

ABP SUBHOLDINGS UK LIMITED

INTERIM REPORT 2009

1. Business description

ABP Subholdings UK Limited is an intermediate holding company. Through its wholly owned subsidiary ABP Acquisitions UK Limited, it owns Associated British Ports Holdings Limited (ABPH).

The principal activities of the ABPH group comprise the provision of innovative and high-quality port facilities and related services to ship and cargo owners and other users of seaports in the UK. The group also provides value-added transport-related services and generates income from the ownership and development of properties at port locations within the UK.

The ABPH group owns and operates 21 general cargo ports within the UK. In addition, it owns 49 per cent of Dubai Ports World Southampton (DPWS), which operates the second largest container terminal in the UK, and 33 per cent of Tilbury Container Services Limited (TCS), which operates a deep-sea container terminal located at the Port of Tilbury. The group's ultimate parent company is ABP (Jersey) Limited, a company controlled by Borealis International Investments Corporation, GIC Special Investments Pte Limited, Goldman Sachs Infrastructure Fund and Infracapital Partners LP.

2. Review of half-year activities

Group overview

The group's external trading environment continued to remain extremely challenging during the first half of 2009. Against a backdrop of significantly reduced economic activity, our core ports and transports business delivered a resilient performance owing to the long-term agreements in place with a variety of customers and early management action aimed at realigning the group's cost base with reduced expectations on volumes.

Revenue for the group's core ports and transport activities decreased by 6.2 per cent to £195.1m (2008: £207.9m). This reduction was only marginally offset by a 10.0 per cent increase in revenue contribution from property investment activities and consequently overall group revenue decreased by 6.0 per cent to £197.3m (2008: £209.9m). Underlying operating profit (before increase in fair value of investment properties and amortisation of acquisition related adjustments) from the group's property investment activities increased by £0.1m to £1.7m (2008: £1.6m) whilst the contribution from the ports and transport business decreased by 6.5 per cent to £85.4m (2008: £91.3m). Group underlying operating profit, as set out in table 1, decreased by 6.2 per cent to £87.1m (2008: £92.9m). The performance contributed by our core ports and transport business reflected the impact of a 17.1 per cent reduction in throughput being partially mitigated by income generated under long-term agreements and cost reduction initiatives implemented towards the end of 2008 and during the first half of 2009. Notwithstanding the reduced volumes

experienced during the first half of 2009, the group continued to progress a number of strategic projects designed to underpin the future growth for its ports and transport business. Further details on these projects, which are subject to significant lead times and customer demand, are provided in the strategy update.

Table 1

Operating profit by business segment	Six months to 30 June 2009	Six months to 30 June 2008	Change from 2008
	£m	£m	
Ports & transport	85.4	91.3	-6.5%
Property investment	1.7	1.6	+6.3%
Property development	-	-	-
Underlying group operating profit	87.1	92.9	-6.2%
Exceptional items – amortisation of acquisition accounting related adjustments	(17.5)	(17.7)	+1.1%
Group operating profit	69.6	75.2	-7.4%
Recurring group EBITDA¹	106.9	117.7	-9.2%

¹Defined in the group's credit facilities – after including the group's share of EBITDA in associated undertakings and exceptional costs but excluding gross profit from property development activities.

Underlying earnings before interest, taxation depreciation and amortisation (EBITDA) from group operations decreased by 5.1 per cent to £106.1m (2008: £111.8m). Recurring EBITDA (defined in the group's credit facilities – after including the group's share of EBITDA in associated undertakings but excluding gross profit from property development activities and disposal of fixed assets) decreased by 9.2 per cent to £106.9m (2008: £117.7m).

Non-cash amortisation charges in relation to acquisition accounting related adjustments for the first six months of 2009 amounted to £17.5m (2008: £17.7m).

Deep-sea container volumes handled by DPWS and TCS also decreased during the first half of 2009 and consequently the group's share of results achieved by its associates amounted to a net loss of £1.7m (2008: loss of £2.1m). It should be noted that the net loss of £2.1m reported for the first half of 2008 was impacted by a one-off deferred tax charge of £3.9m resulting from the government's abolition of IBAs in March 2008 and by operational issues associated with a crane incident at DPWS.

Interest payable and similar charges amounted to £148.2m (2008: £146.1m) and included interest costs of £66.3m (2008: £70.4m) in relation to the group's senior and mezzanine debt and interest payable of £78.5m (2008: £72.1m) in relation to loans from the parent company, ABP Bonds UK Limited. Interest receivable and similar income amounted to £356.5m (2008: £69.8m) and included an unrealised gain of £355.2m (2008: £67.3m) in relation to the interest rate swaps held to hedge the group's exposure to interest rate movements.

The overall tax charge for the first half of 2009 amounted to £95.5m (2008: £82.0m) and included a current tax credit of £nil (2008: £0.9m), an underlying deferred tax charge of £95.5m (2008: credit of £0.9m) and exceptional deferred tax charge of £nil (2008: £83.8m). The exceptional tax charge recorded during the first half of 2008 related to the write-off of a deferred tax asset associated with future capital allowances following the government's abolition of industrial buildings allowances in March 2008. The underlying deferred tax charge recorded during the first half of 2009 primarily relates to the unrealised gains on interest rate swaps noted above.

Cash generated from operations benefited from a significantly improved working capital position and increased by 14.0 per cent to £120.8m (2008: £106.0m). Capital expenditure for the first half of 2009 amounted to £30.9m (2008: £18.9m). Borrowing amounts due in relation to net bank debt and finance leases amounted to £2,331.5m (30 June 2008: £2,324.1m and 31 December 2008: £2,353.6m)

The operating performance of each business segment is discussed in greater detail below:

Ports & transport

The core ports and transport business accounted for 99 per cent of group revenue (2008: 99 per cent) and 98 per cent (2008: 98 per cent) of underlying group operating profit in the first six months of 2009 and remains the key driver of the group's overall performance. With 21 strategically located ports, the group is the largest and leading ports operator in the UK. During the first half of 2009, cargo volumes handled by our ports decreased by 17.1 per cent to 55.3m tonnes (2008: 66.7m tonnes). Table 2 provides an analysis of the changes in volumes at our ports by cargo category for the first half of 2009 compared with the first half of 2008.

Table 2

Changes in ABP's cargo volumes	Six months to 30 June 2009	Six months to 30 June 2008	Change from 2008
Cargo	million tonnes	million tonnes	
Liquid bulks	24.7	27.4	-9.9%
Dry bulks	16.9	21.5	-21.4%
Containers, roll-on/roll-off and vehicles	11.2	14.0	-20.0%
Other general cargo	2.5	3.8	-34.2%
Total tonnage	55.3	66.7	-17.1%

Reductions in economic activity associated with the 2008 credit crisis have led to significant decreases in global trade volumes. The group's overall throughput volumes for the first half were adversely impacted by these market developments and decreased by 17.1 per cent in comparison with the first half of 2008. Significant developments in individual cargo volumes included the following:

- Liquid bulk volumes decreased by 9.9 per cent due to reductions in import and export volumes for petroleum and related products.
- Dry bulk volumes decreased by 21.4 per cent primarily due to decreases in construction and steel manufacturing activity. The overall throughput reduction reflected significant decreases in imports of aggregates, iron ore and coking coal being partially offset by growth in power generation coal and agribulk volumes.
- Containers volumes decreased by 21.0 per cent with both deep-sea and shortsea volumes across the group below the levels achieved during the first half of 2008 with the impact of reduced consumption being exacerbated by destocking activity undertaken by UK retailers.
- Roll-on/roll-off traffic (excluding vehicles) decreased by 10.9 per cent due to the general reductions in trade volumes. Our import/export vehicle volumes decreased by 41.4 per cent reflecting the impact of significant destocking activity undertaken by vehicle manufacturers and reduced demand for new vehicles.
- Other general cargo volumes decreased by 34.2 per cent with steel and forest product volumes below the levels achieved during the first half of 2008 again owing principally to the contraction in construction activity.

Table 3 provides an analysis of the changes in the group's passenger volumes for the first half of 2009 compared with the first half of 2008.

Table 3

	Six months to 30 June 2009	Six months to 30 June 2008	Change from 2008
Changes in ABP's passenger volumes	000's	000's	
International ferry passengers	611	660	-7.4%
International cruise passengers	407	383	+6.3%
Domestic cruise and ferry passengers	54	67	-19.4%
Total	1,072	1,110	-3.4%

The greater part of the group's international ferry volumes relate to the North Sea routes operating from the Port of Hull. During the first half of 2009 international ferry passenger volumes at both Hull and Plymouth were below the levels achieved during 2008.

The Port of Southampton remains the UK's number-one cruise port and once again benefited from continued growth in this market with international cruise passenger volumes in the first half of 2009 increasing by 6.3 per cent compared to the same period in 2008. The number of cruise calls at the Port decreased by 9.4 per cent to 106 in the first half of 2009 (2008: 117) reflecting the ongoing trend towards the deployment of larger vessels amongst our major cruise line customers. Southampton's ability to meet

the needs of its cruise customers was further enhanced by the commissioning of the new £19m Ocean Cruise Terminal during the first half.

The group's domestic ferry passenger volumes relate to services operating from Troon and Fleetwood. The reduction in domestic cruise and ferry passenger volumes was mainly due to decreases in cruise passengers handled at the Port of Southampton under short charters and promotional arrangements.

Ports & transport overview

The table below provides a summary of the operating results for our ports and transport business.

Table 4

	Six months to 30 June 2009	Six months to 30 June 2008	Change from
Ports & transport	£m	£m	2008
Revenue	195.1	207.9	-6.2%
Operating profit	85.4	91.3	-6.5%

Overall, revenue decreased by 6.2 per cent to £195.1m (2008: £207.9m) and underlying operating profit declined by 6.5 per cent to £85.4m (2008: £91.3m). The operating results achieved during the first half reflect the impact of volume developments discussed above being partly mitigated by the long-term agreements the group has in place with a variety of customers and the cost reduction initiatives implemented towards the end of 2008 and during the first half of 2009. A part of the cost savings achieved during the first half of 2009 related to a reduction of around 10 per cent in the group's employee headcount, one-off costs of around £3m associated with this exercise were charged to the income statement during the period.

The group continues to focus on developing its core business through investment in existing facilities on the back of customer-supported projects. One of the highlights of our ongoing investment programme was the commissioning during the first half of a new £19m cruise terminal developed on the back of a long-term agreement with Carnival Plc at the Port of Southampton. Notwithstanding the current economic climate, the group continued to progress a number of short and long-term opportunities to further develop our ports and transport business on the back of strong demand for port facilities required to service the rapid expansion in the UK's renewable energy sector. During 2009 we have committed to investing £23m in three customer-led renewable energy projects. Whilst these new projects have varying lead times and will only contribute to our results once they become operational, they nevertheless help to underpin the group's future prospects. In addition, the group continued to progress a number of major strategic projects which are detailed in the strategy update.

Significant developments in the operating performance of the five regional units comprising the ports and transport segment are discussed below.

Hull & Goole

Revenues decreased by 9.7 per cent with reductions in volumes of biomass, chemicals, containers, steel and timber being marginally offset by growth in agribulk volumes.

During the first half of 2009 we continued to evaluate the construction of a new riverside dry-bulks terminal to support the development of power generation facilities at the Port of Hull. This project has the potential to contribute significant additional volumes to the Port and we expect to submit an application for a harbour revision order in the second half of 2009. The reduction in container volumes handled at the Port of Hull means that the short-term case for the development of additional capacity is now less compelling, nonetheless, we remain committed towards the development of a new riverside shortsea container terminal at the Port and continue to view the long-term commercial prospects for this development with confidence.

Grimsby & Immingham

Revenue decreased by 0.3 per cent with the impact of reduced container, iron ore, import/export vehicle, liquid bulk and roll-on/roll-off volumes being partly offset by growth in power generation coal volumes and income generated from increased demand for temporary storage facilities.

At the Port of Immingham an investment of £4.5m to reconfigure and upgrade the Exxtor terminal was completed during February. This project included the addition of two new rubber-tyre gantry cranes and surfacing works to improve the terminal layout and will deliver significant efficiencies as well as increased capacity. Also at Immingham a £1.0m upgrade and refurbishment of existing dry bulk storage facilities was completed during February and an additional investment of £3.9m towards the development of a new facility comprising a footprint of 11,000m² is due to become operational during the second half of 2009. These investments are being made to meet increased customer demand for dry bulk storage facilities at the Port.

In addition the Port of Immingham is in discussion with Drax Power Limited (Drax) for the provision of capacity and storage facilities associated with significant additional volumes of biomass to be imported through the Port for co-firing at Drax Power Station. Based on the current plans, we expect to invest around £16m in the development of storage and rail infrastructure required to support these volumes.

Southampton

Revenue decreased by 19.7 per cent reflecting the impact of reduced container, import/export vehicle and liquid bulk volumes being partially offset by growth in cruise passenger volumes and income generated from temporary storage. Revenue for the first half was also impacted by the group's decision to exit from the provision of certain low margin ancillary activities during the second half of 2008.

International cruise volumes at the Port of Southampton grew by 6.3 per cent during the first half of 2009 and we continue to believe that the long-term growth prospects for this trade remain positive. During May, we completed a £19.0m investment in the development of a new cruise terminal which is supported by a 20-year agreement with Carnival Plc. This investment ensures that Southampton remains well positioned to benefit from the increasing trend towards the deployment of larger vessels amongst its cruise line customers.

In addition, the Port of Southampton completed its £5.9m investment in a new lift-on/lift-off logistics terminal. The new terminal supports the relocation of Heulin-Renouf's services to the Channel Islands to the port. Initial volumes for this new trade for the Port have continued to meet our expectations.

Notwithstanding the short-term reductions in global container volumes, we remain confident about the long-term growth prospects for container traffic at Southampton. In order to accommodate this expected future growth we have submitted dredging consent applications in connection with our plans to update and improve capacity at the Port and we await the Marine and Fisheries Agency's response. This expansion project focuses on the sustainable development and re-use of existing dock infrastructure, and will facilitate significant improvements in efficiency through state-of-the-art container-handling technology.

South Wales Ports

Revenue decreased by 13.1 per cent with the impact of reduced aggregates, coking coal, forest products, iron ore, liquid bulk and steel volumes being partly mitigated by growth in power generation coal volumes.

At Cardiff, we are investing £1.5m in the expansion and enhancement of general cargo storage facilities which are expected to be operational by the end of 2009.

At the Port of Swansea, we are investing £0.5m in a metals recycling and export facility for Sims Group and £0.6m in a marine aggregate terminal for Swansea Bulk Handling. These projects are now due to be operational during the second half of 2009.

At the Port of Newport, we intend to invest £5.9m in craneage and terminal infrastructure to service biomass imports for a 49MW power station proposed by Nevis Power. The power plant is fully consented and subject to conclusion of the necessary financing arrangements, construction is expected to commence in 2010. Also at the Port of Newport, we are investing £0.8m in a timber and board storage facility for

Premier Forest Products and £0.3m in the development of an outdoor storage and distribution terminal for Hill and Smith Limited, both of these investments are expected to be operational during the second half of 2009.

Shortsea Ports

Across the group's 11 short-sea ports, revenue increased by 10.3 per cent with the impact of growth in agribulk and roll-on/roll-off volumes being partly offset by reductions in aggregates and ferry passenger volumes.

At Fleetwood, a £1.4m expansion of our existing marina facilities is due to be completed by the end of the year.

At Lowestoft we are investing £1.8m to develop a bespoke operating and maintenance support base for Greater Gabbard Offshore Wind farm. This investment is supported by a long-term agreement with Greater Gabbard Offshore Winds Limited and is due to become operational during the second half of 2009.

Property investment

The group's property investment activities consist of income generated from tenants on its port estates who do not make use of its port facilities. Table 5 provides a summary of the contribution from the group's property investment activities during the first half of 2009 and 2008.

Table 5

	Six months to 30 June 2009	Six months to 30 June 2008	Change from 2008
Property investment	£m	£m	
Revenue	2.2	2.0	+10.0%
Operating profit	1.7	1.6	+6.3%

Revenue from property investment increased by 10.0 per cent to £2.2m (2008: £2.0m) and operating profit increased by 6.3 per cent to £1.7m (2008: £1.6m). The majority of this income continues to be generated from non port-related tenants at Southampton and in South Wales.

Property development

With its original property disposal programme largely complete, the timing and scope of property disposals is now more difficult to predict, particularly given the long-term nature of the group's remaining property projects and the increasingly protracted and complex planning requirements that need to be satisfied prior to a disposal. The group did not complete any property disposals during the first half of 2009 and consequently it did not generate any revenue (2008: £nil) or operating profit (2008: £nil) from its property development activities.

Associates

The group's associates comprise a 49 per cent interest in DPWS and a 33 per cent interest in TCS. Table 6 provides a summary of the performance of the group's associated undertakings for the first half of 2009 and 2008.

Table 6

Associates	Six months to 30 June 2009 £m	Six months to 30 June 2008 £m	Change from 2008
Throughput ('000s of twenty-foot equivalent units)	859.6	1,049.8	-18.1%
Group's share of revenue from associates	26.2	33.2	-21.1%
Group's share of underlying operating (loss) / profit in associates	(2.1)	2.5	-184.0%
Group's share of net interest costs in associates	(0.2)	-	n/a
Group's share of taxation in associates	0.6	(4.6)	+113.0%
Group's share of loss in associates	(1.7)	(2.1)	+19.0%
Group's share of EBITDA in associates	0.8	5.8	-86.2%

Throughput levels at both DPWS and TCS were impacted by the sharp reductions in UK container volumes driven by the reduction in economic activity coupled with the destocking initiatives undertaken by manufacturers and retailers. Throughput at DPWS decreased by 18.2 per cent to 626,309 TEUs (2008: 765,580 TEUs) and at TCS decreased by 17.9 per cent to 233,317 TEUs (2008: 284,176 TEUs). As a result of the reduced throughput levels the group's share of revenue from associates decreased to £26.2m (2008: £33.2m) and its share of underlying operating loss amounted to £2.1m (2008: profit of £2.5m). The group's share of net loss in associates amounted to £1.7m (2008: £2.1m), it should be noted that the net loss for the first half of 2008 was impacted by an exceptional deferred tax charge of £3.9m.

3. Strategy update

The ports and transport operations continue to be the main focus of the group's activities.

Our strategy is to invest in long-term projects in partnership with quality customers that can generate internal rates of return of at least 15 per cent. In addition, we continue to monitor maintenance capital expenditure with a view to maintaining this below our annual depreciation charge.

The group continues to pursue a number of major developments, which will underpin its growth during the coming years. Strategic investment projects currently in progress include:

An investment of around £16m in the further development of storage and rail infrastructure at the Port of Immingham to support increased imports of biomass by Drax.

The potential construction of a major new riverside dry bulks terminal at the Port of Hull, where the availability of land alongside deep water fulfils two of the key requisites for the development of new electricity generation capacity.

A major expansion of container capacity at the Port of Southampton. The increased capacity is required to support expected long-term growth in the Port's container volumes and, subject to receipt of the necessary planning consents, is expected to become operational on a phased basis over the coming years.

The planned expansion of capacity at our existing deepwater jetty at Port Talbot to facilitate the import of coal and woodchip volumes. This investment, which remains subject to the finalisation of consents and commercial agreements, will support the proposed development within the Port estate of a new 350MW renewable energy plant by Prenergy.

The development of a riverside container terminal to accommodate the expected long-term growth in shortsea container volumes at the Port of Hull.

A £5.9m upgrade to craneage at Newport, which will be underpinned by a long-term contract with Nevis Power to handle biomass fuel imports for a 49MW renewable energy plant to be sited within the Port estate.

As always, we continue to talk to all of our customers at every level to ensure that our facilities are developed to serve their growing requirements. Organic growth complemented by investment in a range of customer-related projects remains an important driver of the group's underlying growth prospects.

4. Risks and uncertainties

The group's existing debt facilities are not due for expiry until June 2013 and it has hedged a majority of its exposure to changes in interest rates. As at 30 June 2009, the group traded comfortably within its covenant limits and had access to undrawn committed facilities of £350m.

The economic outlook for the UK remains challenging in the short and medium term and this obviously has the potential to further impact the group's volumes. Whilst not immune to any future deterioration in economic conditions the group is to a degree protected against such developments as over 50 per cent of its trade is generated from existing agreements which often include take-or-pay arrangements. In addition, the geographic spread of its ports and the diversity of cargoes handled add a further degree of resilience against reductions in economic activity.

Further details of the risks and uncertainties associated with the operating activities of the group are provided within the directors' report of its Annual Report and Accounts 2008. Other principal risks and uncertainties detailed in that report remain unchanged at 30 June 2009.

5. Prospects

In view of the challenging external trading environment the group's core ports and transport business, which is the dominant contributor to its operating profit and cashflow, delivered a resilient performance during the first half of 2009. We believe that in the near-term markets will remain challenging and the group will accordingly continue to focus on cost reduction and capital preservation. Although the second half of the year is expected to further benefit from cost reduction initiatives we have already implemented, in the absence of a significant recovery in throughput volumes we expect the results for the full year to maintain the trends seen in the first half of the year.

A handwritten signature in black ink, appearing to read 'PJ Jones'.

Peter Jones
Chief Executive
17 September 2009