilst this approval process was cognisant of the risks and opportunities that could impact the delivery of the plan it did not anticipate the potential effect of the COVID-19 pandemic. From the platform of a strong and stable level of trading in Q1 2020 and tight control over capital expenditure and discretionary spend, various sensitivities have been applied to the 2020 budget and forecasts with a central case which anticipates a severe downturn in Q2 (in line with current OBR forecasts) and modelled a deterioration in debtors' days with a level of recovery in the second half of the year, noting that it is anticipated that certain markets will take longer to return to normal levels. In addition, forecasts were stress tested assuming a more dramatic and prolonged reduction in volumes and earnings; whilst the impact of COVID-19 is not yet clear, the modelling showed that the Group would remain profitable over the next 12 months and there is considerable headroom in lending facilities and covenants which underpins the going concern assumption on which these financial statements have been prepared. We will closely monitor cash conversion and covenants over this period with a number of further mitigating actions including delay in capex spend and deferral of discretionary dividend payments within the control of the Company.

The Group also handles a broad spread of basic commodities in different areas for a large number of different customers. This breadth is important in meeting unexpected and serious levels of business disruption.

Dividend

A £5m dividend was paid during the year (2018 - £27.4m).

Key Performance Indicators

The Board uses the annual budget as the base for measuring the Group's performance. Financial and non-financial targets are set for individual senior managers and for the businesses within the Group. At the Annual Strategy Review in quarter four, the Board considers the financial projections over a five year time horizon. The overarching aim is to sustainably increase the value of the Group.

The KPIs which are used to measure this increase in value are:

- Health and safety record, measured by Accident Incidence Rate[1] compared to industry average (2019 - 0.68);
- Group EBITDA[2];
- Growth in the value of port assets (page 4);
- Growth in value of investment properties (Note 15); and
- Distributions to shareholders (page 5).

In addition to the above KPIs the Board is also tracking those employees impacted by COVID-19, to monitor the availability of key workers to ensure the flow of the most critical goods through the ports.

Stakeholder Engagement and Section 172 Statement

The Board is aware of its responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006 and, in describing the relationships between Forth Ports and its key stakeholder groups, the Board has taken into consideration the Financial Reporting Council guidance on this matter. By focussing on our purpose and values along with our strategic priorities, we consider our employees, customers, suppliers, local communities and other stakeholders whilst delivering long-term sustainable growth for our investors.

The Group's main stakeholders, their expectations and how the Board responds to them are explained as follows:

Stakeholder expectations	How the Board responds
Employees Forth Ports employs over 1,000 people directly. The vast majority of the workforce are on the quayside loading and unloading vessels or directly supporting these teams, handling a diverse range of cargoes for our many customers.	
• Safe working conditions • Fair terms and conditions • Job security • Regular communication	• COVID-19 response; • Continuous improvement of health and safety practices; • Training centres in Grangemouth and Tilbury; • Well funded Defined Benefit pension scheme; • Consideration of impact of decisions on employees (such as working practices to be implemented at Tilbury2); • Views of employees and wider workforce are considered – these are obtained via CEO briefings, local port/asset employee meetings; • Publication of our Gender Pay Gap Report for 2019; • Range of development opportunities available including Apprenticeship and Graduate programmes; • Charitable and community projects.
Customers Forth Ports supports over 500 domestic and international customers that are linked existentially to the growth and the success of each of its ports.	
• Trusted long-term partnerships • High and consistent levels of operational efficiency • Flexibility	• Alignment of our business with customer needs, such as investment at Tilbury2, warehousing at Grangemouth and Dundee; • Service level agreements are monitored and customer feedback taken into consideration when developing new facilities (such as the new agri-hub at Rosyth) and service offerings (e.g. Track Your Container online); • Customer meetings, events and attendance at key industry conferences; • Support of a number of European customers in preparing for Brexit.

[1] Accident Incidence Rate (AIR) is number of RIDDOR injuries divided by average employees multiplied by 100
[2] EBITDA is earnings before interest, tax, depreciation and amortisation

Stakeholder Engagement and Section 172 Statement (continued)

Suppliers and Contractors A wide range of suppliers, contractors and advisors supporting our operational and investment plans.	
• Trusted long-term partnerships • Fair terms and conditions • On time payment	• Supplier performance management – dedicated procurement team focus on developing and managing supplier relationships, including regular account review meetings; • CIPS certification; • Modern Slavery – details of efforts we have made to combat modern slavery are detailed in our 2019 Modern Slavery Statement which can be found on our website www.forthports.co.uk.
Communities and other stakeholders Encompassing our neighbours in the communities where our ports are to local, national and UK wide private and public bodies.	
• Jobs and investment • Compliance with regulation and legislation • Good neighbours, operating safely • Actively help and support local communities • Protection of the environment and heritage	• Development of Tilbury2 – job creation during the construction phase and once operational; • Early and transparent consultation with the local communities as part of significant developments such as London Distribution Park, Tilbury2 and the National Housing Trust property development in Leith; • Creation of Tilbury on the Thames Trust to develop and grow a number of community engagement projects linking the International Cruise Terminal with the communities of Tilbury and the wider Thurrock area, including the Tilbury Carnival; • In the short to medium term provision to veterans and their families with the skills required to obtain long term employment, with a primary focus on the logistics industry; • Charitable and community projects.
Shareholders The owners of the business who are a number of UK and international pension funds.	
• Clear strategy and strong execution • Financial discipline • Sustainable growth and regular dividends to match pension liabilities our shareholders are managing • Protection of Group's reputation	• Board decisions are made with the long-term success of the Group in mind; • Active and ongoing dialogue with shareholder representatives who sit on the Board; • Regular board meetings including review of key operational, commercial and financial matters as well as specific meetings to review Markets and Risk, Five Year Strategic Plan and Budget; • Refinancing of business completed in 2019; • Regular dividend payments.

Principal Business Risks and Uncertainties

The Group has extensive risk identification and mitigation processes. This output from these processes are combined in a consolidated group-wide risk register. Annually the most significant risks the Group faces are reviewed by the Audit & Risk Committee and presented by the Executive Directors for approval at the Board. As the position around COVID-19 outbreak continues to evolve, our primary concern is for the welfare of our people, their families and the communities in which we operate. We have followed the advice from the Government at all times and taken action to protect our people and our operations. The impact on our business will depend on the severity and duration of the pandemic, with the potential to negatively impact our operations and we are taking action to mitigate possible consequences. These risks and how we mitigate them can be summarised under the following headings:

Political/Economic

The ports industry tends to be very resilient in terms of economic shocks but is not immune to changes in GDP. The key risk in this regard is the impact of the COVID-19 pandemic. This has the potential to impact on the UK's trade patterns as well as economic growth across the UK leading to a short term impact on trading performance or potentially a more structural change in the case of COVID-19, however, it is too early to know if this will be the case.

The above said, the Group's ports are well located, in particular Tilbury, with its proximity to London, and Grangemouth in Central Scotland, which means they are well positioned for changes in trade flows and have the infrastructure in place to respond to such changes. More broadly all of our ports are accustomed to handling a diverse and changing range of commodities and have the resources in place to respond to potential changes in trade patterns and flows. In addition, the Group has a diverse customer base, a great number of which have been customers for a number of years and a significant portion of which have long term commitments to the Group in the form of property leases and/or minimum volume guarantees which gives security to the Group's revenues and profits.

There is a wide range of legislation and regulation that applies to the operations of the business and whilst we actively monitor any potential changes that may impact the running of the business there is a risk that a future change could restrict operations/the potential for growth. We manage this risk by ensuring that we operate effectively within current frameworks and by working proactively with policy setting bodies to understand the impact of any planned changes.

Principal Business Risks and Uncertainties (continued)

Customers/Competition

The majority of the Group's customers have long-term contractual agreements and relationships and there is always a risk that, when these contracts expire, they may not be renewed although this is seldom the case. To mitigate against the risk of customers moving to competitor ports, the Group manages this by negotiating any renewals early and providing high operational service levels and generally maintaining good relations with key customers.

Environment and Operations

Forth Ports Limited and Port of Dundee Limited are Statutory Harbour Authorities and have responsibilities in the event of a marine incident in the Firth of Forth or Firth of Tay and maintaining an emergency response centre should such an incident occur. Our capability in this area is tested each year by a major "dry-run" exercise as well as an external audit of our procedures each year, which is reviewed and approved by the Board of Directors.

Due to the nature of the Group's operations there is the risk of a major accident or fatality. The Group's safety record, which is measured by the industry recognised 'Accident Incident Rate (AIR)', continues to be better than industry averages. This risk is taken extremely seriously by the Board and is managed by regular and ongoing engagement with employees using different forms of communication including face to face briefings, online and classroom training and bulletins, with the support and guidance of our in house Health & Safety Team. The Safety First programme is key to our operations and engages all of our workforce in aiming to deliver the safest possible working environment.

The nature of ports is such that operations are reliant on key pieces of infrastructure including quaysides, lock gates, major equipment (cranes, sennebogens, straddle carriers, etc.) and warehousing. There is always a risk of a failure of a major piece of infrastructure and the impact that might have on the business. To mitigate this risk the Group invests in comprehensive maintenance and upgrade programmes, managed by experienced engineering teams located at each of our major ports.

As well as the risk to our physical infrastructure the business faces the risk associated with a cyber security breach. This risk is managed with continued investment in appropriate resilience and recovery measures as well as a comprehensive employee training programme to raise awareness and defend against malicious attacks.

Future Developments

The Group's plans for the future are focussed on developing the core port operating assets whilst seeking to maximise any value that can be generated from any non-port operational land. At a strategic level, there is a strong investment pipeline tailored to market demand, the most significant of which are as follows:

- Complete the construction of the expansion of the Port of Tilbury (Tilbury2) for the first phase of operational readiness by the first half of 2020. This will enable significant growth in Ro-Ro activities and establish Tilbury's position as the leading construction materials hub in the UK;
- On the back of the investment in the quayside at Dundee, and existing infrastructure at Leith and Rosyth, secure further North Sea decommissioning and offshore renewables contracts; and
- Given plan to exit from the EU, opportunities to develop facilities around ports including consideration of the potential for the release of further land adjacent to the Port of Tilbury.

BY ORDER OF THE BOARD

Carole Cran
Director

28 April 2020

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of Forth Ports Limited for the year ended 31 December 2019. With the exception of the outbreak of COVID-19 which is discussed in the Strategic Report, there have been no significant events since the balance sheet date.

Company Registration

The Company is registered in Scotland as number SC 134741. The Company is incorporated and domiciled in Scotland and is 100% owned by Otter Ports Limited, which is ultimately controlled by Public Sector Pension Investment Board.

Dividend

Details of dividends can be found in the Strategic Report on page 5.

Future Developments

An indication of likely future developments in the business of the Group is included in the Strategic Report on page 7.

Directors

The Directors of the Company who were in office during the year, and up to the date of signing the financial statements, unless otherwise stated were:

Lord Smith of Kelvin (Chairman)
Charles Hammond
Carole Cran
Stuart Wallace
Richard Chang
Patrick Samson (Alternate)
Patrick Charbonneau
Stephen Kynaston
Simon Davy
Stewart Oades (appointed 18 October 2019)
Michael Bryan (appointed 4 November 2019)
Simon Beer (resigned 31 December 2019)
Diana Callebaut (resigned 17 January 2020)
Azhar Abidi (appointed 11 February 2020)

Indemnification of Directors

The Company has made qualifying third party indemnity provisions for the benefit of its Directors and the Directors of its subsidiaries which were made during the year and remain in force at the date of this report.

Employee Engagement

The general policy of the Group is to welcome employee involvement as far as it is reasonably practicable. Employees are kept informed by meetings, newsletters and notices. Consultation and communication takes place through structured meeting groups and employee representatives as appropriate. Further commentary on consideration of employee engagement is covered in the Strategic Report on page 5.

Business Relationships

The Group's consideration of business relationships is covered in the Strategic Report on pages 5 and 6.

Disabled Persons

The Group provides Occupational Health Services in-house which play a significant part in monitoring the health of employees and ensuring that those members of staff who experience long-term illness or disability receive the appropriate support to secure their return to work. Where their return to work is possible the Group has well-developed procedures to ensure the employee continues to play a productive role within the Group. These procedures are evidenced by the number of employees who remain in employment with disabilities or a restricted capacity to carry out their normal duties. The Group continues to fully endorse the aims of the Disability Discrimination Act and our internal procedures ensure compliance at all locations.

Modern Slavery

The Group has taken steps to ensure that modern slavery and human trafficking is not present within its own business and its supply chain. Forth Ports has produced a Modern Slavery Statement (available on www.forthports.co.uk) which sets out its approach and the activities that will be implemented to ensure compliance with the Act. The Group has also set standards that it expects its suppliers to adhere to in its responsible procurement policy and introduced clauses in its standard contract forms for new contracts to ensure suppliers are able to demonstrate compliance with the Act.

In May 2018, the Group received a certificate of achievement in Corporate Ethical Procurement & Supply from the Chartered Institute of Procurement & Supply ('CIPS'), which has been, and will continue be, renewed annually and with all procurement staff to be recertified on this basis. As a result of this, we are also listed on the CIPS Ethical Register.

The Modern Slavery statement details the steps Forth Ports will be taking going forward to comply with the Act, which focus on ongoing training. We are committed to ensuring our staff understand and are compliant with our approach to preventing modern slavery and human trafficking. The Group has provided the following training and communication on our Modern Slavery Statement:

- The CEO has written to every employee stressing our commitment to preventing modern slavery and human trafficking – a copy of this letter is issued to every new start;
- All new employees, agency workers and contractors are briefed on our Modern Slavery Statement, which is available on our website;
- All leadership roles and those that are involved in procurement activities on behalf of the Company have completed an e-learning module to ensure a high level of understanding of the risks of Modern Slavery and Human Trafficking in our supply chain and business, alongside the relevant policies;
- Briefing slides issued to relevant employees; and
- During the year, all employees were reminded, via a group-wide poster campaign, on how to report any suspicion of Modern Slavery in our supply chain.

Financial Risk Management

<u>Financial Risk Factors</u>

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

Risk management is carried out by the central finance function (Group Finance), operating under policies approved by the Board of Directors. Group Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Note 25 (Borrowings) gives details of the Group's sensitivities to financial risks.

<u>Foreign Exchange Risk</u>

The Group has relatively little exposure to foreign exchange risk other than in respect of US$ denominated loan notes, where cross currency swaps are in place to fix the interest and principal repayments. Where appropriate, entities in the Group use forward contracts, transacted by Group Finance, to hedge their exposure to foreign currency risk in connection with the measurement currency. Where appropriate, the Group hedges the foreign currency exposure of its contract commitments.

Interest Rate Risk

The Group borrows at variable rates and may use interest rate swaps as cash flow hedges of future interest payments, which have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly half yearly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

Credit Risk

The Group's policy is to check that Port customers have an appropriate credit history prior to setting approved limits. The Group also ensures that property sales are covered by either controlled release of land plots in exchange for cash, fixed charge securities or bank bonds. Derivative counter-parties and cash transactions are limited to quality financial institutions. Refer to Note 20 where provisions for credit losses are disclosed.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Finance aims at maintaining flexibility in funding by keeping committed credit lines available. Refer to the following table for an analysis of the expected undiscounted cash repayment profile of the Group's financial liabilities and derivative instruments:

	< 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m
As at 31 December 2019					
Trade and other payables	38.6	-	-	-	38.6
Derivative financial instruments:					
- Interest rate swaps	4.3	4.5	12.0	10.1	30.9
- Cross currency swaps	(1.9)	(1.9)	(20.0)	2.1	(21.7)
- Fuel swap	0.9	0.8	-	-	1.7
Provisions	2.3	1.8	5.8	8.7	18.6
Borrowings	29.8	29.8	516.9	336.4	912.9
	74.0	35.0	514.7	357.3	981.0

	< 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Total £m
As at 31 December 2018					
Trade and other payables	33.2	-	-	-	33.2
Derivative financial instruments:					
- Interest rate swaps	5.4	5.0	11.9	3.5	25.8
- Cross currency swaps	(1.9)	(1.7)	(23.0)	-	(26.6)
- Fuel swap	0.9	-	-	-	0.9
Provisions	2.2	1.8	5.6	10.7	20.3
Borrowings	23.5	23.5	488.6	287.7	823.3
	63.3	28.6	483.1	301.9	876.9

The expected maturity of financial assets, other than derivative assets (cross currency swaps) shown above, is the same as the contractual maturity per the Balance Sheet.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group has the authority to return capital to shareholders. It may issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is £735.1m and is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated Balance Sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated Balance Sheet (£451.9m).

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each Balance Sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. Refer to Notes 23, 25 and 26. Other than in respect of borrowings, there is no difference between the fair value and the book value of these liabilities. The fair value of borrowings is not considered to be materially different to book value.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Going Concern

The Group's business activities, financial performance, cashflows, borrowings and liquidity position together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 7.

After making appropriate enquiries, the Directors have concluded that the Group will be able to meet its financial obligations for the foreseeable future and therefore have a reasonable expectation that the Company and the Group overall have adequate resources to continue in operational existence for the foreseeable future (being at least one year following the date of approval of these financial statements and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements.

Auditor

Each Director, as at the date of this report, has confirmed that, insofar as they are aware, there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group's auditor is unaware and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

Pamela Smyth
GROUP COMPANY SECRETARY

28 April 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTH PORTS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements of Forth Ports Limited (the Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group Statement of Cash Flows; and
- the related notes 1 to 38.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Colin Gibson CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

28 April 2020

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Before Exceptional Items and Revaluations £m	Exceptional Items and Revaluations £m	Total 2019 £m	Before Exceptional Items and Revaluations £m	Exceptional Items and Revaluations £m	Total 2018 £m
Group revenue	4,5	238.5	-	238.5	225.8	-	225.8
Cost of sales	6,7	(123.5)	-	(123.5)	(120.1)	(4.2)	(124.3)
Gross profit		115.0	-	115.0	105.7	(4.2)	101.5
Administrative expenses	6,7	(25.1)	(5.2)	(30.3)	(24.6)	-	(24.6)
Other income	7	-	17.6	17.6	-	21.4	21.4
Group operating profit	6,7	89.9	12.4	102.3	81.1	17.2	98.3
Share of results of joint venture	17	0.1	-	0.1	0.3	-	0.3
Finance income	10	18.7	-	18.7	17.6	-	17.6
Finance costs	7,11	(27.7)	(6.9)	(34.6)	(25.7)	8.3	(17.4)
Profit before tax	6,7	81.0	5.5	86.5	73.3	25.5	98.8
Tax on profit	7,12	(15.9)	0.1	(15.8)	(13.6)	(3.4)	(17.0)
Profit for the year		65.1	5.6	70.7	59.7	22.1	81.8
Loss attributable to non-controlling interest		(0.1)	-	(0.1)	(0.1)	-	(0.1)
Profit attributable to equity shareholder		65.2	5.6	70.8	59.8	22.1	81.9
		65.1	5.6	70.7	59.7	22.1	81.8

All activities relate to continuing activities.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £m	2018 £m
Profit for the year		70.7	81.8
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation of investment property transferred from operational land and buildings	15	3.4	2.6
Deferred tax on revaluation of investment property	29	(0.2)	(0.2)
Actuarial (loss)/gain on defined benefit pension schemes	30	(16.4)	8.2
Deferred tax on actuarial (loss)/gain	21	3.1	(1.6)
Corporation tax on excess pension contribution		2.4	-
Deferred tax on excess pension contributions	21	(2.4)	-
Effect of tax rate change for deferred tax on defined benefit pension schemes	21	0.0	0.2
Other comprehensive (expense)/income recognised directly in equity, net of tax		(10.1)	9.2
Total comprehensive income for the year		60.6	91.0
Attributable to:			
Non-controlling interest		(0.1)	(0.1)
Equity shareholder		60.7	91.1
		60.6	91.0

BALANCE SHEETS

AS AT 31 DECEMBER 2019

	Notes	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
ASSETS					
Non-current assets					
Property, plant and equipment	14	523.8	406.0	99.6	82.6
Investment property	15	435.4	415.7	102.0	100.8
Intangible assets	16	56.3	58.2	2.4	2.7
Investment in subsidiaries	18	-	-	228.8	228.8
Derivative financial assets	26	20.1	23.2	20.1	23.2
Deferred tax assets	21	8.9	8.3	8.9	8.3
		1,044.5	911.4	461.8	446.4
Current assets					
Inventories	19	5.6	9.1	0.8	0.8
Trade and other receivables	20	341.0	317.8	968.9	893.9
Derivative financial assets	26	1.9	1.9	1.9	1.9
Cash and cash equivalents	22	110.7	25.2	109.0	24.0
		459.2	354.0	1,080.6	920.6
LIABILITIES					
Current liabilities					
Trade and other payables	23	(38.6)	(34.4)	(689.3)	(515.1)
Current tax liabilities	24	(5.6)	(5.0)	(3.4)	(0.7)
Derivative financial instruments	26	(4.3)	(5.4)	(4.3)	(5.4)
Provisions	27	(2.3)	(2.2)	(1.6)	(1.6)
		(50.8)	(47.0)	(698.6)	(522.8)
Net current assets		408.4	307.0	382.0	397.8
Total assets less current liabilities		1,452.9	1,218.4	843.8	844.2
Non-current liabilities					
Borrowings	25	(845.8)	(687.7)	(210.6)	(263.5)
Derivative financial instruments	26	(25.7)	(19.4)	(25.7)	(19.4)
Provisions	27	(14.6)	(15.4)	(13.6)	(14.4)
Trade and other payables	28	(9.2)	(1.2)	(1.7)	(1.2)
Deferred tax liabilities	29	(53.1)	(51.6)	(3.8)	(3.1)
Retirement benefit obligations	30	(52.6)	(48.7)	(52.6)	(48.7)
		(1,001.0)	(824.0)	(308.1)	(350.3)
Net assets		451.9	394.4	535.8	493.9
SHAREHOLDER'S EQUITY					
Share capital	31	23.1	23.1	23.1	23.1
Fair value and other reserves		5.6	5.6	52.0	52.0
Retained earnings		423.8	366.2	460.7	418.8
Total shareholder's equity		452.5	394.9	535.8	493.9
Non-controlling interest in equity		(0.6)	(0.5)	-	-
Total equity		451.9	394.4	535.8	493.9

As permitted by Section 408 of the Companies Act 2006, the Company's Income Statement is not shown separately in these financial statements. The profit for the financial year was £59.0m (2018 - £65.3m).

The financial statements on pages 16 to 61 were approved and authorised for issue by the Board of Directors on 28 April 2020 and signed on its behalf by:

Charles Hammond
Director

Carole Cran
Director

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company			Non-controlling interest	Total Equity
	Share capital £m	Fair value and other reserves £m	Retained earnings £m	£m	£m
Group					
Balance at 1 January 2018	23.1	5.6	315.3	(0.4)	343.6
Revaluation on transfer of investment property (Note 15)	-	-	2.6	-	2.6
Deferred tax on revaluation of investment property (Note 29)	-	-	(0.2)	-	(0.2)
Actuarial gain on defined benefit pension scheme (Note 30)	-	-	8.2	-	8.2
Deferred tax on actuarial gain (Note 21)	-	-	(1.6)	-	(1.6)
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)	-	-	0.2	-	0.2
Other comprehensive income recognised directly in equity	-	-	9.2	-	9.2
Profit for the year	-	-	81.9	(0.1)	81.8
Total comprehensive income for the year	-	-	91.1	(0.1)	91.0
Gain on transition to IFRS 9 (Note 25)	-	-	4.4	-	4.4
Impairment provision on transition to IFRS 9 (Note 20)	-	-	(17.2)	-	(17.2)
Dividends paid (Note 13)	-	-	(27.4)	-	(27.4)
Balance at 31 December 2018	23.1	5.6	366.2	(0.5)	394.4
Revaluation on transfer of investment property (Note 15)	-	-	3.4	-	3.4
Deferred tax on revaluation of investment property (Note 29)	-	-	(0.2)	-	(0.2)
Actuarial loss in defined benefit pension scheme (Note 30)	-	-	(16.4)	-	(16.4)
Deferred tax on actuarial loss (Note 21)	-	-	3.1	-	3.1
Other comprehensive income recognised directly in equity	-	-	(10.1)	-	(10.1)
Profit for the year	-	-	70.8	(0.1)	70.7
Total comprehensive income for the year	-	-	60.7	(0.1)	60.6
LTIP shares – capital contribution	-	-	1.9	-	1.9
Dividends paid (Note 13)	-	-	(5.0)	-	(5.0)
Balance at 31 December 2019	23.1	5.6	423.8	(0.6)	451.9

Fair value and other reserves relates to a special reserve of £5.6m. The special reserve arose from the reduction in share capital in 1995. The purpose of this reserve is to maintain the Company's capital.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Share capital £m	Fair value and other reserves £m	Retained earnings £m	Total equity £m
Company				
Balance at 1 January 2018	23.1	52.0	419.5	494.6
Actuarial gain on defined benefit pension scheme (Note 30)	-	-	8.2	8.2
Deferred tax on actuarial gain (Note 21)	-	-	(1.6)	(1.6)
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)	-	-	0.2	0.2
Other comprehensive income recognised directly in equity	-	-	6.8	6.8
Profit for the year	-	-	65.3	65.3
Total comprehensive income for the year	-	-	72.1	72.1
Gain on transition to IFRS 9 (Note 25)	-	-	4.4	4.4
Impairment provision on transition to IFRS 9 (Note 20)	-	-	(49.8)	(49.8)
Dividends paid (Note 13)	-	-	(27.4)	(27.4)
Balance at 31 December 2018	23.1	52.0	418.8	493.9
Revaluation on transfer of investment property (Note 15)	-	-	(0.3)	(0.3)
Actuarial loss on defined benefit pension scheme (Note 30)	-	-	(16.4)	(16.4)
Deferred tax on actuarial loss (Note 21)	-	-	3.1	3.1
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 21)			(0.1)	(0.1)
Other comprehensive expense recognised directly in equity	-	-	(13.7)	(13.7)
Profit for the year	-	-	59.0	59.0
Total comprehensive income for the year	-	-	45.3	45.3
LTIP shares – capital contribution	-	-	1.6	1.6
Dividends paid (Note 13)	-	-	(5.0)	(5.0)
Balance at 31 December 2019	23.1	52.0	460.7	535.8

The fair value and other reserves are non-distributable. Fair value and other reserves relates to a special reserve of £52.0m. The special reserve arose from the reduction in share capital in 1995. The purpose of this reserve is to maintain the Company's capital.

Retained earnings include the following non-distributable amounts:

	2019 £m	2018 £m
Opening cumulative unrealised increases in fair value of investment properties	7.3	3.3
Revaluation in the year	5.0	4.0
Closing cumulative unrealised increases in fair value of investment properties	12.3	7.3
Deferred tax provided thereon	(1.7)	(1.1)
	10.6	6.2

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Group 2019 £m	Group 2018 £m
Cash flows from operating activities			
Cash generated from operations	33	96.4	93.4
Interest paid		(31.7)	(27.0)
Interest received		0.3	0.2
Tax paid		(10.1)	(10.3)
Net cash generated from operating activities		54.9	56.3
Cash flows used in investing activities			
Purchase of property, plant and equipment, intangibles and investment property		(126.2)	(54.3)
Sales of property, plant and equipment, intangibles and investment property		2.0	0.1
Net cash used in investing activities		(124.2)	(54.2)
Net cash (outflow)/inflow before financing activities		(69.3)	2.1
Cash flows generated from financing activities			
New loan facilities drawn down		239.9	33.8
Loan repayments		(75.0)	(7.5)
Loan to parent company		(1.7)	-
Repayment of lease liabilities		(3.4)	-
Equity dividends paid		(5.0)	(27.4)
Net cash generated from/(used in) financing activities		154.8	(1.1)
Increase in cash and cash equivalents		85.5	1.0
Cash and cash equivalents at start of year		25.2	24.2
Cash and cash equivalents at end of year	22	110.7	25.2

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Forth Ports Limited is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 1. The Company and its subsidiaries and joint venture together form the Group. The nature of the Group's operations and its principal activities are the provision of port, cargo handling, towage and related services and facilities. The Group also has non-operational property interests. These consolidated financial statements have been approved for issue by the Board of Directors on 28 April 2020.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest million pounds (£m) unless otherwise indicated.

2. Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRICs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of investment properties at fair value and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Directors have adopted the going concern basis in preparing these financial statements after assessing the principal risks and having considered the impact of a severe but plausible downside scenario for COVID-19. The major variables are the depth and duration of COVID-19. The Directors considered the impact of the current COVID-19 environment on the business for the next 12 months and the longer term. Whilst the situation is still evolving, making scenario planning difficult, we have considered the impact on sales, profits and cashflows. We have assumed that our operations remain open and that we continue to be able to provide services to our customers. Whilst the impact may impact many areas of the business differently, it would most likely impact volumes handled and require action in relation to operational cost reductions. Overall we scenario planned a number of possible outcomes with volumes decreasing significantly and the impact lasting for a significant part of 2020. The impact of such a volume loss would have a significant impact on Group profitability however the modelling would indicate that the Group would remain profitable over the next 12 months and we would anticipate a recovery in future years. The Group continues to have significant liquidity headroom on existing facilities and against the financial covenants.

The Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in these financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted in the preparation of these financial statements are set out in Note 37. These policies have been consistently applied to all the years presented, unless otherwise stated.

3. Critical Accounting Judgements, Key Assumptions and Estimation Uncertainty

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions concerning the carrying amounts of assets and liabilities that are not readily apparent from other sources. The Directors have concluded that there are no critical accounting judgements for the Group or the Company except for:

Critical Accounting Judgements

Capitalisation of borrowing costs

As shown in Note 11, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. Capitalisation of borrowing costs relating to the acquisition and construction of the new port, Tilbury2, is calculated from Q2 2017 onwards following completion of the land acquisition when ownership transferred to the Group.

Other estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may result in a material adjustment to the carrying amounts of assets or liabilities within the next financial year, are discussed below. Investment and pension valuations may be impacted as a result of the non-adjusting post balance sheet event, COVID-19 pandemic; this will be reflected in the valuations reflected in the 2020 financial statements.

Discount rate and other assumptions used to determine the carrying amount of the Group's defined benefit obligation

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived.

The pension benefit assumptions include gilt yields at the year end, investment returns (including a risk margin over gilt yields), which both impact the discount rate used, price and salary inflation and mortality assumptions. In 2016, the mortality assumptions were re-assessed taking into account scheme specific experience on life expectancy. Full details of the assumptions used to calculate the pension assets and liabilities including the Directors' assessment of the impact of a reasonably possible change in key assumption on the liability may be found in Note 30.

Rental yields used to determine the fair value of the Group's investment property assets

The fair value of the Group's investment properties are assessed at each balance sheet date and significant judgement is required to determine the yields used to derive the fair value for each property. In estimating the fair value of a property, the Group uses market-observable data to the extent that it is available. Where Level 2 inputs are not available, the Group uses appropriately qualified internal or external valuers to perform the valuation.

For information on valuation techniques and inputs used in the investment property valuation, as well as sensitivities to key assumptions, please refer to Note 15. The impact on a carrying value of a reasonably possible change in the underlying key assumptions is quantified therein.

4. Revenue

Revenue represents income earned from Port activities and Property transactions. An analysis of the Group's revenue, all of which is generated in the UK, is as follows:

	2019 £m	2018 £m
Port operations	200.9	190.3
Property rental	37.6	35.5
Total revenue	238.5	225.8

Included within total revenue is revenue from contracts with customers. The aggregate revenue by region and major service provision is as follows:

	2019 £m	2018 £m
Region		
Tilbury	102.6	104.4
Scotland	98.3	85.7
Total contract revenue	200.9	190.1

	2019 £m	2018 £m
Major service provision areas		
Cargo handling	121.6	121.6
Vessel charges	12.9	12.9
Storage	20.3	19.8
Marine charges	18.9	18.8
Ancillary services	27.2	17.0
Total contract revenue	200.9	190.1

	2019 £m	2018 £m
Timing of revenue recognition		
At a point in time	180.6	170.3
Over time	20.3	19.8
Total contract revenue	200.9	190.1

The transaction price allocated to (partially) unsatisfied performance obligations as of 31 December is as follows:

	2019 £m	2018 £m
Major service provision areas		
Cargo handling	0.3	0.3
Vessel charges	0.0	0.1
Total contract revenue	0.3	0.4

All of the partially unsatisfied performance obligations are expected to be recognised as revenue within the next 12 months.

5. Pilotage

The undernoted information is given in accordance with Article 4 of the Statutory Harbour Undertakings (Pilotage Accounts) Regulations 1988; this income is included within Group revenue.

	2019 £m	2018 £m
Pilotage revenue	6.7	6.9
Revenue from pilotage exemption certificates	0.0	0.0
Aggregate expenditure*	4.6	4.8

*excludes contributions to the PNPF (Note 30).

6. Group Operating Profit (before exceptional items and revaluations)

Group operating profit has been arrived at after (crediting)/charging:

	2019 £m	2018 £m
Property rentals (revenue)	(37.6)	(35.5)
Depreciation		
- owned assets (cost of sales)	25.6	20.8
- owned assets (administrative expenses)	0.1	0.1
- depreciation on leased assets	3.0	-
- capital grants (cost of sales)	(4.1)	(0.9)
Amortisation		
- intangible assets – customer relationships (cost of sales)	1.2	1.2
- intangible assets – other (administrative expenses)	0.8	0.6
Repairs and maintenance expenditure on property, plant and equipment (cost of sales)	8.7	9.5
Expenses relating to short term leases	4.2	3.2
Inventories		
- cost of inventories recognised as an expense (property cost of sales)	0.7	0.7
Employee costs		
- cost of sales (Note 9)	45.8	51.4
- administrative expenses (Note 9)	14.5	13.2
- finance costs (Note 11)	1.2	1.4

Auditor's Remuneration

The fees payable for the audit of the parent Company's annual financial statements were £117k (2018 - £114k). The fees payable for the audit of the underlying subsidiaries' annual financial statements were £113k (2018 - £110k) and the fees payable for non-audit services were £nil (2018 - £52k in relation to tax and corporate restructuring advice).

7. Exceptional Items and Revaluations

Exceptional items ("*") and revaluations ("**") have been disclosed separately because of their quantum or, as in the view of the Directors are not frequent, so as to give a clearer understanding of the Group's financial performance and are charged/(credited) to the Income Statement as follows:

	2019 £m	2018 £m
Cost of sales		
GMP equalisation* (Note 30)	-	4.2
Administrative expenses		
LTIP shares – value of services provided * (Note 9)	1.9	-
Exceptional tug hire *	1.1	-
Impairment of trade receivables * (Note 20)	1.3	-
Impairment of parent company loan * (Note 20)	0.9	-
	5.2	-
Other income		
Increase in fair value of investment properties** (Note 15)	(17.6)	(21.4)
Finance costs		
Interest rate hedge – mark to market** (Note 11)	5.1	(8.1)
Cross currency interest rate hedge – mark to market** (Note 11)	3.1	(8.2)
Retranslation of Series A US $ loan notes** (Note 11)	(5.5)	7.5
Gilt lock settlement* (Note 11)	5.7	-
Diesel hedge – mark to market** (Note 11)	0.0	0.1
Euro option – mark to market** (Note 11)	-	0.2
Remeasurement of discount rate on PNPF pension provision* (Note 11)	1.1	0.2
IFRS 9 gain on amendment of bank facilities ** (Note 11)	(2.6)	-
	6.9	(8.3)
Taxation		
Current taxation:		
Tax effect of remeasurement of the discount rate on PNPF provision	(0.2)	-
Tax effect of tug hire	(0.2)	-
Tax effect of trade receivable impairment	(0.2)	-
Tax effect of GMP equalisation	-	(1.0)
Tax effect of IFRS 9 gain	0.5	-
Tax effect of gilt lock settlement	(1.1)	-
	(1.2)	(1.0)
Deferred taxation:		
Tax effect of interest rate and cross currency hedge movement	(1.4)	2.8
Tax effect of change in fair value of investment property	1.6	2.9
Tax effect of retranslation of Series A US $ loan notes	0.9	(1.3)
Tax effect of diesel hedge	(0.0)	-
	1.1	4.4
Total taxation	(0.1)	3.4

8. Directors' Emoluments

	2019 £m	2018 £m
Aggregate emoluments	3.2	5.6
Highest paid Director		
Total emoluments and amounts receivable under long-term incentive schemes	1.3	2.4

Retirement benefits are accruing to one Director (2018 - one Director) under The Forth Ports Group Pension Scheme, a defined benefit scheme. No Directors made contributions to the scheme during the year (2018 – no Director). The highest paid Director is a deferred member of The Forth Ports Group Pension Scheme and had accrued entitlements of £228k (2018 - £224k) under the scheme at the end of the year.

9. Employee Costs

The aggregate remuneration of all Employees and Directors was:	2019 £m	2018 £m
Wages and salaries	47.8	48.1
Social security costs	5.6	5.5
LTIP – value of services provided (Note 7)	1.9	-
Pension costs - defined benefit plans	3.7	10.0
- defined contribution plans	1.3	1.0
	60.3	64.6

Average monthly number of Employees and Directors:	2019 No	2018 No
Operational	742	730
Maintenance	147	149
Administrative	173	173
	1,062	1,052

10. Finance Income

	2019 £m	2018 £m
Interest receivable from parent company (Note 35)	18.4	17.5
Interest receivable on bank and other deposits	0.3	0.1
	18.7	17.6

11. Finance Costs

	2019 £m	2018 £m
Interest on pension liability (Note 30)	12.1	11.0
Interest income on scheme assets (Note 30)	(10.9)	(9.6)
Interest payable to parent company (Note 35)	-	0.1
Interest on bank loans and overdrafts	28.4	26.9
Less: Interest capitalised in the year	(3.8)	(3.9)
Finance lease costs	0.7	-
Interest rate hedge – mark to market (Note 7)	5.1	(8.1)
Cross currency interest rate hedge – mark to market (Note 7)	3.1	(8.2)
Retranslation of Series A US $ loan notes (Note 7)	(5.5)	7.5
Remeasurement of the discount rate on PNPF provision (Note 7)	1.1	0.2
Gilt lock settlement (Note 7)	5.7	-
Amortisation of loan arrangement fees	1.2	1.2
Diesel hedge – mark to market (Note 7)	0.0	0.1
Euro option – mark to market (Note 7)	-	0.2
IFRS 9 gain on amendment of bank facilities (Note 7)	(2.6)	-
	34.6	17.4

12. Taxation

	2019 £m	2018 £m
Current tax		
Charge for the year	11.9	10.5
Group relief	2.7	3.5
Adjustments in respect of prior years	(0.2)	(0.0)
Total current tax	14.4	14.0
Deferred Tax		
Deferred tax charge/(credit) in respect of deferred tax assets (Note 21)	0.1	(0.3)
Deferred tax charge in respect of deferred tax liabilities (Note 29)	1.3	3.3
Total deferred tax	1.4	3.0
Tax charge	15.8	17.0

The tax charge for the year of 18.2% is lower (2018 – 17.2%, lower) than the standard rate of corporation tax in the UK of 19.0% (2018 – 19.0%). The differences are explained below:

	2019 £m	2018 £m
Profit before tax	86.5	98.8
Profit multiplied by rate of corporation tax in the UK of 19.0% (2018 – 19.0%)	16.4	18.8
Effects of:		
Adjustments in respect of prior years – current tax	(0.2)	(0.0)
Adjustments in respect of prior years – deferred tax	1.0	(0.2)
Effect of tax rate change on current year deferred tax	(0.1)	(0.4)
Group notional finance charge capitalised	(0.7)	(0.7)
Expenses not deductible for tax purposes	0.4	0.4
Non-taxable element of revaluation gains	(1.5)	(0.8)
Movement in deferred tax due to loss of initial recognition exemption	(0.1)	(0.1)
Non-deductible LTIP	0.4	-
Exceptional provision against intercompany loan	0.2	-
Tax charge	15.8	17.0

Finance Act 2015 set the UK corporate income tax rate for financial year 2016 at 20%. Finance Act (No 2) 2015 set the UK corporate income tax rate for financial years 2017, 2018 and 2019 at 19%, and Finance Act 2016 has reduced the rate for financial year 2020 from 18% to 17%, which are the rates substantively enacted at the balance sheet date. Deferred tax has therefore been provided for at 17% being the rate at which the deferred tax is anticipated to reverse.

As recently announced in the 2020 Budget on 11 March 2020, the corporate income tax rate shall not reduce to 17% for financial year 2020 as currently enacted, and shall remain at 19% from 1st April 2020. This rate change is expected to be enacted later in the year. The overall effect of the corporate income tax rate remaining at 19%, if applied to the deferred tax balances at 31st December 2019, would be to increase the deferred tax liability by approximately £6.2m, and increase the deferred tax asset by £1.1m.

13. Dividends

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of 30.1p per share	-	13.9
Interim dividend for the year ended 31 December 2018 of 29.3p per share	-	13.5
Interim dividend for the year ended 31 December 2019 of 10.9p per share	5.0	-
	5.0	27.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Property, Plant and Equipment

	Operational Land and Buildings £m	Plant and Equipment £m	Right-of-Use Assets £m	Capital Works in Progress £m	Total £m
Group					
Cost (net of capital grants)					
At 1 January 2019	452.0	205.8	12.6	45.5	715.9
Additions	15.4	13.6	1.0	94.0	124.0
Disposals	(0.5)	(3.8)	(0.3)	-	(4.6)
Transfers between asset categories	5.4	-	-	-	5.4
At 31 December 2019	472.3	215.6	13.3	139.5	840.7
Accumulated depreciation (net of grant amortisation)					
At 1 January 2019	168.9	128.4	-	-	297.3
Depreciation charge (net of grant amortisation)	10.8	10.8	3.0	-	24.6
Disposals	(0.2)	(3.8)	(0.2)	-	(4.2)
Transfers between asset categories	(0.8)	-	-	-	(0.8)
At 31 December 2019	178.7	135.4	2.8	-	316.9
Net book value at 31 December 2019	293.6	80.2	10.5	139.5	523.8
Group					
Cost (net of capital grants)					
At 1 January 2018	421.4	193.9	-	31.7	647.0
Additions	-	-	-	47.0	47.0
Disposals	(0.5)	(5.1)	-	-	(5.6)
Transfers between asset categories	31.1	17.0	-	(33.2)	14.9
At 31 December 2018	452.0	205.8	-	45.5	703.3
Accumulated depreciation (net of grant amortisation)					
At 1 January 2018	159.8	123.4	-	-	283.2
Depreciation charge (net of grant amortisation)	9.9	10.1	-	-	20.0
Disposals	(0.4)	(5.1)	-	-	(5.5)
Transfers between asset categories	(0.4)	-	-	-	(0.4)
At 31 December 2018	168.9	128.4	-	-	297.3
Net book value at 31 December 2018	283.1	77.4	-	45.5	406.0

Capital grants included in property, plant and equipment have the following net book amount:

	Operational Land and Buildings £m	Plant and Equipment £m	Total £m
Group			
Cost	19.1	11.8	30.9
Accumulated amortisation	(17.4)	(8.3)	(25.7)
Net book amount at 31 December 2019	1.7	3.5	5.2
Group			
Cost	19.1	11.8	30.9
Accumulated amortisation	(15.1)	(6.5)	(21.6)
Net book amount at 31 December 2018	4.0	5.3	9.3

14. Property, Plant and Equipment (continued)

	Operational Land and Buildings £m	Plant and Equipment £m	Right-of-Use Assets £m	Capital Work in Progress £m	Total £m
Company					
Cost (net of capital grants)					
At 1 January 2019	104.1	63.3	1.0	9.8	178.2
Additions	9.1	5.8	0.1	4.2	19.2
Disposals	(0.4)	(1.2)	(0.2)	-	(1.8)
Transfers between asset categories	3.5	-	-	-	3.5
At 31 December 2019	116.3	67.9	0.9	14.0	199.1
Accumulated depreciation (net of grant amortisation)					
At 1 January 2019	52.9	41.7	-	-	94.6
Depreciation charge (net of grant amortisation)	3.1	2.9	0.2	-	6.2
Disposals	(0.1)	(1.2)	(0.0)	-	(1.3)
At 31 December 2019	55.9	43.4	0.2	-	99.5
Net book value at 31 December 2019	60.4	24.5	0.7	14.0	99.6
.Company					
Cost (net of capital grants)					
At 1 January 2018	97.1	54.3	-	5.6	157.0
Additions	-	-	-	22.2	22.2
Disposals	(0.3)	(3.6)	-	-	(3.9)
Transfers between asset categories	7.3	12.6	-	(17.8)	2.1
Transfers to other group companies	-	-	-	(0.2)	(0.2)
At 31 December 2018	104.1	63.3	-	9.8	177.2
Accumulated depreciation (net of grant amortisation)					
At 1 January 2018	50.2	42.9	-	-	93.1
Depreciation charge (net of grant amortisation)	2.8	2.4	-	-	5.2
Disposals	(0.1)	(3.6)	-	-	(3.7)
At 31 December 2018	52.9	41.7	-	-	94.6
Net book value at 31 December 2018	51.2	21.6	-	9.8	82.6

Capital grants included in property, plant and equipment have the following net book amount:

	Operational Land and Buildings £m	Plant and Equipment £m	Total £m
Company			
Cost	11.1	6.6	17.7
Accumulated amortisation	(10.9)	(5.7)	(16.6)
Net book amount at 31 December 2019	0.2	0.9	1.1
Company			
Cost	11.1	6.6	17.7
Accumulated amortisation	(8.7)	(4.2)	(12.9)
Net book amount at 31 December 2018	2.4	2.4	4.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Investment Property

	2019 £m	2018 £m
Group		
Valuation		
At 1 January	415.7	397.8
Fair value movement - to Income Statement (Note 7)	17.6	21.4
- to Statement of Comprehensive Income	3.4	2.6
Net transfers to other asset categories	(6.6)	(17.3)
Additions	7.0	11.2
Disposals	(1.7)	-
At 31 December	435.4	415.7
Company		
Valuation		
At 1 January	100.8	100.7
Fair value movement - to Income Statement	5.0	4.0
- to Statement of Comprehensive Income	(0.3)	-
Net transfers to PPE	(3.5)	(3.9)
At 31 December	102.0	100.8

The fair value of the Group's investment property at 31 December 2019 has been arrived at on the basis of a valuation carried out by the Directors at that date having received advice from RICS qualified individuals. The valuation was arrived at by reference to market evidence of transaction prices for similar properties and expected rental yield. The resulting increase in fair value of £17.6m is taken to the Income Statement in the year and £3.4m shown through the Statement of Comprehensive Income in accordance with IAS 40 in relation to assets transferred from PPE during the year. Deferred tax is provided on timing differences arising from the revaluation of investment property.

Key assumptions include equivalent yield, which is set dependent on the nature and location of each specific property. At the year end, the range of yields was 0.23% to 25.11% (2018 – 2.62% to 20.00%).

A 0.5% reduction in the yield assumed would increase the valuation by £25.1m (2018 - £29.0m).

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £37.6m (2018 - £35.5m). Direct operating expenses arising on the investment property in the year amounted to £1.1m (2018 - £1.8m).

The historical cost of the Group and Company's investment property portfolio is £103.0m (2018 - £93.3m) and £21.7m (2018 - £22.2m) respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Intangible Assets

	Goodwill £m	Customer Relationships £m	Software £m	Total £m
Group				
Cost (net of capital grants)				
At 1 January 2019	50.0	12.0	11.3	73.3
Transfers from PPE WIP	-	-	0.1	0.1
At 31 December 2019	50.0	12.0	11.4	73.4
Accumulated amortisation and impairment (net of grant amortisation)				
At 1 January 2019	-	8.4	6.7	15.1
Charge for the year	-	1.2	0.8	2.0
At 31 December 2019	-	9.6	7.5	17.1
Net book value at 31 December 2019	50.0	2.4	3.9	56.3
Group				
Cost (net of capital grants)				
At 1 January 2018	50.0	12.0	9.3	71.3
Transfers from PPE WIP	-	-	2.0	2.0
At 31 December 2018	50.0	12.0	11.3	73.3
Accumulated amortisation and impairment (net of grant amortisation)				
At 1 January 2018	-	7.2	6.1	13.3
Charge for the year	-	1.2	0.6	1.8
At 31 December 2018	-	8.4	6.7	15.1
Net book value at 31 December 2018	50.0	3.6	4.6	58.2

Capital grants included in software have the following net book amount:

	Software £m
Group	
Cost	0.3
Accumulated amortisation	(0.1)
Net book amount at 31 December 2019	0.2
Group	
Cost	0.3
Accumulated amortisation	(0.1)
Net book amount at 31 December 2018	0.2

The net book value of software includes internally generated assets of £1.1m (2018 - £1.1m).

During 2012 the Group acquired the remaining shares of London Container Terminal (Tilbury) Limited (LCT) from a fellow Group undertaking and the Group adopted predecessor accounting in relation to the acquisition, resulting in both goodwill and customer relationship assets recognised by Otter Ports Holdings Ltd (OPH) being recognised by the Group.

Goodwill that was passed down from OPH on the acquisition of LCT is considered to have an indefinite life in accordance with IFRS 3 (revised). Customer relationships recognised on the acquisition of LCT are written off on a straight-line basis over ten years.

16. Intangible Assets (continued)

Amortisation of customer relationships of £1.2m (2018 - £1.2m) is included in the cost of sales line in the Income Statement. Amortisation of software of £0.8m (2018 - £0.6m) is charged to administrative expenses.

Goodwill of £50.0m is monitored for impairment purposes at the operating segment level, with the only cash generating unit (CGU) being the Port of Tilbury, including the container operation at Tilbury.

The recoverable amount has been determined on a value in use basis. The calculations are based on five year post-tax cash flow projections approved by the Directors. Cash flows beyond the initial five year period are extrapolated using the growth rates set out.

The key assumptions used in determining the value in use are as follows:

Assumption	**How Determined**
Revenue	Estimated revenue has been based on management projections taking into account experience and contracted revenue.
Operating margin	Estimated operating margin has been based on management projections taking into account experience and changes in cost base including operating costs and maintenance capital expenditure.
Growth rate	The growth rates in the first five years for the CGU range from -0.9% to 3.3%. The weighted average growth rate used after the fifth year is 2.5% which is consistent with the UK's long-term average growth in GDP.
Discount rate	A pre-tax discount rate of 8.0% has been used and reflects the risks relating to the acquired company.

The value in use is sensitive to changes in the growth rate and discount rate. The Directors performed an impairment test in the year, and the current year tests confirmed that a reasonably possible change in any of the assumptions would not lead to an impairment.

Software	2019 £m	2018 £m
Company		
Cost		
At 1 January	8.0	6.1
Transfers from PPE categories	-	1.9
At 31 December	8.0	8.0
Accumulated amortisation		
At 1 January	5.3	5.2
Charge for the year	0.3	0.1
At 31 December	5.6	5.3
Net book value at 31 December	2.4	2.7

17. Investment in Joint Venture

The Group's significant interest is as follows:

Name of undertaking	Interest held %	Country of incorporation
London Distribution Park LLP	50	United Kingdom

The interest in LDP is held by a subsidiary company. LDP's activities were developing land for distribution, warehousing and haulage parking adjacent to the Port of Tilbury, complementing the Group's operations and contributing to achieving the Group's overall strategy. The land has now been sold and profits arising distributed to the joint venture partners. A distribution of £0.1m was received during the year from cash held by LDP. It is anticipated that LDP will be dissolved in due course. The joint venture was not strategic to the Group's activities. A new joint venture arrangement, London Distribution Park No. 2 LLP, was set up after the year end and it is intended that this entity will develop further land opportunities.

18. Investments in Subsidiaries

	2019 £m	2018 £m
Cost and net book value at 31 December	228.8	228.8

The information relating to those subsidiaries whose results or financial position, in the opinion of the Directors, principally affected the figures of the Group, together with details of all other subsidiaries, are set in in Note 38. The Directors consider the value of the investments to be supported by their underlying assets.

19. Inventories

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Materials and spare parts	2.4	2.7	0.8	0.8
Property developments and land held for sale	3.2	6.4	-	-
	5.6	9.1	0.8	0.8

20. Trade and Other Receivables

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Current assets:				
Trade receivables	33.7	32.6	12.5	13.0
Less: provision for allowance for credit losses	(0.6)	(0.3)	(0.1)	(0.2)
Trade receivables – (net)	33.1	32.3	12.4	12.8
Prepayments and accrued income	16.6	10.2	3.4	1.9
Amounts owed by parent company	302.6	285.9	302.6	285.9
Amounts owed by subsidiaries	-	-	716.2	652.0
Provision against Group loans	(18.1)	(17.2)	(68.9)	(64.1)
Other receivables	6.8	6.6	3.2	5.4
	341.0	317.8	968.9	893.9
The ageing of past due but not impaired trade receivables is as follows:				
Less than 30 days past due date	10.1	10.6	3.7	4.4
31-60 days past due date	3.6	3.2	1.0	1.3
61-90 days past due date	1.2	0.6	0.4	0.3
Over 90 days past due date	0.8	0.1	0.1	0.3
	15.7	14.5	5.2	6.3

At 31 December 2019, Group and Company trade receivables of £17.4m and £7.2m (2018 - £17.8m and £6.5m) respectively were not past due or impaired. With respect to trade receivables that are neither past their due date nor impaired, there are no indications as at the reporting date that the payment obligations will not be met. Group trade receivables and accrued income and Company trade receivables of £0.6m and £0.1m (2018 - £0.3m and £0.2m) respectively were identified as being impaired, all of which are provided for.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has calculated a loss allowance of 0.0% which has not been recognised as the specific receivables already provided for are in excess of this amount. This is also the case for 31 December 2018 whereby there was no adjustment to be made to the provision for bad debts recognised and the provision for loss allowances calculated under IFRS 9 at the same date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer bases.

		Trade receivables – days past due				
31 December 2019 and 31 December 2018	Not past due £m	< 30 days £m	31-60 days £m	61-90 days £m	> 90 days £m	Total £m
Expected credit loss rate	0%	0%	0%	0%	0%	
Estimated total gross carrying amount at default	0.0	0.0	0.0	0.0	0.0	0.0
Lifetime expected credit losses						0.0

20. Trade and Other Receivables (continued)

No lifetime expected credit losses have been recognised in the current or previous year as the impact of applying the matrix would not require an adjustment to the net trade receivable position presented above, once the current provision is taken into account.

Trade receivables are non-interest bearing and are generally on 30 days' terms. There are no indications, as of the reporting date, that the net trade receivables will not meet their payment obligations.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers sufficiently dispersed. The maximum exposure to credit risk at the year end is the value of each class of receivable mentioned above. The Group does not hold any collateral as security over port receivables. There is no material difference between the fair value of trade and other receivables and their carrying amount stated above. The amounts owed by the parent company and subsidiary undertakings are unsecured and receivable on demand but are not expected to be fully received within the next twelve months. The amounts receivable from subsidiaries have been considered for impairment under IFRS 9 based on the probability of default and expected recovery. These amounts are shown in the provision against Group loans in the table above. Interest on amounts owed by subsidiary undertakings was applied at rates based on LIBOR and Bank of England base rate. Interest on amounts owed by the parent company is charged at 6.3405%.

The other classes within Trade and other receivables do not contain impaired assets.

Within trade receivables, the following amounts represent revenue from contracts with customers under IFRS 15:

	2019 £m	2018 £m
Contract receivables	33.7	31.0

21. Deferred Tax Assets

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Deferred tax asset – Retirement benefit obligations				
Asset at 1 January	8.3	9.4	8.3	9.4
Deferred tax on actuarial loss/gain charged to Statement of Comprehensive Income	3.1	(1.6)	3.1	(1.6)
Effect of tax rate change				
- charged to Income Statement (Note 12)	(0.1)	(0.0)	(0.0)	(0.0)
- credited to Statement of Comprehensive Income	0.0	0.2	(0.1)	0.2
Deferred tax on pension contributions charged to Statement of Comprehensive Income	(2.4)	-	(2.4)	-
Deferred tax on pension contributions credited to Income Statement (Note 12)	-	0.3	-	0.3
Asset at 31 December	8.9	8.3	8.9	8.3

22. Cash and Cash Equivalents

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash at bank and in hand	110.7	25.2	109.0	24.0

23. Trade and Other Payables - Current Liabilities

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Trade payables	10.3	6.9	1.5	2.6
Amounts owed to parent company	4.8	5.4	4.5	4.9
Amounts owed to subsidiaries	-	-	672.8	495.0
Lease liabilities	2.8	-	0.2	-
Other taxation and social security	1.5	3.2	0.7	2.4
Accruals and deferred income	19.2	18.9	9.6	10.2
	38.6	34.4	689.3	515.1

Trade payables are mainly contractually due to be paid within one month. The average credit period taken for trade purchases for the Group and Company is 32 days (2018 – 34 days) and 34 days (2018 – 37 days) respectively. No interest has been charged by suppliers for any balances settled after the stated credit terms. The Group has financial risk management policies in place to ensure that all payables are settled within the pre-agreed credit terms. The amounts owed to subsidiaries are unsecured and payable on demand but are not expected to be fully paid within the next twelve months. Interest on amounts owed to subsidiaries was applied at rates based on LIBOR and Bank of England base rate.

The Directors consider the carrying amount of trade and other payables approximates to their fair value.

24. Current Tax Liabilities

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Due within one year	5.6	5.0	3.4	0.7

25. Borrowings

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Non-current				
Bank borrowings	209.7	264.2	206.7	263.0
Loan notes	603.0	399.9	-	-
Other loans	33.1	23.6	3.9	0.5
Total borrowings	845.8	687.7	210.6	263.5
The borrowings are repayable as follows:				
In the third to fifth years inclusive	391.2	449.0	210.1	263.0
After more than five years	454.6	238.7	0.5	0.5
Amount due for settlement after one year	845.8	687.7	210.6	263.5

All borrowings are denominated in UK sterling with the exception of the $160m Series A loan note and the $21m series G loan note.

The Group's principal bank and private placement loans are as follows:

The bank term loans and facilities totalling £209.7m have a repayment date of July 2024. The bank term loans are secured by way of a floating charge over the Company's shares and carry interest at a margin plus LIBOR and mandatory costs. The Group has a revolving credit facility (RCF) of £100.0m which, other than the £5.0m overdraft and corporate credit card facility with Bank of Scotland, carry the same interest rates as the term loans. At the year end the undrawn amount on the RCF was £95.0m. The overdraft carries interest at a margin over Bank of Scotland base rate.

25. Borrowings (continued)

The other loans represent £0.5m (2018 - £0.5m) of funded debt and £29.2m (2018 – £23.1m) from the City of Edinburgh Council for the developments held within Sandpiper Road NHT 2014 LLP and Western Harbour NHT LLP. The funded debt was taken out prior to 1950 and there is no fixed repayment date. The debt is unsecured and carries interest at 3.75%. The loans from City of Edinburgh Council carry interest at 4% and are repayable within 6.5 years of drawdown with the availability to extend for a further 3.5 years.

The first round of private placement loans were raised in the UK and the United States of America partly in US dollars ($160m Series A loans) and partly in GBP sterling (£60m Series B loans, £80m Series C loans and £35m Series D loans) in December 2013. The dollars were immediately swapped into sterling to eliminate exposure to future exchange rate movements. A total of £275.1m was raised and the loans have repayment dates of between 10 and 18 years. The debt is $160m of Series A loans at a fixed rate of 4.89% for 10 years being repaid in 2023, £60.0m of Series B loans at a fixed rate of 4.80% for 10 years being repaid in 2023, £80.0m of Series C loans at a fixed rate of 5.03% for 18 years being repaid in 2031 and £35.0m of Series D loans at a floating rate of LIBOR+1.87% for 18 years being repaid in 2031.

On 15 December 2016, the Group issued £50m of Series A loans at a fixed rate of 2.62% for 10 years being repayable in 2026. On 6 January 2017, the Group issued £50m of Series B loans at a fixed rate of 2.62% for 10 years being repayable in 2027.

On 27 June 2019 the Group raised GBP sterling (£45m of series A loans, £5m Series B loans, £58m Series C loans, £55m Series D loans, £90m Series E loans and £30m Series F loans) and US Dollar ($21m Series G loans). The series A, C, E and G loans were drawn down on 17 September 2019 at fixed rates of 2.97% for 10 years, 3.03% for 12 years, 3.19% for 18 years and 3.78% for 10 years. An interest rate swap was immediately entered into for the full value of $21m. The remaining B, D and F loans will be drawn down during 2020.

£3.8m of associated costs were capitalised in the year (2018 - £0.0m) with the outstanding balance being amortised over the loan duration.

The Group has fixed the interest rate on £300m which has fixed periods of 5, 7 and 10 years. To ensure the Group was not over-hedged, the Group entered into a contract to swap £46m of fixed rate back to the floating rate (Note 26).

In accordance with IFRS 9: Financial Instruments, the Group reassessed the carrying value of its bank borrowings following the "Amend and Extend" exercise in 2019. The resulting change in terms is classified as a non-substantial modification under IFRS 9, therefore the gain of £2.5m has been reflected through borrowings and the Income Statement.

The exposure of the Group and Company borrowings to interest rate changes and the contractual repricing dates at the year-end are as follows:

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
In the third to fifth years inclusive	209.7	264.2	210.6	263.0
Over five years	35.0	35.0	-	-
	244.7	299.2	210.6	263.0

The exposure of the Group and Company borrowings to interest rate changes is managed by using interest rate swaps as explained above.

Covenants
The Group has lenders' covenants which require minimum leverage ratios and interest cover ratios to be met. If these covenants were to be breached, the Group's lenders could demand the immediate repayment of all advances and interest outstanding. There was no breach of these covenants during the year.

Sensitivity Analysis
The Group has effectively fixed 100% of interest rates payable on borrowings, therefore there is no exposure to interest rate movements in the next three years.

Risk Management
An analysis of the expected undiscounted cash repayment profile of the Group's financial liabilities is given in the Directors' Report on page 10, with other Financial Risk Management disclosures.

25. Borrowings (continued)

The weighted average interest rates paid on Group borrowings were as follows:

	2019 %	2018 %
Bank borrowings	3.47	3.85
Loan notes	3.82	4.26
Bank overdraft	1.96	2.05
Other loans	3.99	3.99

The Group has the following undrawn committed borrowing facilities available at 31 December:

	2019 £m	2018 £m
Floating rate		
Expiring within one year	5.0	5.0
Expiring in more than one year	95.0	44.0
	100.0	49.0

The undrawn facilities expiring in more than one year are the undrawn element of the revolving credit facility. The overdraft expires within one year. The fair value of bank borrowings approximates to book value because the interest rate is reset after periods not greater than six months. The fair value of loan notes is not materially different to book value.

26. Derivative Financial Instruments

The Group has interest rate and cross currency swaps in place. These Level 2 derivatives relating to the Group's current finance facilities have not been designated as fair value or cash flow hedges and are valued at mark to market with any fair value movement recognised in the Income Statement.

Cross Currency Derivative Assets	Principal	Fixed Rate	Maturity
US$ swap	$160m	4.89%	December 2023
US$ swap	$21m	3.78%	September 2029

	2019 £m	2018 £m
Net present value of cash flows		
Due within 1 year	1.9	1.9
Due in more than 1 year	20.1	23.2
	22.0	25.1

Interest Rate Derivative Liabilities	Principal	Fixed Rate	Maturity
5 year fixed rate	£85m	2.06%	June 2024
7 year fixed rate	£65m	4.42%	December 2026
10 year fixed rate	£150m	2.66%	December 2028

	2019 £m	2018 £m
Net present value of cash flows		
Due within 1 year	(4.3)	(5.4)
Due in more than 1 year	(25.7)	(19.4)
	(30.0)	(24.8)

Details of the Group's financial risk management policies can be found in the Directors' Report on page 9.

27. Provisions

	Insurance Claims £m	Pilots' National Pension Fund £m	2019 Total £m	2018 Total £m
Group				
At 1 January	0.5	17.1	17.6	19.3
Utilisation of provision	0.0	(1.7)	(1.7)	(2.0)
Increase in provision	-	1.0	1.0	0.3
At 31 December	0.5	16.4	16.9	17.6
Included in current liabilities	0.5	1.8	2.3	2.2
Included in non-current liabilities	-	14.6	14.6	15.4
Total provisions	0.5	16.4	16.9	17.6
Company				
At 1 January	-	16.0	16.0	17.3
Utilisation of provision	-	(1.7)	(1.7)	(1.5)
Increase in provision	-	0.9	0.9	0.2
At 31 December	-	15.2	15.2	16.0
Included in current liabilities	-	1.6	1.6	1.6
Included in non-current liabilities	-	13.6	13.6	14.4
Total provisions	-	15.2	15.2	16.0

The Insurance Claims provision represents management's best estimate of claims under the General Marine and Employer's Liability policies. Settlement of such claims is dependent on negotiation and, potentially, litigation with third parties, the timing of which cannot be predicted with complete accuracy.

The Company and Port of Dundee Limited (PoDL) are the Competent Harbour Authority (CHA) in the Firth of Forth and Firth of Tay respectively where they are responsible for the provision of pilotage services. The pilotage services are provided by self-employed pilots. The Trustee of the PNPF Scheme issued proceedings in the High Court in order to seek directions from the Court as to how, by whom and in what proportion the Scheme's deficit should be made up. The judgement was delivered in June 2010 and the judge decided that, in addition to CHA who employ pilots directly, CHA whose pilots are self-employed could be required by the Trustee to contribute to the Scheme deficit. Appeals against this judgement were in progress which had prevented updated valuations taking place in 2007 and 2010. The final judgement was reached during the course of 2012 that CHA who use self-employed pilots would be required to contribute to the Scheme deficit. A Scheme valuation as at 31 December 2010 was performed to determine the extent of the deficit and from this the Trustees have communicated the Company's and PoDL's share of this deficit. As a result, the liability was booked as a provision representing the discounted value of the best estimate of expected future annual cash contributions. The liability is expected to be fully settled by 2028. It should be noted that the deficit will be subject to triennial valuations. A Scheme valuation as at 31 December 2016 was completed with no change to the level of contributions arising. A Scheme valuation as at 31 December 2019 is being carried out but this has not yet been completed.

28. Trade and Other Payables – Non-Current Liabilities

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Lease liabilities	8.0	-	0.5	-
Amounts owed to parent company	1.2	1.2	1.2	1.2
	9.2	1.2	1.7	1.2

The amounts owed to parent company are repayable on or before 31 December 2021. The balance includes an interest bearing loan of £0.1m which bears interest at a rate of 7.34% per annum.

29. Deferred Tax Liabilities

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Deferred tax liability				
Intangible assets – customer relationships	0.4	0.6	-	-
Capital allowances	18.8	18.8	2.7	2.7
Short-term differences	(4.7)	(4.7)	(4.4)	(4.4)
Investment property revaluation surplus	38.6	36.9	5.5	4.8
	53.1	51.6	3.8	3.1
Deferred tax liability – movement				
Liability at 1 January	51.6	48.1	3.1	1.2
Effect of tax rate change credited to Income Statement (Note 12)	(0.1)	(0.3)	(0.0)	(0.2)
Amount charged to Income Statement (Note 12)	1.4	3.6	0.7	2.1
Amount charged to Statement of Comprehensive Income	0.2	0.2	-	-
Liability at 31 December	53.1	51.6	3.8	3.1

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and where the deferred tax relates to the same authority. Deferred tax assets which require to be disclosed separately are detailed in Note 21.

Within the investment property revaluation surplus of the Group, deferred tax assets of £1.6m (2018 – £1.6m) are recognised for capital tax losses carried forward only to the extent that they offset the deferred tax liability within the Group. We do not expect any of the deferred tax asset to be released within 12 months from the Balance Sheet date.

30. Retirement Benefit Schemes

Defined Benefit Pension Schemes

The Group sponsors one defined benefit pension scheme called The Forth Ports Group Pension Scheme (the 'FP Scheme') that covers the vast majority of active and former employees.

The FP scheme typically exposes the Group to actuarial risks such as:

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and alternative investments. Due to the long-term nature of the plan liabilities, the Trustees of the FP scheme consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments including assets held specifically to mitigate the impact of future increases.
Longevity risk	The present value of the defined plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The FP scheme is administered by a separate Board of Trustees composed of employer nominated representatives and member nominated Trustees and continues to be legally separate from the Group. The assets of the FP scheme are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the scheme and are responsible for investment policy and the day-to-day administration of benefits.

The FP scheme provides qualifying employees with an annual pension based on pensionable salary for each completed year's service on attainment of normal retirement ages. The proportion of salary and normal retirement ages vary across the scheme. Active members' benefits also include life assurance cover, albeit the payment of these benefits is at the discretion of the Trustees of the FP scheme.

On withdrawing from active service, a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and is revalued on the Consumer Price Index (CPI) measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is based on the Retail Price Index (RPI) measure of inflation.

The Group continues to consider ways in which to manage the FP scheme's liabilities.

The pension cost relating to the FP scheme was assessed in accordance with the advice of qualified actuaries. The latest formal actuarial assessment of the FP scheme was as at 5 April 2017.

The actuaries have provided updated figures for the FP scheme as at 31 December 2019.

Assets are taken at their market value. Liabilities are valued using various assumptions which are listed overleaf.

The total pension cost was £3.7m (2018 - £10.0m). Member contributions are paid in addition.

30. Retirement Benefit Schemes (continued)

Defined Benefit Pension Schemes

The key assumptions used in the valuation of the Group and Company defined benefit pension scheme was as follows:

	2019 %	2018 %
Discount rate	2.05	2.90
Rate of pension increases	2.00-3.00	2.10-3.10
Inflation rate (RPI)	2.90	3.10
Inflation rate (CPI)	2.00	2.10

The expected future lifetimes used to determine benefit obligations at 31 December were as follows:

	Male 2019	Male 2018	Female 2019	Female 2018
Member age 60 (current life expectancy)	22.1 years	22.4 years	26.5 years	26.9 years
Member age 45 (life expectancy at age 60)	23.4 years	23.7 years	27.8 years	28.2 years

Sensitivity of Key Assumptions

A 0.25% change in the discount rate assumed could affect the shortfall position within the FP scheme positively or negatively by approximately £21.2m, a change in assumed life expectancy at age 60 by one year would increase or decrease liabilities by £19.3m and a 0.25% change in the rate of inflation could increase or decrease the liabilities by approximately £15.7m.

Plan Assets

The weighted average asset allocations at the year-end were as follows:

	Plan Assets at 31 December 2019 %	Plan Assets at 31 December 2018 %
Asset category		
Equities	86	82
Other	14	18
	100	100

The actual gain on plan assets in the year ended 31 December 2019 was £41.7m (2018 – loss of £12.8m).

The Trustees review the investments of the FP scheme on a regular basis and consult with the Group regarding any proposed changes to the investment profile. During the year, the investment strategy was reviewed and a number of changes were made to provide a more effective hedge against the impact of significant equity market shock on the assets in the scheme as well as providing protection against changes in inflation and interest risk.

30. Retirement Benefit Schemes (continued)

Movements in the present value of defined benefit obligations and the fair value of the FP scheme's assets were as follows:

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Reconciliation of movement in benefit obligation				
Benefit obligation at 1 January	423.2	436.7	423.2	436.7
Current service cost	4.4	4.4	4.4	4.4
Interest cost	12.1	11.0	12.1	11.0
Contributions by scheme participants	2.1	2.1	2.1	2.1
Net re-measurement due to changes in financial assumptions	60.8	(25.3)	60.8	(25.3)
Net re-measurement due to changes in demographic assumptions	(10.5)	(1.2)	(10.5)	(1.2)
Net re-measurement due to changes in experience	7.8	5.5	7.8	5.5
Benefits paid	(15.6)	(14.2)	(15.6)	(14.2)
Past service cost	(1.2)	4.2	(1.2)	4.2
Benefit obligation at 31 December	483.1	423.2	483.1	423.2
Reconciliation of movement in scheme assets				
Fair value of plan assets at 1 January	374.5	381.3	374.5	381.3
Interest income on scheme assets	10.9	9.6	10.9	9.6
Return on assets, excluding interest income	41.7	(12.8)	41.7	(12.8)
Contributions by employers	17.4	9.9	17.4	9.9
Contributions by scheme participants	2.1	2.1	2.1	2.1
Administrative cost	(15.6)	(14.2)	(15.6)	(14.2)
Benefits paid	(0.5)	(1.4)	(0.5)	(1.4)
Fair value of plan assets at 31 December	430.5	374.5	430.5	374.5
Funded status/net amount recognised	(52.6)	(48.7)	(52.6)	(48.7)

The amounts recognised in the Group Income Statement in respect of these defined benefit schemes are as follows:

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Amount recognised in the Income Statement				
Total service cost – cost of sales	3.2	8.6	3.2	4.1
Administrative cost – administrative expenses	0.5	1.4	0.5	1.0
Net interest on net defined benefit liability – finance costs	1.2	1.4	1.2	1.6
Total pension cost recognised in the Income Statement	4.9	11.4	4.9	6.7
Re-measurements of the net defined benefit liability to be shown in the Statement of Comprehensive Income				
Net re-measurement losses/(gains) - financial	60.8	(25.3)	60.8	(25.3)
Net re-measurement gains - demographic	(10.5)	(1.2)	(10.5)	(1.2)
Net re-measurement losses - experience	7.8	5.5	7.8	5.5
Return on assets, excluding interest income	(41.7)	12.8	(41.7)	12.8
Total re-measurement losses/(gains) recognised in the Statement of Comprehensive Income	16.4	(8.2)	16.4	(8.2)

30. Retirement Benefit Schemes (continued)

Funding and Contributions

UK pension legislation requires that pension schemes are funded prudently. The Group is currently paying deficit reduction contributions in accordance with agreements with the Trustees to reduce the deficit over 6 years. The Schedule of Contributions to the Pension Scheme, which was signed in March 2019, requires the Company to contribute 18.6% of pensionable salaries (inclusive of 2.2% for administrative expenses and death in service premiums and 1% in respect of discretionary pension increases) plus annual shortfall contributions which increase from £1.75m with effect from April 2017 to £20.3m in 2021.

Other Pension Schemes

A number of employees are members of The Former Registered Dock Workers' Pension Scheme. The FRDW scheme is a multi-employer defined benefit scheme which was set up many years ago on a national basis to provide pensions to Registered Dock Workers. The most recent formal valuation of the FRDW scheme was carried out in 2016 which recorded a small surplus. In 2013 the FRDW scheme was closed to future accrual. On an ongoing basis, taking into account future outperformance of assets, it was fully funded. The total assets and liabilities of the FRDW scheme are not assigned to specific employers. The employers are not entitled to participate in any surplus arising in the FRDW scheme. The FRDW scheme is in the process of being bought out with no expectation that the Group will make further contributions. The contributions paid by the Group are accounted for as a defined contribution scheme as the Group is unable to identify its share of the assets and liabilities in the FRDW scheme. The Group contributions during the year were £nil (2018 - £nil).

The Group also has a contractual relationship with self-employed pilots who operate within the Firth of Forth and the Firth of Tay to provide pilotage services. The self-employed pilots make payments into the PNPF (Note 27).

Defined Contribution Pension Schemes

The Group also operates defined contribution pension schemes. The employer contributions to these schemes during the year was £1.3m (2018 – £1.0m).

31. Share Capital

	2019	2018
Group and Company	£m	£m
Authorised:		
58,000,000 Ordinary Shares of 50p (2018 – 58,000,000 shares of 50p)	29.0	29.0
Allotted and fully paid:		
46,080,930 Ordinary Shares of 50p (2018 – 46,080,930 shares of 50p)	23.1	23.1

The Company has one class of Ordinary Share which carries no right to fixed income. Ordinary shares carry equal voting rights and the right to receive dividends when declared.

32. Capital Commitments

Capital commitments, including the value of work still to be carried out on contracts placed but not provided for, were £85.1m for the Group and £15.5m for the Company (2018 - Group £153.3m and Company £18.6m) all of which relate to property, plant and equipment, the main element of which relates to the construction cost for the Tilbury2 site. The Group's share of commitments in the joint venture was £nil (2018 - £nil).

33. Statements of Cash Flows

a) Reconciliation of profit before tax to cash generated from operations

	Group 2019 £m	Group 2018 £m
Profit before tax	86.5	98.8
Adjustments for:		
- increase in fair value of investment properties	(17.6)	(21.4)
- net finance costs/(income)	14.7	(1.7)
- interest on pension cost in finance costs	1.2	1.4
- depreciation of property, plant and equipment and amortisation of intangibles and capital grants	26.6	21.7
- loss on sale of property, plant and equipment	0.0	0.1
- net movement in provisions	(1.0)	(1.9)
- retirement benefit contributions	(17.4)	(9.9)
- increase in retirement benefit obligations	3.7	10.0
- LTIP	1.9	-
Movement in working capital:		
Decrease/(increase) in inventories	3.5	(0.5)
(Increase) in receivables	(3.5)	(7.1)
(Decrease)/increase in payables	(2.2)	3.9
Cash generated from operations	96.4	93.4

b) Reconciliation of movement in net debt

	Group 2019 £m	Group 2018 £m
Increase in cash and cash equivalents	85.5	1.0
Cash inflow from movement in borrowings (net)	(164.9)	(26.3)
Change in net debt resulting from cash flows	(79.4)	(25.3)
Retranslation of US $ loan notes	4.9	(7.5)
Capitalisation and amortisation of loan arrangement fees	2.8	(1.1)
Gain on modification of loan (IFRS 9) (Note 25)	2.5	4.4
Bank interest repayable	(3.4)	-
Movement in net debt	(72.6)	(29.5)
Opening net debt	(662.5)	(633.0)
Closing net debt	(735.1)	(662.5)

34. Analysis of Net Debt

	At 1.1.19 £m	Cash Flows £m	Other Movements £m	At 31.12.19 £m
Group				
Cash at bank and on deposit	25.2	85.5	-	110.7
Debt due outwith one year	(687.7)	(164.9)	10.2	(842.4)
Debt due within one year	-	-	(3.4)	(3.4)
Total net debt	(662.5)	(79.4)	6.8	(735.1)

The other movements consist of the amortisation of arrangement fees for bank facilities of £3.9m, and £4.9m retranslation gain on the Series A US $ loan notes less loan fees amortised of £1.1m, and the interest on bank loans of £3.4m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. Related Party Transactions

	2019 £m	2018 £m
Group		
Key management compensation (excluding Directors):		
Salaries and short-term employee benefits	0.9	1.6
Post-employment benefits	0.1	0.1
	1.0	1.7

The following transactions were carried out between the Company and its subsidiaries (unless stated otherwise):

Nature of Transactions and Related Party	2019 £m	2018 £m
(a) Revenue:		
Sales of goods and services:		
Port of Dundee Limited	0.0	0.2
Management fees:		
Port of Tilbury London Limited	1.0	1.0
Port of Dundee Limited	0.6	0.6
	1.6	1.6
(b) Finance income - Interest receivable:		
Otter Ports Limited (parent company)	18.4	17.5
International Transport Limited	27.9	23.5
Port of Tilbury London Limited	26.4	25.2
Forth Properties Limited	0.6	0.6
FP Newhaven Two Limited	0.5	0.5
Forth Property Developments Limited	0.9	0.8
Forth Property Investments Limited	0.0	-
Forth Property Holdings Limited	0.1	0.1
Port of Dundee Limited	3.0	2.5
Forth Estuary Towage Limited	-	0.1
Edinburgh Forthside Investments Limited	0.3	0.3
Edinburgh Forthside Developments Limited	0.2	0.1
	78.3	71.2
(c) Finance costs - Interest payable:		
Otter Ports Limited (parent company)	-	0.1
Port of Tilbury London Limited	3.7	3.6
Forth Ports Finance PLC	16.5	16.4
Forth Estuary Towage Limited	0.1	-
Forth Property Investments Limited	0.0	0.1
	20.3	20.2

35. Related Party Transactions (continued)

	2019 £m	2018 £m
(d) Year end balances:		
Trade and other receivables - current:		
Port of Tilbury London Limited	179.0	142.4
International Transport Limited	470.9	443.5
Edinburgh Forthside Holdings Limited	1.2	1.2
Edinburgh Forthside Investments Limited	4.6	4.7
Edinburgh Forthside Developments Limited	3.5	1.9
Forth Property Developments Limited	15.1	14.4
Forth Property Holdings Limited	1.5	1.4
Forth Properties Limited	8.6	11.1
FP Newhaven Two Limited	9.0	9.0
Port of Dundee Limited	22.8	22.4
	716.2	652.0
Trade and other receivables – non current:		
Otter Ports Limited (parent company)	302.6	285.9
Otter Ports I Limited	0.0	0.0
	302.6	285.9
(e) Year end balances:		
Trade and other payables - current:		
Forth Ports Finance PLC	609.5	402.8
Port of Tilbury London Limited	58.3	88.1
Forth Estuary Towage Limited	1.3	0.4
Forth Property Investments Limited	1.0	1.0
Non-significant companies	1.0	1.0
Nordic Limited	1.7	1.7
	672.8	495.0
Trade and other payables - current:		
Otter Ports Group Holdings Ltd	0.1	-
Otter Ports Holdings Ltd	4.4	4.9
Otter Ports II Limited	0.0	0.0
	4.5	4.9
Trade and other payables – non-current:		
Otter Ports Limited (parent company)	1.2	1.2
(f) Key management compensation:		
Company:		
Salaries and short-term employee benefits	0.4	0.7
Post-employment benefits	0.0	0.0
	0.4	0.7

This excludes Directors' emoluments as disclosed in Note 8.

36. Ultimate Parent Company

The Company is 100% owned by Otter Ports Limited, a company incorporated in England. Forth Ports Limited is the smallest group of undertakings for which Group financial statements are available.

Following the change of ownership of the Group in October 2018, Otter Ports Limited is ultimately controlled by Public Sector Pension Investment Board, based in Canada. As Public Sector Pension Investment Board does not consolidate the results of Forth Ports Limited, the next most senior parent is Otter Ports Group Holdings Limited with registered office at Ugland House, South Church Street, George Town, Cayman Islands, and copies of its consolidated financial statements may be obtained from its principal place of business at 10 Bressenden Place, 8th Floor, London, SW1E 5DH.

37. Principal Accounting Policies

Impact of New Standards and Interpretations

There are no amendments to published standards effective in the year nor any standards early adopted which impact on these financial statements, except for:

- IFRS 16: Leases – see below for detail on how this has impacted on the Group financial statements;
- Annual Improvements 2015-2017 (effective 1 January 2019 *) – these amendments include minor changes to:
    - IAS 23: Borrowing Costs – a company treats as part of general borrowings any borrowing originally made to develop the asset when the asset is ready for its intended use or sale - this is consistent with the Group's existing accounting policy so no impact arising.
- Amendments to IAS 19: Employee Benefits on plan amendment, curtailment or settlement (effective 1 January 2019 *) – these amendments require an entity to:
    - Use updated assumptions to determine the current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
    - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling - this is not relevant so no impact arising.
- IFRIC 23: Uncertainty over Income Tax Treatments (effective 1 January 2019 *) – this clarifies how the recognition and measurement requirements of IAS 12: Income Taxes are applied where there is uncertainty over tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37: Provisions, Contingent Liabilities and Contingent Assets, applies to the accounting for uncertain tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there in uncertainty over whether the treatment will be accepted by a tax authority, for example, a decision to claim a deduction for a specific expense or not to include a specific item of income - this is consistent with the Group's existing accounting policy so no impact arising to recognition.

Changes in accounting policies – IFRS 16

In the current year, the Group, for the first time, has applied IFRS 16 Leases (as issued by the IASB in January 2016, and applying to annual accounting periods beginning on or after 1 January 2019).

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group is party to material rental leases where it acts as a lessor, and the Group also has a large number of material plant and equipment leases.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16.

The Group has applied IFRS 16 using the cumulative catch up method, which does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4. Under this method, the asset is measured at an amount equal to the liability upon the date of transition, therefore there is no cumulative effect of initial application to be recognised at the date of initial application.

37. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group carried out an implementation project which showed that the new definition in IFRS 16 did not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except for short-term leases as noted below), the Group:

a) recognises right-of-use assets and lease liabilities in the consolidated Balance Sheet, initially measured at the present value of future lease payments;

b) recognises depreciation of right-of-use assets and interest on lease liabilities in the Income Statement; and

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever the lease term has changed, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

When a lease contract is modified and the lease modification is not accounted for as a separate lease, the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group these comprise plant and equipment.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other operating expenses" in the Income Statement.

For short-term leases (with lease term of 12 months or less) the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the Income Statement.

37. Principal Accounting Policies (continued)

Financial impact of initial application of IFRS 16

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current year.

Impact on Income Statement for the year

	Group 2019 £m	Company 2019 £m
Decrease in other expenses	3.4	0.2
Increase in depreciation and amortisation expense	(3.0)	(0.2)
Increase in finance costs	(0.6)	(0.0)
Decrease in profit for the year	(0.2)	(0.0)

Impact on Assets, Liabilities and Equity as at 1 January 2019

Group	As previously reported £m	IFRS 16 adjustments £m	As restated £m
Right-of-use assets	-	12.6	12.6
Net impact on total assets		12.6	
Lease liabilities	-	(12.6)	(12.6)
Net impact on total liabilities		(12.6)	
Net impact on net assets		-	

Company	As previously reported £m	IFRS 16 adjustments £m	As restated £m
Right-of-use assets	-	0.9	0.9
Net impact on total assets		0.9	
Lease liabilities	-	(0.9)	(0.9)
Net impact on total liabilities		(0.9)	
Net impact on net assets		-	

37. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

Impact on Assets, Liabilities and Equity as at 31 December 2019

Group	As if IAS 17 still applied £m	IFRS 16 adjustments £m	As presented £m
Right-of-use assets	-	10.4	10.4
Net impact on total assets		10.4	
Lease liabilities	-	(10.6)	(10.6)
Net impact on total liabilities		(10.6)	
Net impact on net assets		(0.2)	

Company	As if IAS 17 still applied £m	IFRS 16 adjustments £m	As presented £m
Right-of-use assets	-	0.7	0.7
Net impact on total assets		0.7	
Lease liabilities	-	(0.7)	(0.7)
Net impact on total liabilities		(0.7)	
Net impact on net assets		(0.0)	

The weighted average incremental borrowing rate applied to lease liabilities recognised in the consolidated Balance Sheet at the date of application is 6%.

The following table shows the operating leases commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the consolidated Balance Sheet at the date of initial application.

Reconciliation between IAS 17 and IFRS 16 position

	Group 2019 £m	Company 2019 £m
Operating lease commitments as at 31 December 2018	20.5	1.3
Non lease components contained within operating lease commitments	(5.2)	(0.2)
Effect of discounting on the above	(2.7)	(0.2)
Lease liabilities recognised as at 1 January 2019	12.6	0.9

37. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

The Group has recognised £12.6m of right-of-use assets and £12.6m of financial liabilities upon transition to IFRS16. There is no difference that requires to be recognised in retained earnings.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in other expense and an increase in depreciation and amortisation expense and in interest expense.

Impact on statement of cashflows

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group. Under IFRS 16, lessees must present:

- Short-term lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 7 - the Group has opted to include the interest paid as part of operating activities; and
- Cash payments for the principal portion for leases liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by £3.4m and net cash used in financing activities increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

As at the date these financial statements were approved, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and (in some instances) had not yet been adopted by the EU:

- Amendments to IFRS 3 (effective 1 January 2020 *) – this amendment revises the definition of a business with the aim of simplifying the definition;
- Amendments to IAS 1 and IAS 8 (effective 1 January 2020 *) – these amendments result in (i) a consistent definition of materiality for use throughout IFRSs, (ii) a clarified explanation of the definition of materiality and (iii) incorporation of some guidance about immaterial information;
- Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2021 *) – these amendments provide certain reliefs in connection with interest rate benchmark reform in relation to hedge accounting; and
- IFRS 17: Insurance Contracts (effective 1 January 2021 *) – this standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting for all entities that issue insurance contracts and investment contracts with discretionary participation features.

** EU endorsement for these standards, amendments and interpretations had not yet been announced at the time that these financial statements were prepared. These requirements are not available for early adoption until the completion of the endorsement process.*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods.

<u>Exceptional Items and Revaluations</u>

Exceptional items are those material items of income and expenditure which the Group has disclosed separately because of their quantum or incidence so as to give a clearer understanding of the Group's financial performance. The Group has also separately disclosed the effect of revaluation of investment properties per IAS 40, and the mark to market of interest rate and cross currency swaps per IFRS 9.

37. Principal Accounting Policies (continued)

Consolidation

Subsidiaries

Subsidiaries are those entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is transferred and are no longer consolidated from the date that control ceases. The acquisition method of accounting is used to account for the purchase of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition-related costs are recognised in the Income Statement as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 "Non-current assets held-for-sale and discontinued operations" are measured in accordance with that standard.

The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated fully on consolidation; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Business combinations under common control are accounted for in the consolidated financial statements prospectively from the date the Group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amount in the consolidated financial statements of the ultimate parent entity Otter Ports Holdings Ltd. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity in the "consolidation reserve" reflecting business combinations under common control.

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group's interests in joint ventures are accounted for by the equity method of accounting. The investment in the joint venture is initially recorded at cost and is adjusted thereafter for the post-acquisition change in the Group's share of net assets of the jointly controlled entity.

The Group Income Statement includes the Group's share of the profit or loss of the joint venture. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately. When the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the joint venture.

37. Principal Accounting Policies (continued)

Goodwill

Goodwill arising in a business combination is recognised, at cost less accumulated impairment costs, as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The allocation of goodwill is made to those cash generating units (CGU) or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Goodwill on businesses acquired after 1 January 1999 is shown as an intangible asset with an indefinite useful life and is subject to an annual impairment test at each relevant group of CGUs and is also subject to a test whenever there is an indication of impairment. Any such goodwill impairment is not reversed.

Where there is an excess of the Group's interest in the net fair value of the acquiree's identifiable assets over the purchase price (negative goodwill), this amount is taken to the Income Statement in the year of acquisition.

Revenue Recognition

Revenue from Port operations represents the income earned from the provision of port facilities, which comprise cargo handling, vessel charges, storage, marine charges and ancillary services. Such revenue is recognised at the point in time that the relevant performance obligations have been met. Revenue from contracts to provide storage is recognised over the period of the contract. Where a contract contains guaranteed minimum volumes (GMV) and the contract period straddles the balance sheet date, an estimate is made of the likelihood of any revenue to be accrued in relation to these GMVs.

Revenue from Property includes rental income and sales of property developments. Both Property and Port related rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term. Revenue excludes value added tax and is shown on a gross basis in relation to recoverable charges such as utilities, recoverable overtime and recoverable plant hire costs. Consideration is given to the collectability of any debt outstanding arising from the sale of sites or property developments and provisions are made where necessary. The need for such provisions is reviewed on a regular basis. Profits and losses arising on the sale of sites or completed developments are recognised when contracts for sale have been exchanged and all material conditions have been satisfied and control has been transferred. The Board will have due regard to all the circumstances of any individual transaction in determining whether or not any conditions are material or have been satisfied.

Where sites or completed developments are sold to joint ventures, profits are only recognised in proportion to third parties' interests in those entities. The remaining profits are recognised when the sites or completed developments are sold by the joint ventures or associates to unrelated parties.

Dividend income is recognised when the right to receive payment is established.

Property, Plant and Equipment

Operational land and buildings and plant and equipment are stated at historical cost less depreciation. Land and capital works in progress are not depreciated. Cost is the original purchase price of the asset and the cost of bringing the asset to its current condition and includes transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchase costs where appropriate.

All operational buildings and plant and equipment in the course of construction are recorded as capital work in progress until such time as they are brought into use by the Group. Capital work in progress includes all direct expenditure. On completion, such assets are transferred to the appropriate asset category and start being depreciated.

In circumstances where there is a change in use of operational land and buildings to investment property, the fair value of the asset is established at a date when it has been decided to transfer the asset from operational land and buildings to investment property. Any changes at transfer date are recorded in reserves in Other Comprehensive Income.

37. Principal Accounting Policies (continued)

Property, Plant and Equipment (continued)

Depreciation is charged to write off the cost less any residual value of the asset on a straight line basis over the estimated useful lives (which are reassessed at each balance sheet date) as follows:

Buildings and dock structures	15-50 years straight line
Plant and equipment	3-35 years straight line

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of assets are included in operating profit.

Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining life of the related asset.

Investment Property

Investment property, principally comprising tenanted land and buildings within the port estates, is held for long-term rental yields and is not occupied by the Group. Investment property is treated as a long-term investment and is carried at fair value determined annually. Changes in fair values are recorded in the Income Statement in accordance with IAS 40 and are included in other income. If an investment property is transferred into operating property, it is transferred at the fair value at the date of transfer.

Impairment of Assets

Property, plant and equipment and other non-current assets, excluding goodwill, are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount which is the higher of an asset's net selling price and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

The Group recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost or fair value, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

37. Principal Accounting Policies (continued)

Intangible Assets

Excluding goodwill, intangible assets refer principally to computer software and customer relationships and are carried at cost less accumulated amortisation. Except as noted below, costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of those involved in the software development. Expenditure which enhances or extends the performance of identifiable computer software products beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years. If a business is acquired which has long-term customer relationships, thosc relationships are valued and an intangible asset set up to reflect that value. They are written off on a straight-line basis over periods of up to ten years.

Investment in Subsidiaries

Investments in subsidiaries are stated at cost less any permanent diminution in value by the Company.

Grants relating to the Purchase of Property, Plant and Equipment

Capital grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all conditions pertaining to the grant. Grants relating to the purchase of PPE are recorded against the cost of the relevant item and are amortised over the life of the asset. The amount amortised in each period is set against the depreciation charge of the asset to which it relates.

Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the shareholders. Group dividends are recorded in the period in which they are approved and paid by the subsidiary company's Board.

Long Term Incentive Plan

Certain directors and employees are eligible for compensation benefits in the form of a long term incentive scheme linked to the performance of the Group. The benefit is recorded at the present value of the expected future cash benefits, charged on a straight line basis over the performance period of the scheme, discounted to take into account the time value of money and specific risks identified in relation to the key assumptions used to determine the value of the benefit. The credit is reflected in equity, as a capital contribution received as settlement of any compensation is undertaken by a parent company.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be rcquired to settle the obligation. The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Restructuring provisions are recognised in the period in which the Group has a present legal or constructive obligation for payment. Costs relating to the ongoing activities of the Group are not provided in advance.

Inventories

Property work in progress relates to expenditure on property development projects, land held for development and project work in progress and is included at cost less amounts written off which are deemed to be irrecoverable. Cost includes all direct expenditure and associated indirect costs and related costs of finance where appropriate. On completion, such assets are transferred to investment properties or sold to third parties.

37. Principal Accounting Policies (continued)

Trade Receivables and Accrued Property Income

Trade receivables and accrued property income are carried at original invoice amount less an allowance made for impairment of these receivables. An allowance for impairment of trade receivables and accrued property income is calculated based on the expected credit losses model as set out in IFRS 9. The Group has adopted the simplified approach to impairment when considering trade receivables, contract assets and lease receivables and recognises the lifetime expected loss allowance on these assets. The amount of the allowance is determined by applying expected loss rates to each group of receivables. In determining the loss rates to apply, the Directors give due consideration to historical losses as well as current market conditions to assess the probability of future defaults. Where the expected credit loss is deemed to be immaterial at the balance sheet date, no adjustment has been made to the recoverable amount. The carrying amount of the asset is reduced through the use of this impairment allowance and the amount of the loss is recognised in the Income Statement.

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings. Foreign currency borrowings are retranslated at the balance sheet date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit and loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents are carried in the Balance Sheet at cost. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Share Capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds. Where the Company or its subsidiaries purchases the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholder's equity as own shares held. Where such shares are subsequently sold, any consideration received is included in shareholder's equity.

37. Principal Accounting Policies (continued)

Accounting for Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Balance Sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Group includes a number of companies, including the Company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax assets driven by current tax losses arising in other companies within the same tax group. Payment for group relief is made equal to the tax benefit and amounts are included within the current tax disclosures.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Current tax rates in the relevant jurisdiction are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee Benefits

Defined Benefit Plans

Pension contributions are charged principally at a rate calculated by the Actuary to provide, over the expected remaining service lives of current employees, for all retirement benefits related to projected final salaries and wages. The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date minus the fair value of plan assets, together with adjustments for past service cost. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using market yields on high quality corporate bonds. Actuarial gains and losses are recognised in full as they arise in the Statement of Comprehensive Income.

Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

Accounting for Derivative Financial Instruments and Hedging Activities

At 31 December 2019 the Group had no derivative financial instruments that were designated as hedges.

The derivative financial instruments associated with the Group's current finance facilities have not been designated as fair value or cash flow hedges and are valued at mark to market and any fair value movement thereon is recognised through the Income Statement.

Fair Value Estimation of Financial Instruments

The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows.

38. List of Subsidiaries

All Group subsidiaries have year end dates of 31 December and will make individual Annual Returns to the Registrar of Companies. The Group's joint venture has a year end date of 31 March.

The interests in Forth Ports Finance PLC, International Transport Limited, Port of Dundee Limited, Forth Estuary Towage Limited, Nordic Limited, Edinburgh Forthside Holdings Limited and Forth Property Holdings Limited are held directly by Forth Ports Limited. In all other cases the interest is held by a subsidiary. The principal country of registration and operation of the above undertakings is Scotland, with the exception of Forth Ports Finance PLC, International Transport Limited, Port of Tilbury London Limited, London Container Terminal (Tilbury) Limited and Nordic Limited which are registered and operate in England. Subsidiaries are accounted for by the Company at historical cost less provision for any impairment.

Subsidiary		Interest Held %***	Description of Undertaking
International Transport Ltd	**	100%	Intermediate holding company
Port of Tilbury London Ltd	**	100%	Port operator
London Container Terminal (Tilbury) Ltd	**	100%	Dormant/Non-trading
Forth Estuary Towage Ltd	*	100%	Towage services
Forth Ports Finance PLC	**	100%	Finance company
Port of Dundee Ltd	*	100%	Port operator
AF Dundee Ltd	*	100%	Dormant/non-trading
Forth Property Holdings Ltd	*	90%	Intermediate holding company
Forth Property Investments Ltd	*	90%	Property investment company
Forth Property Developments Ltd	*	90%	Property development
Edinburgh Forthside Holdings Ltd	*	100%	Non-trading company
FP Newhaven Two Ltd	*	100%	Property investment company
Edinburgh Forthside Developments Ltd	*	100%	Property development
Edinburgh Forthside Investments Ltd	*	100%	Property investment company
Forth Properties Ltd	*	100%	Property development
Forth Energy Ltd	*	100%	Dormant/non-trading
Fife Energy (Services) Ltd	*	100%	Dormant/non-trading
Forth Energy (Pipelines) Ltd	*	100%	Dormant/non-trading
Forth Energy (Services) Ltd	*	100%	Dormant/non-trading
Forth Energy (Tilbury) Ltd	**	100%	Dormant/non-trading
Forth Energy (Retail) Ltd	*	100%	Dormant/non-trading
Forth Energy (Generation) Ltd	*	100%	Dormant/non-trading
Forth Energy (Distribution) Ltd	*	100%	Dormant/non-trading
Port of Grangemouth Security Authority Ltd	*	100%	Dormant/non-trading
Victoria Quay Ltd	*	100%	Dormant/non-trading
Forthside Ltd	*	100%	Dormant/non-trading
Forth Ports Trustees Ltd	*	100%	Non-trading
Forth Estate Management Ltd	*	100%	Dormant/non-trading
Grainfax Ltd	*	100%	Dormant/non-trading
Nordic Ltd	**	100%	Dormant/non-trading
Nordic Holdings Ltd	**	100%	Dormant/non-trading
Nordic Recycling (Lincoln) Ltd	**	100%	Dormant/non-trading
Nordic Data Management Ltd	**	100%	Dormant/non-trading
Port of London Tilbury Ltd	**	100%	Dormant/non-trading
Logistics Academy East of England Ltd	**	100%	Dormant/non-trading
Forthport Ltd	*	100%	Dormant/non-trading
FLM Realisations Ltd	*	100%	Dormant/non-trading
Leith Stevedores Ltd	*	100%	Dormant/non-trading
Cruise Edinburgh Ltd	*	100%	Dormant/non-trading
Sandpiper Road NHT 2014 LLP	*	33⅓%	NHT scheme with Scottish Futures Trust and City of Edinburgh Council
Western Harbour NHT LLP	*	33⅓%	NHT scheme with Scottish Futures Trust and City of Edinburgh Council

Sandpiper Road NHT 2014 LLP and Western Harbour NHT LLP are consolidated as subsidiaries as the Group is considered to have economic control.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. List of Subsidiaries (continued)

Associate		Interest Held %	Description of Undertaking
Tilbury on the Thames Trust	**	100%	Promotion of heritable buildings for community benefit.

The above entity is deemed to be an associate as control is split between all members which include non-Group appointments.

Joint Venture			
London Distribution Park LLP	**	50%	JV POTLL with Roxhill (Tilbury) Ltd

Registered Address

*	1 Prince of Wales Dock, Edinburgh EH6 7DX
**	Leslie Ford House, Tilbury, Essex RM18 7EH
***	All shares held are ordinary equity shares