OTTER PORTS HOLDINGS LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2019

Registered Number: 0252937

OTTER PORTS HOLDINGS LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS	**PAGE**

OTTER PORTS HOLDINGS LTD

COMPANY INFORMATION

DIRECTORS	Lord Smith of Kelvin (Chairman) Richard Chang Patrick Samson (Alternate) Patrick Charbonneau (Alternate) Stephen Kynaston Simon Davy Stewart Oades Michael Bryan Azhar Abidi Martine Légaré
COMPANY SECRETARY	Pamela Smyth
REGISTERED OFFICE	Otter Ports Holdings Ltd Ugland House South Church Street George Town Cayman Islands
INDEPENDENT AUDITOR	Deloitte LLP Statutory Auditor 110 Queen Street Glasgow G1 3BX United Kingdom
SOLICITORS	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS United Kingdom
BANKERS	Lloyds Banking Group PLC New Uberior House Third Floor 11 Earl Grey Street Edinburgh EH3 9BN United Kingdom

OTTER PORTS HOLDINGS LTD

DIRECTORS' REPORT

The Directors present their report and the audited non-statutory consolidated financial statements of Otter Ports Holdings Ltd (the Company) for the year ended 31 December 2019. The Company and its subsidiaries and joint venture together form the Group. With the exception of the outbreak of COVID-19 which is discussed further below, there have been no significant events since the balance sheet date.

Performance Review

The Group revenue for the year was £238.5m representing 5.6% growth on 2018. Gross profit was £109.6m, up £13.5m or 14% on 2018. This was as a result of increased profitability of the core port and marine operations which benefited from increased revenues and good cost control.

Group operating profit before exceptional items and revaluations was £81.3m, up from £75.7m in 2018 primarily due to the aforementioned items. Total Group operating profit was £94.5m, up from £92.9m in 2018. Finance costs were £65.0m, up £20.3m on 2018, primarily due to the mark to market losses for the interest rate and cross currency hedges.

Profit for the year was £13.1m, down from £36.1m in 2018 due to lower fair value uplift on investment properties and higher finance costs.

Shareholders' equity was £107.6m (2018 - £104.2m).

Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Company are considered to relate to general levels of UK trade, property markets and the current global economic environment. The risks and uncertainties arising from the COVID-19 pandemic are considered further below.

Liquidity and Going Concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support provided by the ultimate parent company, Otter Ports Group Holdings Limited, as well as the performance of the Company's investment in Forth Ports Limited, with the Group's business activities, financial performance, cashflows, borrowings and liquidity position together with the Group's facilities, liquidity and assessment summarised below and on the following page.

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 now received). 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 anticipated 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. Actual performance in Q2 did see a downturn in trading, although the impact was not as significant as had been anticipated in the central case, with debtor days remaining in line with normal levels, lending covenants continuing to be met and cash held being higher than anticipated.

Liquidity and Going Concern (continued)

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 and there are a number of mitigating actions including delay in capex spend and deferral of discretionary dividend payments within the control of the Group.

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.

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.

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 at a Group level, as set out in the Directors' Report on pages 2 and 3. 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 due to the continued financial support of the parent company, Otter Ports Group Holdings Limited.

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)
Richard Chang
Patrick Samson (Alternate)
Patrick Charbonneau (Alternate from 5 June 2020)
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)
Martine Légaré (appointed 5 June 2020)

OTTER PORTS HOLDINGS LTD

DIRECTORS' REPORT (CONTINUED)

Directors' Responsibilities Statement

The Directors are responsible for preparing financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union.

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 of the profit or loss of the Group for that period. International Accounting Standard 1 requires that the 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'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's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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:

R. Chang
Director
29 September 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OTTER PORTS HOLDINGS LTD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- **the financial statements of Otter Ports Holdings Limited give a true and fair view of the state of the group'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 and IFRSs as issued by the International Accounting Standards Board (IASB);**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB).

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 parent 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's (the 'FRC's') Ethical Standard as applied to listed entities, 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of investment property • Assumptions used in the valuation of the retirement benefit obligation Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the group financial statements was £7.2m which was determined on the basis of 5% of Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA).

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Scoping	The scope of our work includes Otter Ports Holdings Limited, Forth Ports Limited, the trading subsidiary companies and holding companies. All entities were subject to a full audit and were audited directly by the group engagement team.
Significant changes in our approach	There has been no significant changes to our approach.

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 parent 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.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment property	
Key audit matter description	The group has investment property of £435.4m at 31 December 2019 (2018 - £415.7m) and the investment property valuation will vary depending on the inputs used in the valuation model. There is a risk that the valuation assumptions are not reasonable leading to a material misstatement in the carrying value of the investment property. The most critical assumption relates to the investment property yield rates as this is the input which requires the greatest amount of judgement. Further details are included within "Key Sources of Estimation Uncertainty" as disclosed in the accounting policies within the financial statements and in note 12 to the financial statements

How the scope of our audit responded to the key audit matter	We have obtained the valuation models used by management in their assessment of carrying value. We have tested the underlying data by selecting a sample of property lease contracts, and agreeing the data back to the underlying contract. We have compared property values to the values in the prior valuations and have focused our testing on properties for which there were significant changes in fair value. We have reviewed and challenged management's valuations and considered the appropriateness of the inputs and assumptions employed. This includes assessing the location specific adjustments, testing large variances in yield year over year as well as properties related to new leases in the year. We have engaged our own real estate experts to review the yield assumptions for these key properties considering the competency, qualifications and approach adopted by the valuer. We have also reviewed the disclosure in the financial statements to assess whether it is in accordance with the principles of IAS 40.
Key observations	Overall, based on market conditions at 31 December 2019 and our experience, the valuations and the yield assumptions used in the valuation models are reasonable.

Assumptions used in the valuation of the retirement benefit obligation

Key audit matter description	The group has a pension liability of £52.6m at 31 December 2019 (2018 - £48.7m). The pension liability is dependent on the inputs used in the actuarial calculation. There is a risk that the pension benefit assumptions (including the selection of a discount rate, inflation and mortality assumptions) are not appropriate and changes in such assumptions could lead to a material movement. The most critical assumption relates to the discount rate, as this is the input that requires the greatest amount of judgement. The discount rate is set with reference to market yields at the end of the reporting period on high quality corporate bonds. Further details are included within "Key Sources of Estimation Uncertainty" as disclosed in the accounting policies within the financial statements and in notes 25 and 22 to the financial statements.
How the scope of our audit responded to the key audit matter	We reviewed the key assumptions that form part of the pension liability and benchmarked them to Deloitte industry averages. We engaged our specialists to review the assumptions in relation to discount rates and mortality rates including the methodology used to derive these. We have also reviewed the disclosure in the financial statements to assess whether it is in accordance with the principles of IAS 19 "Employee benefits."
Key observations	Overall, based on market conditions at 31 December 2019 and our experience, the proposed assumptions are reasonable. While we consider the discount rate, inflation, and mortality assumptions to be on the optimistic end of the scale, they are within the reasonable range when compared to Deloitte benchmarks.

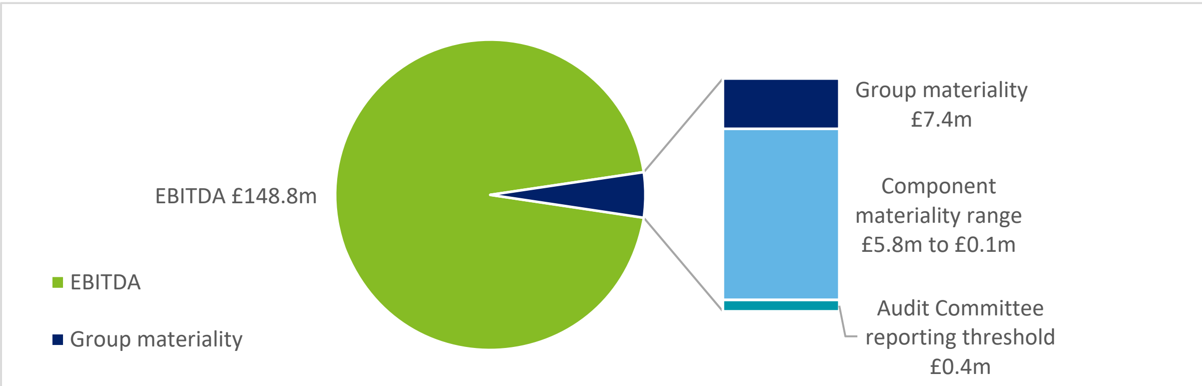
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements
Materiality	£7.2m (2018: £6.0m)
Basis for determining materiality	5% of EBITDA (2018: 5% of EBITDA)
Rationale for the benchmark applied	EBITDA has been used as the benchmark as this is the principal indicator of most interest to the key shareholders.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £360,000 (2017: £300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, the scope of our group audit work includes Otter Ports Holdings Limited, Forth Ports Limited and the trading subsidiary companies. All entities were subject to a full audit by the group engagement team. The entities in scope for our group audit work were audited to their respective materiality levels ranging from £0.1m to £5.8m. These account for 100% of the group's revenue, 100% of the group's profit before tax and 100% of the group's net assets.

Work has also been performed at group level, including the consolidation process and other disclosure requirements.

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.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, 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.

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 parent 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 parent 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OTTER PORTS HOLDINGS LTD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Use of our report

This report is made solely to the company's directors in accordance with our engagement letter dated 17 December 2019 and solely for the purpose of clause 12.3 of the Company's Shareholders' Agreement and complying with the Listing Rules 8.5.3.1 and 8.5.3.2 of the International Stock Exchange. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an independent 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, 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
DATE 30 September 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	238.5	-	238.5	225.8	-	225.8
Cost of sales	5,6	(128.9)	-	(128.9)	(125.5)	(4.2)	(129.7)
Gross profit		109.6	-	109.6	100.3	(4.2)	96.1
Administrative expenses	5,6	(28.4)	(4.3)	(32.7)	(24.6)	-	(24.6)
Other income	6	-	17.6	17.6	-	21.4	21.4
Group operating profit	5,6	81.2	13.3	94.5	75.7	17.2	92.9
Share of results of joint venture	14	0.1	-	0.1	0.3	-	0.3
Finance income		0.4	-	0.4	0.1	-	0.1
Finance costs	6,9	(58.1)	(6.9)	(65.0)	(53.0)	8.3	(44.7)
Profit before tax	5,6	23.6	6.4	30.0	23.1	25.5	48.6
Taxation	6,10	(17.0)	0.1	(16.9)	(9.1)	(3.4)	(12.5)
Profit for the year		6.6	6.5	13.1	14.0	22.1	36.1
Profit attributable to non-controlling interest		(0.1)	-	(0.1)	(0.1)	-	(0.1)
Profit attributable to equity shareholders		6.7	6.5	13.2	14.1	22.1	36.2
		6.6	6.5	13.1	14.0	22.1	36.1

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		13.1	36.1
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation on transfer of investment property from operational land and buildings	12	3.4	2.6
Deferred tax on revaluation of investment property	24	(0.2)	(0.2)
Actuarial (loss)/gain on defined benefit pension schemes	25	(16.4)	8.2
Deferred tax on actuarial loss/(gain)	17	3.1	(1.6)
Corporation tax on excess pension contributions		2.4	-
Deferred tax on excess pension contributions	17	(2.4)	-
Effect of tax rate change for deferred tax on defined benefit pension schemes	17	(0.0)	0.2
Other comprehensive income recognised directly in equity, net of tax		(10.1)	9.2
Total comprehensive income for the year		3.0	45.3
Attributable to:			
Non-controlling interest		(0.1)	(0.1)
Equity shareholders		3.1	45.4
		3.0	45.3

GROUP BALANCE SHEET
AS AT 31 DECEMBER 2019

		2019	2018
ASSETS	Notes	£m	£m
Non-current assets			
Property, plant and equipment	11	798.2	680.1
Investment property	12	435.4	415.7
Intangible assets	13	298.3	305.6
Derivative financial assets	21	20.1	23.2
Deferred tax assets	17	8.9	8.3
		1,560.9	1,432.9
Current assets			
Inventories	15	5.6	9.1
Trade and other receivables	16	56.5	49.2
Derivative financial assets	21	1.9	1.9
Cash and cash equivalents	18	112.3	25.4
		176.3	85.6
LIABILITIES			
Current liabilities			
Trade and other payables	19	(73.1)	(42.9)
Current tax liabilities		(9.0)	(5.0)
Derivative financial instruments	21	(4.3)	(5.4)
Provisions	22	(2.3)	(2.2)
		(88.7)	(55.5)
Net current assets		87.6	30.1
Total assets less current liabilities		1,648.5	1,463.0
Non-current liabilities			
Borrowings	20	(1,346.5)	(1,185.3)
Derivative financial instruments	21	(25.7)	(19.4)
Provisions	22	(16.5)	(15.4)
Trade and other payables	23	(9.1)	-
Deferred tax liabilities	24	(90.5)	(90.0)
Retirement benefit obligations	25	(52.6)	(48.7)
Preference shares	26	(0.0)	(0.0)
		(1,540.9)	(1,358.8)
Net assets		107.6	104.2
SHAREHOLDERS' EQUITY			
Share capital	27	0.0	0.0
Share premium		1.4	1.0
Retained earnings		107.1	104.0
Total shareholders' equity		108.5	105.0
Non-controlling interest in equity		(0.9)	(0.8)
Total equity		107.6	104.2

The financial statements on pages 11 to 52 were approved and authorised for issue by the Board of Directors on 29 September 2020 and signed on its behalf by:

R Chang
Director

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company				
	Share capital £m	Share premium £m	Retained earnings £m	Non controlling interest £m	Total equity £m
Group					
Balance at 1 January 2018	0.0	1.0	54.2	(0.7)	54.5
Revaluation on transfer of investment property from operational land and buildings (Note 12)	-	-	2.6	-	2.6
Deferred tax on revaluation of investment property (Note 24)	-	-	(0.2)	-	(0.2)
Actuarial gain in defined benefit pension scheme (Note 25)	-	-	8.2	-	8.2
Deferred tax on actuarial gain (Note 17)	-	-	(1.6)	-	(1.6)
Effect of tax rate change for deferred tax on defined benefit pension scheme (Note 17)	-	-	0.2	-	0.2
Other comprehensive income recognised directly in equity	-	-	9.2	-	9.2
Profit for the year	-	-	36.2	(0.1)	36.1
Total comprehensive income for the year	-	-	45.4	(0.1)	45.3
Gain on transition to IFRS 9 (Note 33)	-	-	4.4	-	4.4
Balance at 31 December 2018	0.0	1.0	104.0	(0.8)	104.2
Revaluation on transfer of investment property from operational land and buildings (Note 12)	-	-	3.4	-	3.4
Deferred tax on revaluation of investment property (Note 24)	-	-	(0.2)	-	(0.2)
Actuarial loss on defined benefit pension scheme (Note 25)	-	-	(16.4)	-	(16.4)
Deferred tax on actuarial loss (Note 17)	-	-	3.1	-	3.1
Other comprehensive income recognised directly in equity	-	-	(10.1)	-	(10.1)
Profit for the year	-	-	13.2	(0.1)	13.1
Total comprehensive income for the year	-	-	3.1	(0.1)	3.0
LTIP shares issued	0.0	0.4	-	-	0.5
Balance at 31 December 2019	0.0	1.4	107.1	(0.9)	107.6

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	28	92.9	93.4
Interest paid		(31.7)	(26.8)
Interest received		0.4	0.1
Tax paid		(10.1)	(10.3)
Net cash generated from operating activities		51.5	56.4
Cash flows (used in)/from investing activities			
Purchase of property, plant and equipment, intangibles and investment property		(126.2)	(54.3)
Sale of property, plant and equipment		2.0	0.1
Net cash used in investing activities		(124.2)	(54.2)
Net cash outflow before financing activities		(72.7)	2.2
Cash flows (used in)/generated from financing activities			
Repayment of lease liabilities		(3.4)	-
Interest payment to bondholders		(5.0)	(27.4)
Increase in Shareholder borrowing		3.1	
New loan facilities drawn down		239.9	33.8
Loan repayments		(75.0)	(7.5)
Net cash from financing activities		159.6	(1.1)
Increase in cash and cash equivalents		86.9	1.1
Cash and cash equivalents at start of year		25.4	24.3
Cash and cash equivalents at end of year	18	112.3	25.4

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Otter Ports Holdings Ltd (the Company) is a private company limited by shares incorporated in Grand Cayman. The address of its registered office is given on page 1. The Company operates as an intermediate holding company and acted as such throughout the year. 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 non-statutory consolidated financial statements have been approved for issue by the Board of Directors on 29 September 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. The non-statutory 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 Group has taken the exemption under IAS 24 to not disclose transactions between wholly owned subsidiaries.

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 affect 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 financial statements. In reaching this conclusion the Directors have taken into account the net assets of the Group of £107.6m and the amounts due to shareholders of £500.7m. The Directors do not expect the amounts due to shareholders to be fully called within twelve months of approval of these financial statements, therefore they 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.

2. Basis of Preparation (continued)

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 33. 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.

Critical Accounting Judgements

The Directors have concluded that there are no critical accounting judgements, except for:

<u>Capitalisation of borrowing costs</u>

As shown in Note 9, 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 property 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 in the 2020 financial statements.

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

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 yield at the year end, investment return (including a risk margin over gilt yield); 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 assumptions on the liability may be found in Note 25.

3. Critical Accounting Judgements, Key Assumptions and Estimation Uncertainty (continued)

Key Sources of Estimation Uncertainty (continued)

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 12. The impact on 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

4. Revenue (continued)

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. 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) (Note 11)	25.5	20.8
- owned assets (administrative expenses) (Note 11)	0.1	0.1
- depreciation on leased assets (Note 11)	3.0	-
- capital grants (cost of sales) (Note 11)	(4.1)	(0.9)
Amortisation		
- intangible assets – customer relationships (cost of sales) (Note 13)	6.6	6.6
- intangible assets – other (administrative expenses) (Note 13)	0.7	0.6
Repairs and maintenance expenditure on property, plant and equipment (PPE) (cost of sales)	8.7	9.5
Expenses relating to short term leases	4.2	3.2
Inventories		
- cost recognised as an expense (cost of sales)	0.7	0.7
Employee costs		
- cost of sales (Note 8)	45.8	51.4
- administrative expenses (Note 8)	14.5	13.2
- finance costs (Note 9)	1.2	1.4

<u>Auditor's Remuneration</u>

The fees payable for the audit of the parent Company's annual financial statements were £20k and were incurred and paid by a subsidiary company, Forth Ports Limited. The fees payable for the audit of the underlying subsidiaries' annual financial statements were £230k (2018 - £224k) and the fees payable for non-audit services were £40k in relation to tax (2018 - £52k in relation to tax and corporate restructuring advice).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. 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 25)	-	4.2
Administrative expenses		
Long Term Incentive Plan (LTIP) – value of services provided * (Note 8)	1.9	-
Exceptional tug hire *	1.1	-
Impairment of trade receivables * (Note 16)	1.3	-
	4.3	-
Other income		
Increase in fair value of investment properties** (Note 12)	(17.6)	(21.4)
Finance costs		
Interest rate hedge – mark to market** (Note 9)	5.1	(8.1)
Cross currency interest rate hedge – mark to market** (Note 9)	3.1	(8.2)
Retranslation of Series A US $ loan notes** (Note 9)	(5.5)	7.5
Gilt lock settlement* (Note 9)	5.7	-
Diesel hedge – mark to market** (Note 9)	0.0	0.1
Euro option – mark to market ** (Note 9)	-	0.2
Remeasurement of the discount rate on Pilots' National Pension Fund (PNPF) provision * (Note 9)	1.1	0.2
IFRS 9 gain on amendment of bank facilities ** (Note 9)	(2.6)	-
	6.9	(8.3)
Taxation		
Current taxation:		
Tax effect of the remeasurement of the discount rate on PNPF provision	(0.2)	(0.0)
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)	(0.0)
	1.1	4.4
Total taxation	(0.1)	3.4

7. Directors' Emoluments

No Director received remuneration directly through the Company during the year in relation to their services as Directors of the Company (2018 – none). Key management compensation is disclosed in Note 31.

8. Employee Costs

The aggregate remuneration of all Employees 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 6)	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:

	2019 No	2018 No
Operational	742	730
Maintenance	147	149
Administrative	173	173
	1,062	1,052

9. Finance Costs

	2019 £m	2018 £m
Interest on pension liability (Note 25)	12.1	11.0
Interest income on scheme assets (Note 25)	(10.9)	(9.6)
Interest on bonds	30.4	27.4
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 6)	5.1	(8.1)
Cross currency interest rate hedge – mark to market (Note 6)	3.1	(8.2)
Retranslation of Series A US $ loan notes (Note 6)	(5.5)	7.5
Remeasurement of the discount rate on PNPF provision (Note 6)	1.1	0.2
Gilt lock settlement (Note 6)	5.7	-
Diesel hedge – mark to market (Note 6)	0.0	0.1
Amortisation of loan arrangement fees	1.2	1.2
Euro currency option – mark to market (Note 6)	-	0.2
IFRS 9 gain on amendment of bank facilities (Note 6)	(2.6)	-
	65.0	44.7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Taxation

	2019 £m	2018 £m
Current tax		
Charge for the year	11.9	10.5
Group relief	0.1	-
Adjustments in respect of prior years	4.6	(0.2)
Total current tax	16.6	10.3
Deferred tax		
Deferred tax asset (Note 17)	0.0	(0.3)
Deferred tax liability (Note 24)	0.3	2.5
Total deferred tax	0.3	2.2
Tax charge	16.9	12.5

The tax charge for the year of 50.9% is higher than the standard rate of corporation tax in the UK of 19% (2018 -19%). The differences are explained below:

	2019 £m	2018 £m
Profit before tax	30.0	48.6
Profit multiplied by rate of corporation tax in the UK of 19% (2018 – 19%)	5.7	9.2
Effects of:		
Adjustments in respect of prior years – current tax	4.6	(0.2)
Adjustments in respect of prior years – deferred tax	1.0	0.1
Tax rate change on current year deferred tax (Note 24)	0.1	(0.2)
Group notional finance charge capitalised	(0.7)	(0.7)
Expenses not deductible for tax purposes	0.9	0.3
Movement in deferred tax due to loss of Initial Recognition Exemption	(0.2)	(0.2)
Non- deductible Long Term Incentive Plan share expense (Exceptional)	0.4	-
Non-taxable element of revaluation gains	(1.5)	(0.8)
Corporate Interest Restriction disallowance	6.6	5.0
Tax charge	16.9	12.5

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 announced in the 2020 Budget on 11 March 2020, the corporate income tax rate shall not reduce to 17% for financial year 2020, and shall remain at 19% from 1st April 2020. This rate change has now been enacted. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. 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
Cost or fair value (net of capital grants)					
At 1 January 2019	606.8	125.5	12.6	45.5	790.4
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	627.1	135.3	13.3	139.5	915.2
Accumulated depreciation (net of grant amortisation)					
At 1 January 2019	49.6	48.1	-	-	97.7
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	(1.1)	-	-	-	(1.1)
At 31 December 2019	59.1	55.1	2.8	-	117.0
Net book value at 31 December 2019	568.0	80.2	10.5	139.5	798.2

The Directors are of the opinion that there is no material difference between the net book value of operational land and buildings above and their fair value in existing use.

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

	Operational Land and Buildings £m	Plant and Equipment £m	Total £m
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Property, Plant and Equipment (continued)

	Operational Land and Buildings £m	Plant and Equipment £m	Capital Works in Progress £m	Total £m
Cost or fair value (net of capital grants)				
At 1 January 2018	576.2	113.6	31.7	721.5
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	606.8	125.5	45.5	777.8
Accumulated depreciation (net of grant amortisation)				
At 1 January 2018	40.5	43.1	-	83.6
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	49.6	48.1	-	97.7
Net book value at 31 December 2018	557.2	77.4	45.5	680.1

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

	Operational Land and Buildings £m	Plant and Equipment £m	Total £m
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Investment Property

	2019 £m	2018 £m
Valuation		
At 1 January	415.7	397.8
Fair value movement - to Income Statement (Note 6)	17.6	21.4
- to Statement of Comprehensive Income	3.4	2.6
Net transfers to PPE	(6.6)	(17.3)
Additions	7.0	11.2
Disposals	(1.7)	-
At 31 December	435.4	415.7

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 (2018 - £21.4m) is taken to the Income Statement in the year and £3.4m (2018 - £2.6m) 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 temporary 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's investment property portfolio is £103.0m (2018 - £93.3m).

13. Intangible Assets

	Goodwill £m	Customer Relationships £m	Software £m	Total £m
Cost				
At 1 January 2019	286.5	63.4	7.8	357.7
Transfers from PPE	-	-	0.1	0.1
At 31 December 2019	286.5	63.4	7.9	357.8
Accumulated amortisation and impairment				
At 1 January 2019	-	48.9	3.2	52.1
Charge for the year	-	6.6	0.8	7.4
At 31 December 2019	-	55.5	4.0	59.5
Net book value at 31 December 2019	286.5	7.9	3.9	298.3

13. Intangible Assets (continued)

	Goodwill £m	Customer Relationships £m	Software £m	Total £m
Cost				
At 1 January 2018	286.5	63.4	5.8	355.7
Transfers from PPE	-	-	2.0	2.0
At 31 December 2018	286.5	63.4	7.8	357.7
Accumulated amortisation and impairment				
At 1 January 2018	-	42.3	2.6	44.9
Charge for the year	-	6.6	0.6	7.2
At 31 December 2018	-	48.9	3.2	52.1
Net book value at 31 December 2018	286.5	14.5	4.6	305.6

Goodwill arising on the acquisition of the Forth Ports Group and London Container Terminal (LCT) is considered to have an indefinite life in accordance with IFRS 3 (revised). Customer relationships recognised on the acquisition of the Forth Ports Group (£51.4m allocated to Scottish Ports) and LCT (£12m allocation to Port of Tilbury) are written off on a straight-line basis over a period of up to ten years. Amortisation of customer relationships of £6.6m (2018 - £6.6m) is included in the cost of sales line in the Income Statement.

Goodwill of £286.5m is monitored for impairment purposes at the operating segments level, being two of the trading divisions of the Forth Ports Group – Scottish Ports (£180.6m) and Port of Tilbury (£105.9m). The recoverable amount has been determined on a value in use basis, based on management's expectation of future economic benefits. Goodwill in this instance represents a variety of new business opportunities as well as the acquired workforce.

The recoverable amounts have been determined on a value in use basis. The calculations are based on five year pre-tax cash flow projections approved by the Directors. Cash flows beyond the initial five year period are extrapolated using the growth rate below. The Directors believe that any reasonable possible change in any of the key assumptions would not result in an impairment.

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 minimum contracted revenue.
Operating margin	Estimated operating margin has been based on management projections taking into account experience and changes in cost base following acquisition by the Group. This includes operating costs and maintenance capital expenditure.
Growth rate	The growth rates in the first five years for all the CGUs range from 2.2% to 7.3%. 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 group. Management consider that there is no material difference between the risk profile of the Group and that of the CGUs.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Investment in Joint Venture

The Group's significant interest is as follows:

Name of undertaking	Interest held %	Country of incorporation
London Distribution Park LLP (LDP)	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.

15. Inventories

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

16. Trade and Other Receivables

	2019 £m	2018 £m
Current assets:		
Trade receivables	33.7	32.6
Less: provision for allowance for credit losses	(0.6)	(0.3)
Trade receivables – (net)	33.1	32.3
Prepayments and accrued income	16.6	10.2
Other receivables	6.8	6.7
	56.5	49.2
The ageing of past due but not impaired trade receivables is as follows:		
Less than 30 days past due date	10.1	10.6
31-60 days past due date	3.6	3.2
61-90 days past due date	1.2	0.6
Over 90 days past due date	0.8	0.1
	15.7	14.5

At 31 December 2019, Group trade receivables of £17.4m (2018 - £17.8m) 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 of £0.6m (2018 - £0.3m) were identified as being impaired, all of which are provided for.

16. Trade and Other Receivables (continued)

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					
	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 at 31 December 2019 and 31 December 2018						0.0

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Deferred Tax Assets

	2019 £m	2018 £m
Deferred tax asset – Retirement benefit obligations		
Asset at 1 January	8.3	9.4
Deferred tax on actuarial loss/(gain) recognised		
- in Statement of Comprehensive Income	3.1	(1.6)
Effect of tax rate change		
- charged to Income statement (note 10)	-	-
- credited to Statement of Comprehensive Income	(0.1)	0.2
Deferred tax on pension contributions		
- charged to Statement of Comprehensive Income	(2.4)	-
- credited to Income Statement (Note 10)	-	0.3
Asset at 31 December	8.9	8.3

18. Cash and Cash Equivalents

	2019 £m	2018 £m
Cash at bank and in hand	112.3	25.4

19. Trade and Other Payables

	2019 £m	2018 £m
Trade payables	10.3	6.9
Amounts owed to bondholders	39.2	13.8
Lease liabilities	2.8	-
Other taxation and social security	1.5	3.3
Accruals and deferred income	19.3	18.9
	73.1	42.9

Trade payables are mainly contractually due to be paid within one month. The average credit period taken for trade purchases for the Group is 32 days (2018 – 34 days). 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 Directors consider the carrying amount of trade and other payables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Borrowings

	2019 £m	2018 £m
Non-current		
Shareholder loans		
- Interest free	299.3	296.2
- Interest bearing 7.34%	61.9	61.9
- Interest bearing 16.25%	139.5	139.5
Bank borrowings	209.7	264.2
Loan notes	603.0	399.9
Other loans	33.1	23.6
Total non-current borrowings	1,346.5	1,185.3
The borrowings are repayable as follows:		
On demand or within one year	7.9	4.8
In the third to fifth years inclusive	589.2	650.4
After five years	749.4	530.1
Total non-current borrowings	1,346.5	1,185.3

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 shares of certain of the Company's subsidiaries and carry interest at a margin plus LIBOR and mandatory costs.

The Group has a revolving credit facility (RCF) of £100m which, other than the £5m 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 £95m. The overdraft carries interest at a margin over Bank of Scotland base rate.

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, £60m of Series B loans at a fixed rate of 4.80% for 10 years being repaid in 2023, £80m of Series C loans at a fixed rate of 5.03% for 18 years being repaid in 2031 and £35m 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.

20. Borrowings (continued)

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

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 21).

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 Bonds are listed on the Guernsey Stock Exchange. £139.5m bear interest at 16.25% and £61.9m bear interest at 7.34% and are both due for repayment on 31 December 2021. The Directors consider that the fair value of these bonds approximates to book value.

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

	2019 £m	2018 £m
In the third to fifth years inclusive	209.7	264.2
After five years	35.0	35.0
	244.7	299.2

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 bankers 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.

20. Borrowings (continued)

Risk Management

An analysis of the expected undiscounted cash repayment profile of the Group's financial liabilities is given in Note 34, with other financial risk management disclosures.

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 loan	3.99	3.99
Bonds (issue 1)	16.25	16.25
Bonds (issue 2)	7.34	7.34

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

	2019	2018
	£m	£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 facilities expiring in more than one year are the £95m 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 and shareholder loans is not materially different to book value.

21. 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	2018
	£m	£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

21. Derivative Financial Instruments (continued)

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 Note 34.

22. Provisions

	Insurance Claims £m	PNPF £m	LTIP £m	Total £m
At 1 January 2019	0.5	17.1	-	17.6
Utilisation of provision	0.0	(1.7)	-	(1.7)
Increase in provision	-	1.0	1.9	2.9
At 31 December 2019	0.5	16.4	1.9	18.8
Included in current liabilities	0.5	1.8	-	2.3
Included in non-current liabilities	-	14.6	1.9	16.5
	0.5	16.4	1.9	18.8

	Insurance Claims £m	PNPF £m	Total £m
At 1 January 2018	0.8	18.5	19.3
Utilisation of provision	(0.4)	(1.6)	(2.0)
Increase in provision	0.1	0.2	0.3
At 31 December 2018	0.5	17.1	17.6
Included in current liabilities	0.5	1.7	2.2
Included in non-current liabilities	-	15.4	15.4
	0.5	17.1	17.6

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Provisions (continued)

Forth Ports Limited (FPL) 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 PNPF 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 PNPF 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 PNPF Scheme deficit. A PNPF Scheme valuation as at 31 December 2010 was performed to determine the extent of the deficit and from this the Trustees have communicated FPL'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 PNPF Scheme valuation as at 31 December 2016 was completed with no change to the level of contributions arising. A PNPF Scheme valuation as at 31 December 2019 is being carried out but this has not yet been completed.

The Company's LTIP shares provision of £1.9m is all included in non-current liabilities as this provision is not expected to be settled until 2024 or on a change of control.

23. Trade and Other Payables – Non-Current Liabilities

	2019 £m	2018 £m
Lease liabilities	8.0	-
Loan due to employees	1.1	-
	9.1	-

24. Deferred Tax Liabilities

	2019 £m	2018 £m
Deferred tax liability		
Intangible assets – customer relationships	1.3	2.5
Capital allowances	18.8	18.8
Short-term differences	(4.7)	(5.0)
Investment property revaluation surplus	38.0	36.0
Fair value of operational land	29.4	29.0
Loss of Initial Recognition Exemption on business combination	7.7	8.0
	90.5	90.0
Deferred tax liability – movement		
Liability at 1 January	90.0	87.4
Effect of tax rate change charged/(credited) to Income Statement (Note 10)	0.1	(0.2)
Amount charged to Income Statement (Note 10)	0.2	2.7
Amount charged to Statement of Comprehensive Income	0.2	0.1
Liability at 31 December	90.5	90.0

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 17.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. 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 and in real estate 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 below.

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

25. Retirement Benefit Schemes (continued)

The key assumptions used in the valuation of the Group 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
Total	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.

25. 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:

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

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

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

25. 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 22).

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).

26. Preference shares

	2019 £m	2018 £m
Infra-PSP Canada Inc	0.0	0.0

The Company has 1 preference share with a nominal value of £1 which was transferred to Infra-PSP Canada Inc in the prior year.

27. Share Capital

	2019 £m	2018 £m
Allotted and fully paid:		
11,000 (2018 – 11,000) Ordinary Shares of £1	0.0	0.0
100 Ordinary “A” Shares of £1	0.0	0.0
	0.0	0.0

During 2012, the Company issued 10,000 Ordinary Shares with a nominal value of £10,000 for a premium of £990,000. The Company’s Ordinary Shares and Ordinary “A” Shares carry no right to fixed income. The ordinary shares carry equal voting rights and the right to receive dividends when declared. The Ordinary “A” Shares carry no voting rights or any right to receive dividends.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. Statement of Cash Flows

(a) Reconciliation of Profit before Tax to Cash Generated from Operations

	2019 £m	2018 £m
Profit before tax	30.0	48.6
Adjustments for:		
- increase in fair value of investment properties	(17.6)	(21.4)
- net finance costs	63.4	43.2
- depreciation of property, plant and equipment	24.6	19.9
- amortisation of intangibles and capital grants	7.4	7.2
- interest on pension cost in finance costs	1.2	1.4
- loss on sale of property, plant and equipment	0.0	0.1
- net movement in provisions	2.0	(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	(7.3)	(6.2)
(Decrease)/increase in payables	(2.5)	2.9
Cash generated from operations	92.9	93.4

(b) Reconciliation of Movement in Net Debt

	2019 £m	2018 £m
Increase in cash and cash equivalents	86.9	1.1
Cash inflow from movement in borrowings (net)	(168.0)	(26.3)
Change in net debt resulting from cash flows	(81.1)	(25.2)
Retranslation of US $ loan notes	4.9	(7.5)
Capitalisation and amortisation of loan arrangement fees (net)	2.8	(1.1)
Gain on transition to IFRS 9	2.5	4.4
Lease liability repayable	(3.4)	-
Movement in net debt	(74.3)	(29.4)
Opening net debt	(1,159.9)	(1,130.5)
Closing net debt	(1,234.2)	(1,159.9)

29. Analysis of Net Debt

	At 1.1.19 £m	Cash Flows £m	Other Movements £m	At 31.12.19 £m
Cash at bank and on deposit	25.4	86.9	-	112.3
Debt due outwith one year	(1,185.3)	(168.0)	6.8	(1,346.5)
Total net debt	(1,159.9)	(78.0)	6.8	(1,234.2)

The other movements consist of the capitalisation and amortisation of arrangement fees for bank facilities of £2.8m, £4.9m retranslation loss on the Series A US $ loan notes, the gain on transition to IFRS 9 of £2.5m, and the interest on bank loans of £3.4m.

30. 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 (2018 - £153.3m) 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).

31. Related Party Transactions

	2019 £m	2018 £m
Key management compensation:		
Salaries and short-term employee benefits	4.1	7.2
Post employment benefits	0.1	0.0
	4.2	7.2

Following the change of ownership of the Group in October 2018 (Note 32) the outgoing shareholders, Arcus European Infrastructure Fund 1 L.P. ("Arcus"), paid a one off bonus to certain key management.

32. Ultimate Parent Undertaking

Following the change of ownership of the Group in October 2018, the Company is 50.5% owned by Public Sector Pension Investment Board, based in Canada. This change of ownership saw the previous majority shareholder sell their holding to Public Sector Pension Investment Board who then sold a minority stake to long-term investment partners.

As Public Sector Pension Investment Board does not consolidate the results of the Company, these financial statements will be filed with Companies House alongside those of Otter Ports I Limited.

33. 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:
    1. 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:
    1. 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
    2. 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.

33. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

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.

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.

33. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

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.

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

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

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

	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		-	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

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

	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)	

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. Principal Accounting Policies (continued)

Impact of New Standards and Interpretations (continued)

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.

<u>Consolidation</u>

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.

33. Principal Accounting Policies (continued)

Subsidiaries (continued)

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.

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.

33. Principal Accounting Policies (continued)

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.

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.

33. Principal Accounting Policies (continued)

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.

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, those 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.

33. Principal Accounting Policies (continued)

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 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 debit is reflected as an increase in the investment in subsidiary within the 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 required 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.

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.

33. Principal Accounting Policies (continued)

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 shareholders' equity as own shares held. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

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.

33. Principal Accounting Policies (continued)

Accounting for Taxation (continued)

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. 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. 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 floating rate borrowings is estimated to be £5.6m higher than their carrying value.

34. Financial Risk Management

Financial Risk Factors

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 20 (Borrowings) gives details of the Group's sensitivities to financial risks.

Foreign Exchange Risk

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 ensure that property sales are covered by either controlled release of land plots in exchange for cash, fixed charge securities or bank bonds. The Group also checks that Port customers have an appropriate credit history when likely future revenue exceeds approved limits. Derivative counter-parties and cash transactions are Limited to quality financial institutions. Refer to Note 16 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 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	73.0	9.1	-	-	82.1
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	4.2	1.8	5.8	8.7	20.5
Borrowings	57.0	57.0	452.3	1074.1	1,640.4
	137.5	71.3	450.1	1,095.0	1,753.9

34. Financial Risk Management (continued)

Liquidity Risk (continued)

	< 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	42.5	-	-	-	42.5
Derivative financial liabilities:					
- 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	51.2	51.2	718.5	584.6	1,405.5
	100.3	56.3	713.0	598.8	1,468.4

The expected maturity of all 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 at Forth Ports Group level. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the Group Balance Sheet) less cash and cash equivalents (£1,234.2m). Total capital is calculated as equity as shown on the Group Balance Sheet (£107.6m).

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 19, 20 and 21. 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.

35. Post Balance Sheet Events

As set out in the Directors' Report, with the exception of the outbreak of COVID-19 which is discussed further in the Directors' Report, there have been no significant events since the balance sheet date. There was an explosion at the Grain Terminal at the Port of Tilbury in July 2020, with no injuries, minimum disruption to operations and the extent of damage and repairs required are being assessed in conjunction with the Group's insurance providers.