

FORTH PORTS PLC



1 PRINCE OF WALES DOCK, EDINBURGH EH6 7DX
Telephone 0131 555 8700 Facsimile 0131 553 7462

Press Information

16th March 2009

RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2008

Underlying Results¹

- Group revenue up 13% to £185.9m (2007 - £165m)
- Group profit before tax up 34% to £37m (2007 - £27.6m)
- Port operating profit up 23% to £47.6m (2007 - £38.7m)
- Earnings per share up over 27% to 58.7p (2007 - 46.1p)

Reported Results²

- Reported loss before tax - £30.7m (2007 - profit of £32.3m)
- Reported basic loss per share - 107.8p (2007 - earnings of 55.3p)
- Final dividend of 12p leading to rebased full year dividend of 28.6p (2007 - 47.7p)

Refinancing

- Principal net debt of £250m refinanced to June 2012
- Net debt of £208m at the year end
- Interest rates locked in at a significantly lower level than the average rate charged in 2008

Operational Highlights

Ports

- Strong performance from ports - underlying operating profit up 23%
- Scotland - 11% increase in container volumes, strong piped cargo and dry bulk volumes
- Tilbury - strong performance in grain, the ro-ro business and at the Enterprise Distribution Centre
- An increase in volume already seen at Tilbury as a result of the Olympics effect

¹ Underlying figures exclude the impact of revaluation of investment properties, provisions (including provisions against debtors and work in progress), one-off income and costs, and amortisation costs of intangible assets where appropriate

² Including the following main exceptional items and revaluations: adverse yield movements of £19.7m for Ocean Terminal and £19.2m for investment properties; provisions of £27.7m for property work in progress and £3.9m for property debtors; and an increase in deferred tax related to the abolition of Industrial Buildings Allowances of £27.2m

Property

- Underlying operating profit of £0.5m (2007 - loss of £1.3m)
- Decrease in DTZ Market Value of development assets to £60m (2007 - £282m) - 80% of development land bank now held at no immediate development value
- Reduction in value of Ocean Terminal reflecting yield movements
- Despite market, positive value added through planning/milestone progress
 - Outline planning approval gained for the Leith Docks Outline Planning Application
 - Outline planning application for The Harbour, Leith Docks submitted on schedule
 - Granton Harbour revised masterplan approved on 25th February 2009
- Cash and operating spend reduced

Other

- Strategic joint venture with Scottish and Southern Energy plc to pursue interests in renewable energy
- Strong future project pipeline to create value

Charles Hammond, Group Chief Executive, said:

“2008 was a year of considerable achievement for the Group despite the very difficult external environment. The underlying trading performance in ports was our strongest ever and we were delighted to gain outline planning approval for the Leith Docks Outline Planning Application in less than twelve months. Looking ahead, our resilient and secure ports income together with our refinanced debt facilities provide a strong and stable base to continue to deliver value for shareholders and to position ourselves for an economic recovery.”

Enquiries:

Charles Hammond, Group Chief Executive
Wilson Murray, Group Finance Director

Forth Ports PLC

Tel: 0207 404 5959 on 16.3.09
Thereafter 0131 555 8700

Jon Coles/Kate Miller

Brunswick

Tel: 0207 404 5959

Notes to Editors:

Forth Ports PLC owns and operates seven commercial ports in the UK – Tilbury on the Thames, Dundee in the Firth of Tay and five in the Firth of Forth – Leith, Grangemouth, Rosyth, Methil and Burntisland. We also operate out of Chatham in Kent under the Nordic banner.

Within and around the Firths of Forth and Tay, Forth Ports manages and operates an area of 280 square miles of navigable waters, including two specialised marine terminals for oil and gas export and provides other marine services, such as towage and conservancy.

The Group also has significant property interests which it continues to develop as part of its commitments to increase shareholder value.

Chairman and Group Chief Executive's Report

2008 was a year of considerable achievement for Forth Ports but was also affected by a very difficult external environment.

We achieved our strongest ever ports trading performance and levels of growth; we formed a strategic joint venture in the renewable energy sector with a good pipeline of potential projects; and we achieved planning consent for the largest property development ever proposed in the City of Edinburgh.

Inevitably, the year was materially impacted by a number of external factors, notably the growing economic downturn, the banking and liquidity crisis and, of most relevance, the severe decline and virtual shutdown of established property markets. In the face of this, we have taken decisive action to control cash spend and to extend the term of our financing facilities. We are pleased to report that the Group's principal net debt was refinanced in December 2008 for a period of over three years to June 2012 and interest rates were locked in for three years at a significantly lower level than the average rate charged in 2008.

We have therefore entered 2009 with a secure, profitable, cash generative and well diversified ports business, a property portfolio which continues to have significant long-term potential (although from a much reduced base in market value terms) and with a secure financing position.

We are committed to developing a platform for growth from our strong asset base. We will also deliver excellent levels of service and seek to enhance the quality of our customer base and contracts. We believe that growth will come from all of our principal activities – Ports, Property, Waste and Renewable Energy.

Our key watchwords in running the business in these difficult times are prudence and conservatism. This applies to our control of costs, to our aim to conserve cash and to our decision to rebase the dividend to a more conservative level of cover.

The underlying ports operating profit increased by 23% in 2008 to £47.6m (2007 - £38.7m), our best ever performance from our ports business with our operations in both Tilbury and Scotland performing strongly. The result from the Nordic group of companies ("Nordic") was earnings enhancing, although disappointing, with profitability being adversely affected by incremental costs and, in the last quarter of 2008, by the fall in commodity prices at the Materials Recycling Facility ("MRF") in Tilbury.

The property division successfully achieved outline planning approval from City of Edinburgh Council ("CEC") for the Leith Docks Outline Planning Application ("LDOPA"). This approval was given in less than twelve months which is a great credit to our staff who managed the process and also reflects the hard work of the planning officials within CEC.

As indicated in our pre-close trading statement, the property downturn had a major effect on the independent valuation of our development assets. Debenham Tie Leung ("DTZ"), our Valuers, ascribed a Market Value of £60m to these assets as at 31st December 2008 (2007 - £282m) and now deem about 80% of the development land bank to have no immediate development value. This similarly impacted the Calculation of Worth which is now £82m (2007 - £408m). The effect of the property downturn, notably the rise in property market yields, also resulted in a decrease in the value of our investment properties, most of which are secure port related leases.

With the refinancing in place, and the significant capital investment in recent years, we believe we are well placed to deal with a challenging year in 2009.

Financial

The financial results for 2008 are complicated by a number of adjustments, largely non-cash, to the underlying trading position of the Group which are separately identified in the table below.

	2008 Ports £m	2008 Property £m	2008 Total £m	2007 Total £m
Group revenue	<u>184.3</u>	<u>1.6</u>	<u>185.9</u>	<u>165.0</u>
Group operating profit before exceptional items and revaluations	46.9	0.5	47.4	37.0
Add back: amortisation of intangibles	<u>0.7</u>	<u>-</u>	<u>0.7</u>	<u>0.4</u>
Underlying Group operating profit	47.6	0.5	48.1	37.4
Net finance costs	(10.1)	(1.8)	(11.9)	(10.3)
Share of results of joint ventures	-	(1.7)	(1.7)	(2.0)
Share of results of associates	<u>2.5</u>	<u>-</u>	<u>2.5</u>	<u>2.5</u>
Underlying Group profit before tax	40.0	(3.0)	37.0	27.6
Proceeds from guarantor (net)	1.7	-	1.7	-
Provision re debtors	-	(3.9)	(3.9)	-
Insurance proceeds on disposal	2.8	-	2.8	-
Revaluation of investment properties	(18.7)	(0.5)	(19.2)	12.8
Provision against property development assets	-	(27.7)	(27.7)	-
Decrease in valuation of Ocean Terminal	-	(19.7)	(19.7)	(7.7)
Tax on associates	<u>(1.0)</u>	<u>-</u>	<u>(1.0)</u>	<u>-</u>
Profit before tax and amortisation	24.8	(54.8)	(30.0)	32.7
Amortisation of intangibles	<u>(0.7)</u>	<u>-</u>	<u>(0.7)</u>	<u>(0.4)</u>
Reported profit/(loss) before tax	<u>24.1</u>	<u>(54.8)</u>	<u>(30.7)</u>	<u>32.3</u>

Group revenue increased by 13% to £185.9m (2007 - £165m). The underlying ports operating profit increased by 23% to £47.6m (2007 - £38.7m). The underlying property operating profit amounted to £0.5m compared with a loss of £1.3m in 2007. The underlying group profit before tax was £37m (2007 - £27.6m), an increase of 34%. The reported loss before tax amounted to £30.7m after net exceptional items and revaluations of £67.0m arising mainly as a result of non-cash write-downs and provisions in the property business. The loss after tax amounted to £51.2m compared with a profit of £24.9m in 2007.

The basic loss per share amounted to 107.8p (2007 - earnings of 55.3p). Underlying earnings per share were 58.7p compared with 46.1p in 2007, an increase of over 27%.

Net debt at the end of the year amounted to £208m (2007 - £205.5m), an increase of £2.5m over the year. Total committed facilities at the end of 2008 were £275m.

Within the property figures, there were four distinct effects on the results. First, the mark to market of the investment properties held by the Group which includes land and buildings leased out to port related tenants. The annual revaluation of these assets produced a reduction in value of £19.2m compared with an increase in value in 2006 and 2007 of £24.1m and £12.8m respectively. This is a non-cash item arising from a shift in market yields and is not directly reflective of the growth in overall ports income, security of income or ports profitability.

The second effect was on the carrying value of the property development assets. The mark to market exercise was carried out by DTZ who have reviewed the approach to the valuation of the Group's property development assets. A more detailed explanation of the valuation approach by DTZ is covered in Note 13. We have reviewed the future recoverability of the amounts included within inventories in the Balance Sheet in the light of the reduction in Market Value of the Group's property development assets at the year end. These assets are, in the main, held at historic cost. As a result, the total decrease in Market Value has not been reflected in the Income Statement or Balance Sheet. However, after taking into account the areas of the land bank not currently considered realisable for development by DTZ, the reduction in expected ultimate sales proceeds, and the long-term nature of these developments, we have written off £27.7m against the previous carrying value of work in progress of £53.1m. This write-down is a non-cash item.

The third effect was the £19.7m write-down in value of the Group's interest in Ocean Terminal ("OTL"), which has arisen principally as a result of an adverse market yield movement and is a non-cash item.

The fourth effect was the write-down of £3.9m in respect of property trade receivables as a consequence of the diminution in value of the Group's security over sites already sold. There are no further sites in this category.

The tax charge in 2008 included a charge of £27.2m to cover the increase in the deferred tax liability arising from the change in the corporation tax rules covering Industrial Buildings Allowances. This one-off charge has no immediate cashflow effect in itself but will increase the cash tax paid annually by approximately £1.5m. The cash tax charge overall for 2009 will, however, be significantly reduced.

Dividend

In the light of the current economic climate, the Board has reviewed the Group's dividend policy which was established in 2005. The Board remains confident that the ports earnings are in the main robust but, given the UK economic outlook and the fact that property values are not expected to recover materially in the near future, the Board considers that it would be prudent for dividend cover to be higher than it has been in recent years.

Accordingly, the Board has decided to rebase the full year dividend. The recommended final dividend is therefore 12p per share (2007 - 31.95p) making a total dividend for 2008 of 28.6p (2007 - 47.7p). The full-year dividend is twice covered by underlying earnings per share of 58.7p. The Board intends that the Company will continue to pay out dividends of approximately one third in November and two thirds in May. The Board expects that this rebased full year dividend will be sustainable.

If approved by the shareholders at the Annual General Meeting, the final dividend will be paid on 8th May 2009 to all shareholders on the register as at 14th April 2009.

Ports

Our ports business has a relatively even distribution of revenues amongst the main commodity areas:

- Liquid Bulks
- Dry Bulks
- Paper and Forest Products
- Containers and Ro-Ro

Imports or exports of these commodities will be required, even in a period of economic downturn. We estimate that some 80% of our revenues at the beginning of the year are secure, either contractually underpinned by lease or minimum volume guarantee or evergreen given the recurring nature of throughputs and the supply chain pattern of the commodity. The balance of our revenue base is generated from spot markets. Our ports revenues are, therefore, substantially underpinned with good visibility.

The ports business produced an excellent performance in 2008. The underlying EBITDA³ increased to £61.5m compared with £53m in 2007. At Tilbury, there were strong performances in grain, at the Enterprise Distribution Centre and in the ro-ro business. Scotland saw an increase in container volumes of 11%. Coal and steel pipes were useful contributors in 2008 and liquid bulks performed strongly, particularly at Hound Point.

The requirement for land facilities and port services at Tilbury remained strong throughout the year. A number of customer contracts were renegotiated successfully and several long-term customers, recognising the relative shortage of facilities at Tilbury, sought to renegotiate existing contracts earlier than contractually required. The senior management at Tilbury have worked hard with the Olympic Delivery Authority (“ODA”) to promote Tilbury as the prime waterborne distribution centre for the Olympics. Tilbury has already seen an increase in volume from the Olympics effect and expects further substantial increases over the next few years. Good progress has been made with the planning authorities on our application to have our 65 acres of land outside the port rezoned for port use. The momentum to sign up new contracts has continued into this year with over ten new or restructured contracts being signed with customers.

At Grangemouth there was a strong performance from the container business. In addition, we have invested in four new Sennebogen hydraulic material handlers for use in our general cargo business in Scotland. These have already made significant improvements to our productivity and efficiency in handling short sea cargoes.

Our piped cargoes remained strong throughout the year in Scotland, producing stable income flow for the business.

The Nordic group financial result was adversely affected by two factors: firstly, the significant collapse of commodity prices from the end of the third quarter in 2008; and secondly, the “bunching” of commingled waste inflows into the MRF at Tilbury which resulted in an uneven flow of recyclable materials. This, in turn, increased the cost base at the same time as the commodity price decrease. Measures have already been instigated to improve the revenue earning capacity of the MRF with increased inward gate fees to offset the commodity price risk, stricter controls on the inflow of materials, tighter cost controls and process improvements to the machinery.

Property

The property division made an underlying operating profit of £0.5m in 2008 compared with a loss of £1.3m in 2007.

The net decrease in the Market Value of the Group’s property development assets and the change of approach taken by the Valuers have been described earlier. The overall change in value reflects a positive movement of £55m being added to the valuation offset by a net reduction of £277m.

The £55m increase in value was largely attributable to steps taken or milestones achieved by the Group in its development strategy, the main components of which are:

- (a) achievement by the property division of targets and milestones in improving the quality and prospects of the development assets and the development projects becoming more established as a result of the consent for the LDOPA (£46m);
- (b) value being added through infrastructure expenditure incurred (£6.5m).

³ Earnings before interest, tax, depreciation and amortisation

The £277m net reduction in value was a result of deteriorating market conditions, the main components of which are:

- (a) a reduction in residential unit sales rates as a result of falling values and lack of demand in the property market (£135m);
- (b) sales of residential units being deferred due to the slow down in property markets (£79m);
- (c) reduced long-term growth rates for residential units (£54m);
- (d) adverse yield movement in respect of Ocean Terminal (£21m);
- (e) reduction in commercial and industrial values (£20m);
- (f) offset by a positive saving of £32m following a review of development costs.

As a consequence of the change of approach and market conditions, over 80% of the Group's development land bank is currently regarded by DTZ as having no immediate value for development.

The Board continues to believe that the property portfolio is a unique asset which has long-term potential for development when there is a recovery in property markets and infrastructure links to the site become more established.

With the virtual shutdown of property markets, we have already taken steps to reduce materially our projected property spend and our property resource. We will focus on maintaining and growing our income, particularly at Ocean Terminal, obtaining viable planning consents and working to facilitate public sector spend on infrastructure for the site. The achievement of these goals, together with a recovery in property markets, will give us a strong platform in the future to attract a development and/or financing partner. This will allow the long-term potential of these assets to be realised and, over time, to realise cash.

Notwithstanding the substantial reduction in Market Value, the Group's progressive approach to developing its property estate over time has generated a considerable amount of profit and cash and gives the Group significant long-term potential. Since 1991/1992, when Forth Property Developments was established, a total of nearly £100m has been spent on developing the Group's property assets. Over that period, the Group has generated cash of £127m from land sales and has received dividends of £38.6m in aggregate from its property subsidiaries⁴. As at 31st December 2008, net debt in the property subsidiaries was £40.2m.

A highlight of 2008 was the approval by CEC of the LDOPA within a period of twelve months. The property team also submitted an Outline Planning Application ("OPA") for The Harbour, Leith Docks development on 10th December 2008 (the Hub area is now known as The Harbour, Leith Docks). The OPA incorporates proposals for the first two villages of the Leith Docks plan which include a mixed-use development of 1,900 residential units, 16,000sq.m. of retail, 99,000sq.m. of office and 19,000sq.m. of leisure.

2009 will see continuing discussions with CEC on the OPA for The Harbour, Leith Docks which, we believe, will position us well for a future upturn in the property market. The property team has carried out a detailed review of the property division's cashflow requirements which will result in a significantly reduced spend in 2009 compared with 2008. Cash will only be expended where there is a clear benefit to valuation from the spend or in pursuance of a viable planning approval. Our remaining obligated expenditure is approximately £10m which will be carried out over the next few years.

⁴ Excluding minority interests

Renewable Energy

We have entered into a strategic joint venture with Scottish and Southern Energy plc (“SSE”) to pursue joint interests in renewable energy sources. In May 2008, planning approval was granted to Port of Tilbury for the erection of four large wind turbines within the port and we are considering whether to lease or sell the site.

There is a growing recognition that deepwater ports are ideal locations for energy generation plants from renewable sources such as biomass and waste. We see potential to develop a number of such plants and have already received several enquiries.

At Tilbury, proposals are currently going through planning and in Scotland several potential sites have been identified and are the subject of interest. These developments will help us create value through consented sites and also through the benefits of importing significant quantities of bulk materials.

Prospects

We continue to have a number of potential projects offering attractive long-term growth prospects for the ports business. In aggregate, these different projects total over £50m of potential spend. In today’s market, it is more a question of positioning the business to capitalise on these growth opportunities, such as the land outside the Port of Tilbury, in due course. We believe that these projects have the potential to generate attractive long-term returns for our shareholders.

Outlook

The Group’s main focus in 2009 will be to manage our businesses efficiently and prudently in order to withstand the recessionary pressures and develop a growth platform to position us for a recovery in the economy. This will involve increasing the customer base and improving the quality of customer contracts, managing our costs more efficiently and our cash more effectively. Property expenditure will be tightly controlled with the emphasis on increasing the value of our property assets and continuing our dialogue with CEC on our various planning applications in order to take advantage of future benefits from improved transport links.

Trading in January was lower than last year, although many areas of our business continue to trade well. Trading in February both at Tilbury and in Scotland have shown signs of improvement over last year. The stability of a large part of our ports revenue base places us well to cope with the challenges that we expect as a result of the weaker UK economic environment. Against this background, we expect to deliver a robust overall performance.

Christopher Collins
CHAIRMAN

Charles Hammond
GROUP CHIEF EXECUTIVE

16th March 2009

Directorate

2009 will be my last year as Chairman of Forth Ports. I plan to retire at the end of the year in advance of my 70th birthday. It has been a privilege to be involved. A process to select my successor has been led by Gerry Brown, our Senior Independent Director. I am delighted that David Richardson has agreed to take over and wish him well for the future. I will be sad to leave but know that there is an excellent team in place to steer the Company forward.

Christopher Collins
CHAIRMAN

Business Review

GROUP

The strong underlying trading performance of the ports in 2008 was achieved against a backdrop of a dramatic deterioration in the global economy and a very steep decline in the value of property, particularly in the second half of the year. As a result, we achieved strong growth in our underlying port operating profits with excellent trading performances from Tilbury and Scotland.

As a result of market conditions, the Market Value of our property assets decreased significantly although the Board believes that their long-term potential remains considerable.

Ports

Total volume of traffic through the ports increased by 5% to 48.7 million tonnes compared with 46.3 million tonnes in 2007. Liquid bulk tonnages increased to 34.4 million tonnes, up 7% on 2007. Dry cargo tonnages increased marginally to 14.3 million tonnes.

At the end of December 2008, Bidwells, as independent Valuers, carried out a valuation of the investment properties held by the Group. The valuation produced a decrease of £18.7m in respect of the port investment properties and £0.5m in the property investment properties, an overall reduction of £19.2m. This compares with a revaluation increase in 2007 and 2006 of £12.8m and £24.1m respectively. The downward movement in valuation of the investment properties is only as a result of property yield movements and has no bearing on the security of the revenue shown or strong growth performance in the ports business. Both Scottish Ports and Tilbury continued to benefit from an increase in the underlying rent per acre during the course of 2008, however, this was not sufficient to offset the change in the yield year on year.

Tilbury

Tilbury produced yet another strong financial performance on a throughput which was up marginally at 8.4 million tonnes. There was a 10% increase in throughput within the Conventional asset area, driven mostly by ro-ro traffic where there was a 70% increase in that traffic, a 10% increase in the grain division which benefited from a major increase in exports and a 5% increase in the volumes at the Enterprise Distribution Terminal. Short sea container volumes were down by nearly 6% at just over 145,000 boxes compared with just under 153,000 boxes in 2007. The volume of traffic handled by our operating tenants in such areas as cement, scrap and aggregates was also down in 2008, but this was due principally to the reduced level of business from Cemex to enable the new blending and milling facility to be built and did not affect the increased guaranteed tonnage.

A large number of contracts were reviewed and renewed during the course of 2008 as part of the normal ongoing review process. At the end of 2008, the Board approved an investment of under £3m to upgrade the ro-ro facility in-dock at Tilbury subject to reaching an agreement with the customer on an increased guaranteed minimum throughput and an extension to the existing contract through to 2013.

In May 2008, Tilbury received planning approval to erect four large wind turbines within the port to provide electricity for its own use and third party use as part of its drive to lower its carbon energy footprint. In conjunction with our new strategic partner, SSE, we have been evaluating the cost of the project against the increasing cost of the wind turbines versus falling electricity prices. Separately, we have also been looking at the value of the planning approval to assess how we crystallise this value. A decision is expected during the course of 2009.

Following Tilbury's purchase of 65 acres of land just outside the port, we have had detailed meetings with both the Thurrock and Thames Gateway Development Corporation and Thurrock Council over the future use of this land. The plan is subject to public consultation. Thurrock Council are in agreement with the plan and intend to include it in their own local development plan due for completion by mid-year 2009. We therefore intend to submit an OPA this year for port-related expansion and development on the site.

During the year we worked with the ODA in trialling movements of various products from Tilbury to the Olympics site. The ODA have recently approved further dredging works to allow larger barge movements to the site. This can only be to the benefit of the existing barge operation from Tilbury.

Tilbury Container Services ("TCS") increased its volumes by 12% to reach 342,000 boxes. Our share of the operating profit amounted to £3.7m (2007 - £3.7m). The Group's share of profit was up by 60% at the half year but, as referred to in the Group's Interim Statement, the deep sea container market saw a dramatic fall in volumes during the course of the second half of the year. Having geared up for a much higher annual volume, the cost base latterly was too high to support the lower volume. In common with many other deep sea ports, TCS has reviewed its cost base in order to remain competitive in 2009.

Nordic

Nordic had a difficult end to the year but nevertheless the business was still earnings enhancing for the full year. The port business through Chatham was affected in the second half of the year by a reduction in volume from its two major paper customers, one of which was significantly below budget in 2008. The recycling business was affected by peaks and troughs in delivery volumes to the Tilbury MRF which made the control of costs much more difficult. In addition, the collapse of prices for recycled materials could not be counteracted immediately by increases in gate fee income to compensate.

As part of the integration of Nordic, the accounting information was transferred to the Group accounting system. When this information was being validated, some control issues were identified. Further control procedures have been implemented to raise the quality of the management information in the Nordic group.

In 2009, good progress has been made with Nordic's major customers to improve the port profitability and to mitigate, as much as possible, the adverse effects of the fall in commodity prices within the recycling business.

The recycling joint venture in Lincoln was not successful in obtaining planning approval for a new MRF and so the planning costs of approximately £150,000 were written off in the year.

Scottish Ports and Marine

The Scottish business performed strongly in 2008. Container volumes were again well up throughout the year at Grangemouth. The Hound Point volumes increased by over 8% and the Braefoot Bay volumes increased by 14%. In addition, operating efficiencies improved in all of the ports.

Grangemouth

Container volumes amounted to 157,225 boxes in 2008, an increase of 11% compared with 2007. Both shipside and roadside productivity improved significantly during the year, benefitting customers. Whisky exports were well up compared with last year. A new drivers' reception area was completed at the end of the year and this has improved the flow of landside and haulier operations at the terminal.

Dry cargo tonnages remained steady at 0.3 million tonnes with increases recorded in paper and pulp and fish and fishmeal being offset by a reduction in iron and steel tonnages. The second half of the year saw the introduction of the new Sennebogen hydraulic handling machines which have significantly improved the productivity and overall efficiency of our general cargo operations. The final two machines became fully operational in February 2009.

Leith

Total throughput remained steady at 2 million tonnes with increases in grain, aggregates, iron ore and steel pipes being offset by a reduction in the coal volume which was down by 0.2 million tonnes (although still above the guaranteed minimum throughput).

Discussions continue with CEC, and various other parties, on a new cruise liner facility for Edinburgh outside the existing lock gates of the port. It is recognised that there would be a significant benefit to Edinburgh and Scotland in having a cruise liner facility which could take larger cruise liners which would otherwise not be able to berth in the port.

Dundee

The tonnage at Dundee in 2008 amounted to 1 million tonnes (2007 – 1 million tonnes). Agripod/agricultural tonnages were up by 7%; unfortunately with the contraction in the housebuilding sector, timber tonnages reduced from 66,000 tonnes to 39,000 tonnes in 2008.

Rosyth and Fife Ports

Tonnage through Rosyth and Fife Ports amounted to 0.2 million tonnes compared with 0.6 million tonnes in 2007. Although the coal traffic ceased at Rosyth in March 2007, it still accounted for 0.4 million tonnes in that year with no equivalent tonnage in 2008. Rosyth also experienced its share of the economic downturn in the timber and construction industry with a reduction in timber and plasterboard tonnages of approximately 76,000 tonnes.

The Superfast ferry service between Rosyth and Zeebrugge ceased operations in September, however, we are delighted that Norfolkline, a subsidiary of Maersk, is due to start a new service in mid-May. It is hoped that the service will build up from the initial three sailings per week to six sailings per week should the demand warrant it next year. The new vessel will offer both a freight and passenger service and there is a significant amount of interest in the service from the freight community in Scotland.

Property

Our property business has been significantly affected by the dramatic turnaround in the property sector in the UK with, most notably, the massive fall off in housebuilding and lack of available mortgages contributing to a major decline in the value of land. Within this context, the positive work of the property team in building value was more than offset by the market decline.

On the planning front, the LDOPA which was submitted in September 2007 was approved by the planning committee of CEC in August 2008. In December 2008, the Scottish Government decided that the application would not be called in and referred it back to CEC for determination. Also in December, we submitted an OPA for The Harbour, Leith Docks development formerly called the Hub. Detailed discussions with CEC on this application will take place during the course of 2009. Jones Lang LaSalle have been appointed to review the scheme and will advise the Group on its timing and marketing to potential partners. This will only be taken forward when market conditions improve.

The Granton Harbour revised masterplan was approved by CEC on 25th February 2009. The effect of this is to increase the number of townhouses and open spaces within the development.

Since the Interim Statement, the value of OTL has declined further, reducing to a Market Value of £90m at the end of December 2008. This resulted in a reduction in valuation borne by the Group of £19.7m in the full year. At this valuation, OTL would have been in breach of its Loan to Value covenant, however, it was agreed with Bank of Scotland (“BOS”) that the Loan to Value test would be suspended until 30th April 2010 and retested at a minimum lower level of £78m. The refinancing will require Forth Ports to inject a further £5m into OTL by way of loan stock. In addition, both shareholders agreed to lend a further £1.5m each to cover the likely cost of physical alterations to the shopping centre and towards capital inducements for new tenants. This latter sum will only be expended on the basis that it produces a greater uplift in value than the initial sum spent. Towards the end of 2008 we received planning approval to carry out various changes to the front entrance of OTL.

In conjunction with Applecross Properties Limited, we have prepared an OPA for up to 179 units on four plots at Western Harbour. The OPA will be submitted during the first quarter of this year.

Over the course of 2008, we have reviewed the property infrastructure spend on three separate occasions and have brought down the spend from £22.6m to £4.4m in 2009. This spend covers an ongoing requirement to meet existing commitments together with a spend which is required to follow through with The Harbour, Leith Docks OPA and the other minor OPAs referred to earlier. Our aim is to spend only where, with the grant of planning approval or with the completion of works, value will be created which is in excess of the actual spend.

Finance

Bank Funding and Financial Covenants

As has been well publicised, the availability of bank funding deteriorated markedly in 2008, increasing the risk of refinancing for normal trading companies. With this tightening in credit markets, the decision was taken to refinance all of the Group’s borrowings rather than wait until 2009 to complete the refinancing of the £100m Revolving Credit Facility which matured in that year. The Company entered into negotiations with BOS to refinance that part of the facility which matured in June 2009. At the same time, a number of other banks were approached for funding. Following prolonged discussions, the Company renegotiated its total facilities with BOS and Lloyds TSB with the result that, with effect from January 2009, the total facilities available to the Group amounted to £275m (2007 - £300m), comprising two revolving credit facilities totalling £250m which mature on 30th June 2012 and a multi-option finance facility of £25m which matures on 30th June 2010. The BOS revolving credit facility replaces the previous revolving credit facility and the long-term loan. The average margin increased by nearly 100% to 162 basis points. The opportunity was taken to fix the interest rate on £200m of borrowings which has resulted in an average interest rate (including margin) of 4.4% compared with 6.3% in 2008. The bank funding is on an unsecured basis.

The banking covenants cover Tangible Net Worth (“TNW”), gearing and interest cover. The minimum TNW is £200m; the gearing level is based on not more than 100% of TNW. The interest cover is based on a minimum of 2.5 times profit before interest and tax. The TNW covenant is tested monthly, with the other covenants tested half yearly at 30th June and 31st December each year. The headroom on all of the financial covenants at the end of 2008 was comfortable.

The Forth Ports Group Pension Scheme

The triennial valuation of The Forth Ports Group Pension Scheme ("the Scheme") was carried out as at 5th April 2008. The valuation showed a deficit at that date of £30.7m compared with £23.9m as at 5th April 2005. The funding level at April 2008 was up marginally at 85%. Higher than assumed investment returns and increased employer contributions in excess of the cost of benefit accruals were more than offset by the interest on the deficit and the changes in the inflation and mortality assumptions.

The Company has agreed a Recovery Plan with the Trustees of the Scheme which will require an increase in contributions going forward. These contributions will be at a lower cash rate than the payments made in 2007 and 2008 when the Company made larger payments than required into the Scheme to encourage the amalgamation of its two pension schemes. The employer contribution rate will increase from 14.6% to 17.1%. The Trustees agreed that the employees should contribute towards the increased costs of the Scheme. The way in which this is achieved is being discussed. The Recovery Plan agreed with the Actuary requires an additional annual cash payment by the Company of £3.3m for the next seven years. It is expected that this sum will be reduced by approximately £600,000 per annum which is the Company's estimate of the increased contribution required by the employees.

The Scheme had an accounting net deficit after tax under IAS19 of £3.7m at 31st December 2008 (2007 - £0.4m). As has been seen over the last two years, the deficit position can vary widely. The Group paid in £9.5m to the Scheme in 2008 (2007 - £9.5m).

Taxation

Excluding joint ventures and associates, the effective rate of tax for the Group before exceptional items and revaluations for the year was 28.7% compared with 25.5% in 2007. The increase in the actual rate is due principally to the previously announced decision by the Chancellor of the Exchequer to withdraw Industrial Buildings Allowances progressively over the next three years. This measure was approved by Parliament in July 2008, resulting in the Group's deferred tax liability increasing by £27.2m. As reported in last year's Annual Report and Accounts, this increase in liability relates to long-life assets which are unlikely to be sold. This change is expected to increase the cash tax paid to HM Revenue & Customs by approximately £1.5m annually. With the significant losses in 2008, a refund of corporation tax of £4.3m was made to the Company in March this year. As a result, the cash tax charge in 2009 will be significantly reduced.

Cash Flow

The Group operating cash flow amounted to £58.8m (2007 - £65.8m). In 2008, £8.5m was collected from property debtors leaving £1.6m to be collected (net of provisions).

Capital expenditure in 2008 amounted to £23.1m (2007 - £13.4m). £10.8m was spent purchasing the 65 acres of land at Tilbury. The spend on property development assets amounted to £6.5m.

Consolidated Income Statement

For the Year ended 31st December 2008

	Notes	Before Exceptional Items and Revaluations £m	Exceptional Items and Revaluations £m	Total 2008 £m	Before Exceptional Items and Revaluations £m	Exceptional Items and Revaluations £m	Total 2007 £m
Group revenue	2,4	184.0	1.9	185.9	165.0	-	165.0
Cost of sales	3,4	(112.5)	(31.8)	(144.3)	(102.6)	-	(102.6)
Gross profit/(loss)		71.5	(29.9)	41.6	62.4	-	62.4
Administrative expenses	3	(24.1)	-	(24.1)	(25.4)	-	(25.4)
Other (expenses)/income	4	-	(16.4)	(16.4)	-	12.8	12.8
Group operating profit/(loss)	2	47.4	(46.3)	1.1	37.0	12.8	49.8
Finance income	5	2.2	-	2.2	3.1	-	3.1
Finance costs	6	(14.1)	-	(14.1)	(13.4)	-	(13.4)
Share of results of joint ventures	2,4	(1.7)	(19.7)	(21.4)	(2.0)	(7.7)	(9.7)
Share of results of associates	2,4	2.5	(1.0)	1.5	2.5	-	2.5
Profit/(loss) before tax	3	36.3	(67.0)	(30.7)	27.2	5.1	32.3
Taxation	4	(10.2)	(10.3)	(20.5)	(6.8)	(0.6)	(7.4)
Profit/(loss) for the year	2,9	26.1	(77.3)	(51.2)	20.4	4.5	24.9
(Loss)/profit attributable to minority interest		(0.1)	(2.1)	(2.2)	(0.2)	0.0	(0.2)
Profit/(loss) attributable to equity shareholders		26.2	(75.2)	(49.0)	20.6	4.5	25.1
		26.1	(77.3)	(51.2)	20.4	4.5	24.9
(Loss)/earnings per share							
Basic (loss)/earnings per share	8			(107.8p)			55.3p
Diluted (loss)/earnings per share	8			(107.8p)			54.9p

All activities relate to continuing activities.

***Statement of Recognised Income and Expense
For the Year ended 31st December 2008***

	Note	2008 £m	2007 £m
Share of joint venture's movement on cash flow hedge	9	(4.1)	0.2
Share of associate's movement on cash flow hedge	9	(0.1)	0.0
Revaluation of investment property transferred from operational land and buildings	9	24.9	5.7
Deferred tax on revaluation	9	(6.9)	(1.1)
Corporation tax on excess pension contributions	9	1.8	-
Deferred tax on excess pension contributions	9	(1.8)	-
Actuarial (loss)/gain in defined benefit pension scheme	9	(10.9)	12.6
Deferred tax on actuarial (loss)/gain	9	3.1	(3.5)
Effect of tax rate change for deferred tax on actuarial gain	9	-	(0.6)
Share of associate's actuarial loss in defined benefit pension scheme	9	(0.1)	(0.3)
Deferred tax on associate's actuarial loss	9	0.0	0.1
Effect of tax rate change for deferred tax on associate's actuarial loss	9	-	(0.0)
<hr/>			
Income recognised directly in equity		5.9	13.1
(Loss)/profit for the year	9	(51.2)	24.9
<hr/>			
Total recognised (expense)/income for the year		(45.3)	38.0
<hr/>			
Attributable to:			
Minority interest	9	(2.2)	(0.2)
Equity shareholders	9	(43.1)	38.2
<hr/>			
		(45.3)	38.0
<hr/>			

Balance Sheet
At 31st December 2008

	Note	2008 £m	2007 £m
ASSETS			
Non-current assets			
Property, plant and equipment		219.3	223.1
Investment property		205.7	182.9
Intangible assets		40.3	41.6
Investment in joint ventures		-	0.0
Investment in associate		9.6	9.3
Trade and other receivables		-	21.3
Deferred tax assets		1.4	0.1
		<hr/> 476.3	<hr/> 478.3
Current assets			
Inventories		27.4	50.7
Trade and other receivables		35.8	47.9
Current tax receivable		4.5	-
Cash and cash equivalents		4.7	7.3
		<hr/> 72.4	<hr/> 105.9
LIABILITIES			
Current liabilities			
Trade and other payables		(28.9)	(27.4)
Current tax liabilities		-	(3.3)
Borrowings		(0.1)	(0.1)
Provisions		(0.4)	(1.2)
		<hr/> (29.4)	<hr/> (32.0)
Net current assets		<hr/> 43.0	<hr/> 73.9
Non-current liabilities			
Borrowings		(212.6)	(212.7)
Investment in joint ventures		(3.5)	(0.5)
Deferred tax liabilities		(67.6)	(42.8)
Retirement benefit obligations		(5.1)	(0.5)
Provisions		(0.3)	(0.4)
		<hr/> (289.1)	<hr/> (256.9)
Total assets less total liabilities		<hr/> 230.2	<hr/> 295.3
SHAREHOLDERS' EQUITY			
Share capital	9	22.8	22.8
Share premium	9	19.2	19.2
Own shares held	9	(4.9)	(5.2)
Fair value and other reserves	9	13.5	17.7
Retained earnings	9	179.3	238.3
		<hr/> 229.9	<hr/> 292.8
Total shareholders' equity		<hr/> 229.9	<hr/> 292.8
Minority interest in equity	9	0.3	2.5
		<hr/> 230.2	<hr/> 295.3
Total equity	9	<hr/> 230.2	<hr/> 295.3

Cash Flow Statement

For the Year ended 31st December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	10	58.8	65.8
Interest paid		(12.1)	(12.8)
Interest received		0.4	1.0
Tax paid		(8.6)	(2.3)
Dividend received from associated company		1.0	0.7
Dividend received from joint venture company		0.1	-
Net cash generated from operating activities		39.6	52.4
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(23.1)	(13.4)
Purchase of investment property		-	(0.6)
Acquisition of subsidiary		-	(27.1)
Cash acquired with subsidiary		-	0.8
Repayment of subsidiary's borrowings		-	(13.9)
Expenses of sale of interest in joint venture		-	(0.2)
Sale of property, plant and equipment		2.9	0.1
Sale of investment property		0.1	-
Net cash used in investing activities		(20.1)	(54.3)
Net cash inflow/(outflow) before financing activities		19.5	(1.9)
Cash flows from financing activities			
Loan drawdowns		50.0	31.0
Loan repayments		(50.0)	-
Arrangement fees for loans		(0.3)	-
Capital element of finance leases		(0.0)	(0.1)
Minority interest dividend paid		-	(1.6)
Equity dividends paid		(22.1)	(20.9)
Proceeds from sale of own shares held		0.3	0.1
Repayment of loan notes		-	(4.2)
Net cash (used in)/generated from financing activities		(22.1)	4.3
(Decrease)/increase in cash and cash equivalents	10,11	(2.6)	2.4
Cash and cash equivalents at start of year	11	7.3	4.9
Cash and cash equivalents at end of year	11	4.7	7.3

Notes

1. Basis of Preparation

The results have been prepared in accordance with IFRS and IFRICS as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties at fair value.

The information herein does not constitute the Group's statutory accounts for the years ended 31st December 2008 or 2007. Statutory accounts for 2007, which were prepared under IFRS as adopted by the EU, have been delivered to the Registrar of Companies, and those for 2008, prepared under IFRS as adopted by the EU, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

In the current year, two Interpretations issued by the International Financial Reporting Interpretations Committee are effective. These are: IFRS 2 (Group and Treasury Share Transactions) and IFRIC 14 - IAS 19 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction). The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these preliminary financial statements, the following Standards and Interpretations which have not been applied in these preliminary financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)/IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Equity or Associate
IFRS 2 (amended)	Share-based Payment – Vesting Conditions and Cancellations
IFRS 3 (revised 2008)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (revised 2007)	Presentation of Financial Statements
IAS 23 (revised 2007)	Borrowing Costs
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
Improvements to IFRSs (May 2008)	

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the accounts of the Group except for an amendment to IAS 40 (Investment Property) contained in Improvements to IFRS (May 2008). Investment property in the course of construction will be recognised in investment property and measured at fair value. Currently investment property in the course of construction is included in Property, Plant and Equipment as Capital Work in Progress. The estimated impact that this is expected to have on the Group's financial statements when the amendment is adopted will depend on market conditions at that time, but could be material.

Exceptional Items

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.

Notes (continued)

2. Business segments: primary reporting format - business

For management purposes, the Group is organised into two business segments:-

- (1) Port operations; and
- (2) Property.

The segment results for the year ended 31st December 2008 were as follows:-

	Port Operations £m	Property £m	Total 2008 £m
Total revenue*	<u>184.3</u>	<u>1.6</u>	<u>185.9</u>
Underlying** operating profit	47.6	0.5	48.1
Amortisation of intangibles	<u>(0.7)</u>	<u>-</u>	<u>(0.7)</u>
Operating profit before exceptional items and revaluations	46.9	0.5	47.4
Exceptional items and revaluations:			
Proceeds from guarantor of a port tenant (net)	1.7	-	1.7
Gain on disposal of port asset	2.8	-	2.8
Change in fair value of investment properties	(18.7)	(0.5)	(19.2)
Provision for property bad debts	-	(3.9)	(3.9)
Write down of property inventory	-	(27.7)	(27.7)
	<u>(14.2)</u>	<u>(32.1)</u>	<u>(46.3)</u>
Operating profit/(loss)/segment result	32.7	(31.6)	1.1
Finance Income (Note 5)	0.7	1.5	2.2
Finance costs (Note 6)	(10.8)	(3.3)	(14.1)
Share of operating results of joint ventures			
Operating profit	-	2.5	2.5
Revaluation	-	(19.7)	(19.7)
Finance costs	-	(4.2)	(4.2)
Taxation	-	-	-
Net share of results of joint ventures	-	(21.4)	(21.4)
Share of operating results of associate			
Operating profit	3.7	-	3.7
Finance costs	(0.2)	-	(0.2)
Taxation - normal	(1.0)	-	(1.0)
- exceptional	(1.0)	-	(1.0)
Net share of results of associate	<u>1.5</u>	<u>-</u>	<u>1.5</u>
Profit/(loss) before tax	<u>24.1</u>	<u>(54.8)</u>	<u>(30.7)</u>
Taxation - normal			(10.2)
- exceptional			<u>(10.3)</u>
Loss for the year			<u>(51.2)</u>

* Total revenue and underlying operating profit are shown net of inter-segment trading of £0.1m

** Underlying is defined in Note 4 to the Glossary

Notes (continued)

2. Business segments: primary reporting format - business (continued)

The segment results for the year ended 31st December 2007 were as follows:-

	Port Operations £m	Property £m	Total 2007 £m
Total revenue*	<u>159.5</u>	<u>5.5</u>	<u>165.0</u>
Underlying** operating profit	38.7	(1.3)	37.4
Amortisation of intangibles	<u>(0.4)</u>	<u>-</u>	<u>(0.4)</u>
Group operating profit before exceptional items and revaluations	38.3	(1.3)	37.0
Exceptional items and revaluations:			
Change in fair value of investment properties	12.2	0.6	12.8
Operating profit/(loss)/segment result	50.5	(0.7)	49.8
Finance Income (Note 5)	1.0	2.1	3.1
Finance costs (Note 6)	(9.8)	(3.6)	(13.4)
Share of operating results of joint ventures			
Operating profit	-	2.2	2.2
Revaluation	-	(7.7)	(7.7)
Finance costs	-	(4.2)	(4.2)
Taxation	-	-	-
Net share of results of joint ventures	-	(9.7)	(9.7)
Share of operating results of associate			
Operating profit	3.7	-	3.7
Finance costs	(0.3)	-	(0.3)
Taxation	(0.9)	-	(0.9)
Net share of results of associate	<u>2.5</u>	<u>-</u>	<u>2.5</u>
Profit/(loss) before tax	<u>44.2</u>	<u>(11.9)</u>	32.3
Taxation - normal			(6.8)
- exceptional			<u>(0.6)</u>
Profit for the year			<u>24.9</u>

* Total revenue and underlying operating profit are shown net of inter-segment trading of £0.3m and £0.2m respectively.

** Underlying is defined in Note 4 to the Glossary

Inter-segment transfers and transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Notes (continued)

2. Business segments: primary reporting format - business (continued)

Other segment items included in the Income Statement are as follows:-

	Port Operations £m	Property £m	2008 £m	Port Operations £m	Property £m	2007 £m
Change in fair value of investment property (Note 3)	(18.7)	(0.5)	(19.2)	12.2	0.6	12.8
Depreciation of property, plant and equipment (Note 3)	(13.9)	(0.0)	(13.9)	(14.0)	(0.0)	(14.0)
Amortisation of intangibles (Note 3)	(1.4)	-	(1.4)	(1.5)	-	(1.5)
Amortisation of capital grants (Note 3)	0.7	-	0.7	0.8	-	0.8
Impairment of trade receivables	(0.1)	(3.9)	(4.0)	(0.7)	(0.0)	(0.7)

Notes (continued)

2. Business segments: primary reporting format - business (continued)

The segment assets, liabilities and capital expenditure were as follows:-

	Port Operations £m	Property £m	Total 2008 £m
Assets			
Segment assets	478.0	56.6	534.6
Tax assets	4.5	-	4.5
Associate	<u>9.6</u>	<u>-</u>	<u>9.6</u>
Total assets	<u>492.1</u>	<u>56.6</u>	<u>548.7</u>
Liabilities			
Segment liabilities	202.1	45.3	247.4
Tax liabilities	67.3	0.3	67.6
Joint ventures	<u>-</u>	<u>3.5</u>	<u>3.5</u>
Total liabilities	<u>269.4</u>	<u>49.1</u>	<u>318.5</u>
Capital expenditure			
Property, plant and equipment	26.7	0.0	26.7
Investment property	0.0	0.0	0.0
Intangible assets	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Total capital additions	<u>26.8</u>	<u>0.0</u>	<u>26.8</u>

	Port Operations £m	Property £m	Total 2007 £m
Assets			
Segment assets	486.1	88.8	574.9
Joint ventures	-	0.0	0.0
Associate	<u>9.3</u>	<u>-</u>	<u>9.3</u>
Total assets	<u>495.4</u>	<u>88.8</u>	<u>584.2</u>
Liabilities			
Segment liabilities	188.4	53.9	242.3
Tax liabilities	45.7	0.4	46.1
Joint ventures	<u>-</u>	<u>0.5</u>	<u>0.5</u>
Total liabilities	<u>234.1</u>	<u>54.8</u>	<u>288.9</u>
Capital expenditure			
Property, plant and equipment	12.6	0.0	12.6
Investment property	0.1	-	0.1
Intangible assets	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Total capital additions	<u>12.8</u>	<u>0.0</u>	<u>12.8</u>

Secondary reporting format - geographical segments

The Group operates principally in the UK.

Notes (continued)

3. Profit/(loss) before tax

Profit/(loss) before tax has been arrived at after charging/(crediting):

	2008	2007
	£m	£m
Depreciation		
- owned assets (cost of sales)	13.4	13.5
- owned assets (administrative expenses)	0.4	0.4
- assets held under finance leases and hire purchase contracts (cost of sales)	0.1	0.1
Amortisation		
- intangible assets – customer relationships (cost of sales)	0.7	0.4
- intangible assets – other (cost of sales)	0.0	0.0
- intangible assets – other (administrative expenses)	0.7	1.1
- capital grants (cost of sales)	(0.7)	(0.8)
Impairment of trade receivables (cost of sales)	4.0	0.7
Profit on disposal of property, plant and equipment (other (expenses)/income)	(2.8)	-
Other gains on disposal (cost of sales)	(0.0)	(0.1)
Repairs and maintenance expenditure on property, plant and equipment (cost of sales)	7.5	7.4
Property rentals (revenue)	(24.2)	(17.7)
Other operating lease rentals payable		
- plant and equipment (cost of sales)	4.7	4.3
- plant and equipment (administrative expenses)	0.3	0.3
Hire of plant and machinery	5.1	4.6
Inventories		
- cost of inventories recognised as an expense (property cost of sales)	0.8	7.7
- write off of obsolete materials and spare parts (cost of sales)	-	0.1
- write-down of property inventories (property cost of sales)	27.7	-
Employee costs		
- cost of sales	36.4	36.2
- administrative expenses	13.5	14.5
Foreign exchange gains (administrative expenses)	(0.1)	(0.0)
Change in fair value of investment properties (other expenses/(income))	19.2	(12.8)
Auditors' remuneration (administrative expenses)		
- fees payable to the Company's auditor for audit of the Company's annual accounts	0.4	0.3
- other services pursuant to legislation	0.0	0.1
- tax services – compliance work	0.0	0.0
- other services not covered above	0.0	0.1

Notes (continued)

4. Exceptional items and revaluations

Exceptional items and revaluations have been disclosed separately because of their quantum or incidence so as to give a clearer understanding of the Group's financial performance and are charged/(credited) to the Income Statement as follows:-

	2008 £m	2007 £m
<u>Revenue</u>		
Amount receivable from a guarantor of a port tenant	<u>(1.9)</u>	<u>=</u>
<u>Cost of sales</u>		
Write-down of property inventory	27.7	-
Provision for property bad debt	3.9	-
Costs relating to amount receivable from a guarantor of a port tenant	<u>0.2</u>	<u>=</u>
	<u>31.8</u>	<u>=</u>
<u>Other expenses/(income)</u>		
Change in fair value of investment properties	19.2	(12.8)
Gain on disposal of port asset	<u>(2.8)</u>	<u>=</u>
	<u>16.4</u>	<u>(12.8)</u>
<u>Share of results of joint ventures</u>		
Group's share of change in fair value of investment property	<u>19.7</u>	<u>7.7</u>
<u>Share of results of associate</u>		
Group's share of effect on taxation charge as a result of withdrawal of Industrial Buildings Allowances	<u>1.0</u>	<u>=</u>
<u>Taxation</u>		
Current taxation:		
Tax effect of amount receivable less costs from a guarantor of a port tenant	0.5	-
Tax effect of write-down of property inventory	(7.9)	-
Tax effect of provision for property bad debt	(1.1)	-
Tax effect of gain on disposal of port asset	<u>0.2</u>	<u>=</u>
	<u>(8.3)</u>	<u>=</u>
Deferred taxation:		
Tax effect of gain on disposal of port asset	(0.0)	-
Tax effect of change in fair value of investment property	(8.6)	0.6
Tax effect of withdrawal of Industrial Buildings Allowances	<u>27.2</u>	<u>=</u>
	<u>18.6</u>	<u>0.6</u>
Total taxation	<u>10.3</u>	<u>0.6</u>

Notes (continued)

5. Finance income

	2008	2007
	£m	£m
Interest receivable on overpaid VAT	0.3	-
Interest receivable on overpaid corporation tax	-	0.2
Write-down of loan notes to amortised cost	-	0.1
Interest receivable on bank and other deposits	0.6	0.8
Unwinding of discount on zero coupon loan stock at amortised cost	1.3	1.3
Unwinding of discount on long-term receivables at amortised cost	-	<u>0.7</u>
	<u>2.2</u>	<u>3.1</u>

6. Finance costs

	2008	2007
	£m	£m
Interest payable:		
On underpaid corporation tax	0.1	-
On bank loans and overdrafts	13.8	13.0
On other loans	0.0	0.0
On loan notes	-	0.1
Finance leases and hire purchase contracts	0.0	0.0
Amortisation of loan arrangement fees	0.2	0.2
Unwinding of discount on loan notes	-	<u>0.1</u>
	<u>14.1</u>	<u>13.4</u>

7. Dividend

On 16th March 2009, the Board agreed to propose a final dividend of 12p for the year ended 31st December 2008. A resolution to this effect will be put to the Annual General Meeting of the Shareholders on 1st May 2009.

Notes (continued)

8. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to shareholders by the weighted average number of shares in issue during the year, excluding those held by the ESOP Trust which are treated as cancelled.

For diluted earnings per share in 2007, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two categories of dilutive potential ordinary shares, being those share options granted to employees under a SAYE share option scheme and the contingently issuable shares under the LTIP schemes. No dilution is applied in 2008 as the amount attributable to shareholders is a loss.

Underlying earnings are as defined in the Glossary. Underlying earnings per share divides underlying earnings attributable to shareholders by the weighted average number of shares in issue during the year as per the calculation for basic earnings per share.

Reconciliations of the (loss)/earnings and weighted average number of shares used in the calculations are set out below:

Continuing operations	2008			2007		
	(Loss)/ Earnings £m	Weighted Average Number of Shares 000	(Loss)/ Earnings per Share Pence	Earnings £m	Weighted Average Number of Shares 000	Earnings per Share Pence
(Loss)/profit attributable to equity holders of the Company	(49.0)			25.1		
Total shares issued	-	45,646		-	45,620	
Shares held by ESOP Trust	—	(190)		—	(261)	
Basic EPS	(49.0)	45,456	(107.8)	25.1	45,359	55.3
Effect of dilutive securities (share options)	—	—		—	364	
Diluted EPS	<u>(49.0)</u>	<u>45,456</u>	(107.8)	<u>25.1</u>	<u>45,723</u>	54.9
Share of profit attributable to equity holders of the Company before exceptional items and revaluations	26.2			20.6		
Amortisation charge arising from acquisition less tax effect	<u>0.5</u>			<u>0.3</u>		
Underlying EPS	<u>26.7</u>	<u>45,456</u>	58.7	<u>20.9</u>	<u>45,359</u>	46.1

Notes (continued)

9. Statement of changes in shareholders' equity

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share capital £m	Share premium £m	Own shares held £m	Fair value and other reserves £m	Retained earnings £m	£m	£m
Balance at 1st January 2007	22.8	18.2	(5.3)	17.5	220.0	4.3	277.5
Share of joint venture's movement on cash flow hedge	-	-	-	0.2	-	-	0.2
Share of associate's movement on cash flow hedge	-	-	-	0.0	-	-	0.0
Revaluation of investment property transferred from operational land and buildings	-	-	-	-	5.7	-	5.7
Deferred tax on revaluation	-	-	-	-	(1.1)	-	(1.1)
Actuarial gain in defined benefit pension scheme	-	-	-	-	12.6	-	12.6
Deferred tax on actuarial gain	-	-	-	-	(3.5)	-	(3.5)
Effect of tax rate change for deferred tax on actuarial gain	-	-	-	-	(0.6)	-	(0.6)
Share of associate's actuarial loss in defined benefit pension scheme	-	-	-	-	(0.3)	-	(0.3)
Deferred tax on associate's actuarial loss	-	-	-	-	0.1	-	0.1
Effect of tax rate change for deferred tax on associate's actuarial loss	-	-	-	-	(0.0)	-	(0.0)
Net income recognised directly in equity	-	-	-	0.2	12.9	-	13.1
Profit/(loss) for the year	-	-	-	-	25.1	(0.2)	24.9
Total recognised income/(expense) for the year	-	-	-	0.2	38.0	(0.2)	38.0
New shares issued	0.0	1.0	-	-	-	-	1.0
LTIP shares - value of services provided	-	-	-	-	0.9	-	0.9
SAYE scheme - value of services provided	-	-	-	-	0.2	-	0.2
Consideration received for own shares held	-	-	0.1	-	-	-	0.1
Dividends	-	-	-	-	(20.8)	(1.6)	(22.4)
Balance at 31st December 2007	22.8	19.2	(5.2)	17.7	238.3	2.5	295.3
Share of joint venture's movement on cash flow hedge	-	-	-	(4.1)	-	-	(4.1)
Share of associate's movement on cash flow hedge	-	-	-	(0.1)	-	-	(0.1)
Revaluation of investment property transferred from operational land and buildings	-	-	-	-	24.9	-	24.9
Deferred tax on revaluation	-	-	-	-	(6.9)	-	(6.9)
Corporation tax on excess pension contributions	-	-	-	-	1.8	-	1.8
Deferred tax on excess pension contributions	-	-	-	-	(1.8)	-	(1.8)
Actuarial loss in defined benefit pension scheme	-	-	-	-	(10.9)	-	(10.9)
Deferred tax on actuarial loss	-	-	-	-	3.1	-	3.1
Share of associate's actuarial loss in defined benefit pension scheme	-	-	-	-	(0.1)	-	(0.1)
Deferred tax on associate's actuarial loss	-	-	-	-	0.0	-	0.0
Net (expense)/income recognised directly in equity	-	-	-	(4.2)	10.1	-	5.9
Loss for the year	-	-	-	-	(49.0)	(2.2)	(51.2)
Total recognised expense for the year	-	-	-	(4.2)	(38.9)	(2.2)	(45.3)
LTIP shares - value of services provided	-	-	-	-	1.7	-	1.7
SAYE scheme - value of services provided	-	-	-	-	0.2	-	0.2
Consideration received for own shares held	-	-	0.3	-	-	-	0.3
Dividends	-	-	-	-	(22.0)	-	(22.0)
Balance at 31st December 2008	22.8	19.2	(4.9)	13.5	179.3	0.3	230.2

The share premium, own shares held, fair value and other reserves are non-distributable.

Notes (continued)

10. Reconciliation of profit before tax to cash generated from operations

	2008 £m	2007 £m
(Loss)/profit before tax	(30.7)	32.3
Adjustments for:		
- decrease/(increase) in fair value of investment properties	19.2	(12.8)
- net finance costs	11.9	10.3
- write down of property inventory	27.7	-
- provision for property bad debts	3.9	-
- amounts receivable from guarantor of a port tenant less costs	(1.7)	-
- share of results of joint ventures	21.4	9.7
- share of results of associates	(1.5)	(2.5)
- depreciation of property, plant and equipment and amortisation of intangibles	14.6	14.7
- (gain)/loss on sale of property, plant and equipment	(2.8)	(0.1)
- gain on sale of investment property	(0.0)	-
- decrease in provisions	0.9	0.3
- decrease in retirement benefit obligations	(6.3)	(3.8)
- transfer to property, plant and equipment from inventories	(2.3)	-
- transfer to investment properties from inventories	-	(1.2)
- share based payment	1.9	1.1
Movement in working capital:		
Increase in inventories	(4.4)	(7.5)
Decrease in receivables	8.5	24.8
(Decrease)/increase in payables	<u>(1.5)</u>	<u>0.5</u>
Cash generated from operations	<u>58.8</u>	<u>65.8</u>
Reconciliation of (decrease)/increase in cash and cash equivalents to movement in net debt:		
(Decrease)/increase in cash and cash equivalents	(2.6)	2.4
Cash outflow/(inflow) from movement in borrowings (net)	<u>0.3</u>	<u>(26.7)</u>
Change in net debt resulting from cash flows	(2.3)	(24.3)
Loan notes issued	-	(4.2)
Borrowings acquired on purchase of subsidiary	-	(0.2)
Amortisation of loan arrangement fees	<u>(0.2)</u>	<u>(0.2)</u>
Movement in net debt	(2.5)	(28.9)
Opening net debt	<u>(205.5)</u>	<u>(176.6)</u>
Closing net debt	<u>(208.0)</u>	<u>(205.5)</u>

Major non-cash transactions

During 2007, as part of the consideration for the purchase of the Nordic Group, Forth Ports PLC issued 53,620 Ordinary Shares with a value of £1.0m and loan notes with a nominal value of £4.2m. The loan notes were subsequently redeemed prior to 31st December 2007.

Notes (continued)

11. Analysis of net debt

	At 1.1.08 £m	Cash Flow £m	Other Movement £m	At 31.12.08 £m
Cash at bank and on deposit	7.3	(2.6)	-	4.7
Debt due outwith one year	(212.7)	0.3	(0.2)	(212.6)
Finance leases	<u>(0.1)</u>	<u>0.0</u>	<u>-</u>	<u>(0.1)</u>
Total net debt	<u>(205.5)</u>	<u>(2.3)</u>	<u>(0.2)</u>	<u>(208.0)</u>

The other movement of £0.2m related to the amortisation of arrangement fees for bank facilities.

12. Contingent liability

During 2008, the Group acquired additional land adjacent the Port of Tilbury. In the event that planning permission is granted to develop that land for port-related use, then an additional payment is due to be made to the previous owner of that land. The amount is dependent on the acreage of land for which planning permission is granted, with the maximum amount payable being £9,750,000 (2007 - £nil).

13. Glossary

1. The DTZ Valuations dated 31st August 2005, 31st December 2006, 31st December 2007 and 31st December 2008 include the terms "Market Value" and "Calculation of Worth" which are defined in the current version of The Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors ("the Red Book") as:

Market Value

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Calculation of Worth

"The provision of a written estimate of the net monetary worth at a stated date of the benefits and costs of ownership of a specified interest in property to the instructing party reflecting the purpose(s) specified by that party".

2. The "property development assets" which DTZ have valued include the undernoted assets:

- Land at the Port of Leith covered by the Group's Leith Docks Outline Planning approval;
- The development sites called The Harbour, Leith Docks, Granton Harbour and Western Harbour, all of which are in Leith;
- Development sites at Grangemouth, Burntisland and Methil; and
- The Ocean Terminal Shopping Centre.

3. Property Valuation – Approach used by DTZ

The undernoted paragraphs are taken from the DTZ valuation report as at 31st December 2008:

“As a result of the very dramatic changes in the property market and the general economic environment, we have considered it necessary to review our entire approach to the Valuation of the Group’s property development assets to reflect what we consider would be the approach the wider market would take were the property assets of the Group to be sold at the date of Valuation.

Notes (continued)

13. Glossary (continued)

In the past, our opinion of Value has been based on the approach that purchasers of the assets would take a very long term view of the principal properties in the portfolio and reflect future value on a discounted basis, taking account of future sale revenues of the sites after allowing for the cost of providing the infrastructure together with associated costs. Up until the early part of 2008, there had been a strong appetite from a wide variety of investors seeking an involvement in major mixed use development projects, with both debt and equity available from a wide range of sources. Whilst the commercial property sector generally started to decline in the early part of 2007, it accelerated throughout the year and started affecting the residential sector in late 2007, with increasing impact throughout 2008, particularly after the various British banking crises and the collapse of Lehman Brothers in September 2008.

The impact of the banking and economic environment and the downturn in the property sector has required us to reconsider the approach we consider the market would take to the property development assets. The effect of the downturn on land has been considerably more than the general decline in the value of completed properties in both the commercial and residential sectors. This is due to the value of land being a factor of end value (sale of the completed development) and therefore any reduction in end value results in an increased impact in percentage terms on land values. This clearly operates in the other direction in a rising market.

In terms of the Group's major development projects, many of the sites are no longer viable depending upon what infrastructure has already been put in place. Our revised approach to the Valuation of the Group's major property development assets is summarised below:

- **Granton Harbour** – We have allowed development Value on a small section of the site at a discounted rate, but have otherwise disregarded the remainder of the land on the basis that it is not viable to develop/reclaim in the current market. Where land is income producing from the letting of existing property, we have valued on a conventional basis.
- **Western Harbour** - The approach has been the same as for Granton Harbour. We have allowed for the development of a small part of the site, but only included the land at a discounted rate, as viability is marginal.
- **The Harbour, Leith Docks** – This part of the proposed development has been significantly impacted by the downturn in the commercial markets, again making the viability of development very marginal. A value has been applied to the residual land as it does occupy the key part of the main site and the overall entrance to the scheme.
- **Leith Docks** - We have disregarded all previous planned development on the site on the basis of viability and reflected a value based on the ongoing use of the site in its Port use.
- **Grangemouth** – As with other sites, development land has been substantially marked down to reflect viability and existing income valued in perpetuity.
- **Burrtisland/Methil** – The overall value of the land assets has been marked down, but there is now an improved planning scenario which might allow for a food retail development.
- **Ocean Terminal** – This asset has been valued separately by Drivers Jonas. The downward value reflects the impact on the market of both yield and rental movements in the retail sector and fits in line with our experience generally.

In overall terms, the number of residential development units being valued in the current exercise has fallen from approximately 17,000 to around 2,600. The result of this is that the overall sensitivity of the valuation is now far less affected by future movements in the residential market. Over 50% of the value of the assets is now a reflection of cash flow rather than residual development value which reflects the market requirements for certainty and sustainability in values going forward. The Group has continued to invest in the infrastructure of the various projects and although this has rightly been reduced going forward, it leaves the Group able to reflect future value in the assets as and when the market improves over the next five years. In the short term, the assumptions we have made assume plot values will continue to decline in the short term as residential values in Scotland continue to fall.

Notes (continued)

13. Glossary (continued)

Whilst this revised approach reflects our perception of the wider market approach in the current economic environment, it does result in a very significant reduction in the value of the Group's property development assets over the past twelve months, much of which has been driven in the second half of the year. The reduction in land values reflects what we are seeing across the UK where Companies are using Market Value as their basis of Valuation".

4. Definition

The definition of the word "underlying" in the context of an adjustment to a reported number is as follows:-

- 1) Underlying group/port/property operating profit refers to the reported group/port/property operating profit adjusted to exclude the effect of any revaluation of the investment properties, amortisation charge arising from acquisitions and any one-off significant costs or income.
- 2) Underlying profit before tax, underlying profit after tax and underlying earnings per share refer to reported profit before tax, reported profit after tax and reported basic earnings per share adjusted as above in 4(1) together with an adjustment for any revaluation of joint venture's investment property.

General

14. The principal accounting policies adopted in the preparation of this report are as set out in the Annual Report and Accounts 2008 which will be available at www.forthports.co.uk.
15. The annual Accounts will be posted to shareholders on 31st March 2009. Copies will be available from the Company's registered office, Forth Ports PLC, 1 Prince of Wales Dock, Leith, Edinburgh EH6 7DX.