



Mr Robert Upton  
Lead Member  
Examining Authority  
The Planning Inspectorate  
Room 3/18 Eagle Wing  
Temple Quay House  
2 The Square  
Bristol  
BS1 6PN

Our reference BJK/0956072/O15947421.1/SAMF

Your reference

**21 November 2012**

Dear Mr Upton

**Associated British Ports - Able Humber Ports Limited Funding Statement**

In view of certain inaccurate observations submitted by Able Humber Ports Limited to the Panel in relation to the financial position of my client, Associated British Ports, I attach formal representations in response to the Applicant's written representations of 26 October.

Yours sincerely

[Redacted signature]

PP

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**PINS Reference – TR030001**

**Planning Act 2008**

**Infrastructure Planning (Examination Procedure) Rules 2010**

**Able – Proposed Marine Energy Park, Killingholme**

**Associated British Ports (Objector Reference - 10015525)**

**Written Representation on**  
**Able Marine Energy Park Funding Statement**

**Date: 21 November 2012**

## **Written Representation on Able Marine Energy Park Funding Statement**

### **1 Purpose of Note**

- 1.1 This note and annex have been prepared in response to Able UK's Written Representation, dated 26 October 2012, regarding funding of the Able Marine Energy Park (AMEP) and the financial position of ABP. This document also summarises the recent financial results of the Associated British Ports group (ABP), its recent capital investments, long-term financing arrangements and the credit rating agencies' view of ABP.

### **2 Response to Matters Raised by the Applicant**

- 2.1 The applicant has, in its most recent written representation, supplied very limited additional information on the funding of the AMEP project. This remains wholly inadequate so that, as ABP stated at the Compulsory Acquisition Hearing on 17 October 2012, the Panel (and ABP) are essentially asked to take it on trust that the Elba Group Limited has sufficient funds to effect both the proposed compulsory acquisition of land and also completion of the development.
- 2.2 We note that the applicant remains unwilling to make its financial statements available to the hearing and, instead, has obtained a brief summary of Elba Group's financial statements prepared by Ernst & Young LLP (E&Y). This summary sheds little further light on Elba Group's financial position and is deficient for the following reasons:
- No analysis of the net assets of Elba Group is provided. Instead a selection of figures has been 'cherry picked' and included in the E&Y summary.
  - The largest component of net assets is stated to be investment and development property at a valuation of £337m. Additionally it is stated by E&Y that investment property has been valued on an open market basis by a firm of Chartered Surveyors. The E&Y summary, however, does not provide a split between investment and development property – absent this, it is impossible to understand what proportion of Elba Group's assets has been independently valued. It is widespread practice (although not stated by E&Y) for development properties to be held at their historical cost, which may of course be very different to the real value of those assets.
  - It is noteworthy that E&Y also point out in their summary that they are not the auditors of the Elba Group, the actual firm being Cobham Murphy Limited.
  - It is equally noteworthy that E&Y caveat their summary by stating that "...the procedures we have performed do not constitute an audit... and, consequently, no assurance can be expressed." In light of this, the Panel can attach no material weight to this document.
- 2.3 Absent full disclosure of Elba Group's up-to-date financial position, the Panel cannot conclude with any degree of certainty whether the Applicant has sufficient financial resources to fund the AMEP development.

2.4 In its representation of 26 October 2012, Able UK then seeks to cast doubt on ABP's financial position and ability to fund its capital investment programme. This is not relevant to the AMEP application and, hence, warrants little consideration by the Panel, save to register the following 4 key points:

- ABP is a profitable company with a secure revenue flow. The underlying group (ABPA Holdings Limited) earnings before interest, taxation, depreciation and amortization (EBITDA) for the Ports and Transport business for the year ended 31 December 2011 was £263.0m.
- The group continues to generate strong cash flows with cash generated before debt service and growth capital expenditure of £260.1m in 2011.
- The group can access borrowing facilities of £460m under its committed credit facilities (i.e. ABP is contractually entitled to borrow those funds subject to the loan terms), of which £250m can be used to fund capital expenditure.
- In contrast to Elba Group Limited, the financial statements of ABP (Jersey) Limited, the ultimate parent undertaking and controlling party of the ABP group, are available for public examination and can be obtained from the address given in paragraph A3 of the annex to this report.

More detail on these 4 key points is contained within the attached annex.

2.5 Able UK asserts (at paragraph 3.3 of their written representation of 26 October 2012) that ABP's ability to undertake their capital investment programme is questionable and subject to ABP's ability to secure funds. In light of the key points given above, this is manifestly wrong.

2.6 The accurate characterisation of ABP's financial position is that it is a profitable organisation, with strong and stable cash flows with access to committed borrowing facilities to invest in capital projects throughout the group, including the Western Deepwater Jetty.

**Osborne Clarke on behalf of  
Associated British Ports**

## Annex

### **Note on the Financial Statements and Financing Arrangements of Associated British Ports**

#### **A Note on Company Structure**

- A1 ABP is owned by ABPA Holdings Limited (a limited liability company registered in England and Wales).
- A2 The analysis provided below is based on the accounts of ABPA Holdings Limited ("ABPA") – the detailed, audited financial statements for the year ended 31 December 2011 can be viewed at [www.abports.co.uk](http://www.abports.co.uk), by accessing the investor relations web-page. The figures quoted in this report are taken from the consolidated accounts of ABPA.
- A3 The ultimate parent undertaking and controlling party of ABPA is ABP (Jersey) Limited, a limited liability company registered in Jersey. That entity produces consolidated financial statements that comply with International Financial Reporting Standards (IFRS) and are available from Ogier House, The Esplanade, St Helier, Jersey, JE4 9WG.

#### **B Recent Financial Results**

- B1 The underlying group earnings before interest, taxation, depreciation and amortization (known as EBITDA) from the Ports and Transport segment of ABPA for the year ended 31 December 2011 was £263.0m, compared to £248.2m in the preceding year. This was on revenues of £421.4m in 2011 (2010: £408.0m).
- B2 Net finance costs amounted to £779.4m (2010: £418.7m), although a large proportion of these costs were due to an unrealized loss on interest rate swaps (2011: £364.4m ; 2010: £127.4m) relating primarily to the revaluation of derivative instruments associated with a long-term hedging arrangement. The recognition of such unrealized losses is a requirement of IFRS and are not cash outflows from the group. Also included in the net finance cost of £779.4m for 2011 was a charge of £142.3m (2010: £nil) in respect of the partial settlement of derivative financial instruments associated with the long-term hedging arrangement as a result of the successful refinancing of the group's debt in December 2011.
- B3 The group continues to generate strong cash flows with cash flow before debt service and growth capex increasing to £260.1m (2010: £229.4m). This was primarily driven by the significant improvement in the group's underlying earnings from its core ports and transport business.
- B4 In addition, the group has published its Investor Report for the six months ended 30 June 2012, highlights of which are:
- Overall group revenue increased by 9.5% to £231.6m in the 6 months to 30 June 2012 (6 months to 30 June 2011: £211.5m).

- EBITDA for the 6 months to 30 June 2012 increased by 7.1% to £135.7m (2011: £126.7m).
- Net finance costs amounted to £180.1m for the 6 months to 30 June 2012 (2011: £59.9m).
- Pre-tax profit for the 6 months to 30 June 2012 increased to £86.8m (2011: £27.5m)

## **C Capital Investment Programme**

C1 Capital expenditure represents one of the more significant uses of the group's cash flow. Total capital expenditure in 2011 increased to £44.7m (2010: £32.4m). There are two elements to the group's capital expenditure: maintenance of infrastructure expenditure and revenue earning/enhancing capital projects ("growth capex").

C2 Growth capex for 2011 amounted to £24.0m (2010: £13.8m) and included expenditure associated with:

- Development of new cruise passenger car parking facilities at Southampton £1.7m
- 4<sup>th</sup> multi-storey car park, Southampton £1.7m
- King George Dock, Hull restructuring £3.6m and
- Preliminary development of the Siemens wind turbine facility at Hull £1.6m.

C3 Total capital expenditure for the first half of 2012 amounted to £26.2m, of which £16.4m was in respect of growth capex and included:

- Grimsby River Terminal £5.7m
- 4<sup>th</sup> multi-storey car park, Southampton £4.1m

C4 The group continues to pursue a number of major developments, which have the potential to contribute significant growth during the coming years – these include:

- Southampton Container Expansion – the container terminal at Southampton is the second largest deep-sea container terminal in the UK and the group remains committed to ensuring that it remains one of the leading container ports in the country. A contract to redevelop berths 201/2 in order to provide additional capacity for ultra-large container vessels, has been awarded and works are now underway, and the development is expected to be operational in early 2014. The capital expenditure associated with this project is expected to be in the region of £90m.
- Grimsby River Terminal – in May 2012 the group commenced construction of the two berth riverside ro-ro facility at Grimsby, which will be used for the import and export of new vehicles, in conjunction with a new long-term agreement with Volkswagen Group United Kingdom Ltd. The new facility is expected to cost c£25m and be operational in 2013.
- Green Port, Hull – this is a project to establish a Siemens wind turbine manufacturing plant and riverside export facility in Hull. The development, which is expected to include an investment by the group of in excess of

£100m spread over a number of years, is subject to finalisation of long-term contractual arrangements with Siemens.

## **D Group Refinancing**

- D1 In December 2011 the group successfully undertook a number of refinancing transactions, including:
- a) Issuing £500m fixed rate senior loan notes (due 2026), bearing interest at 6.25%, as part of a multicurrency note programme.
  - b) Entering into £1,400m of floating rate bank term loans with maturities ranging from 3 to 7 years.
  - c) Issuing £423m of fixed rate subordinated unsecured loan notes (due 2018).
- D2 Proceeds from the above financing, net of issue costs, were used to settle in full the group's outstanding bank debt, settle interest due to external unrelated parties and part-settle the mark-to-market liabilities on previous interest and basis rate swaps.
- D3 The group can access committed undrawn borrowings of £460.0m under its senior credit facilities (2010: £342.5m). These undrawn facilities can be utilized to fund working capital (£75m), capital expenditure (£250m) and senior debt interest (£135m).
- D4 ABP has commenced discussions with the European Investment Bank (EIB) with regard to the EIB making loan finance available to part-fund various capital projects being undertaken by ABP. In the event that those discussions are not finalised, the group will use existing capital facilities that are in place and are undrawn, in order to fund the capital projects.
- D5 In addition, the group has published its Investor Report for the six months ended 30 June 2012, which reported that significant progress was made in progressing ABP's transition from bank funding to longer-term dated sources of finance, with the group repaying £250m of its December 2014 maturity bank debt from the proceeds of a £200m US private placement maturing in April 2033, as well as £50m repaid using surplus cash balances. As at 30 June 2012, therefore, 38% of net borrowings of the group now extend to 2026 or beyond, representing a strong and stable financing position going forward.
- D6 At all times since the refinancing of the group's indebtedness, the group has remained within its banking covenants.

## **E Credit Agencies' View**

- E1 ABP has ratings of 'BBB+' by Fitch Stable and 'Baa2 Stable' by Moody's. These ratings support a variety of uses, one of which is to indicate to core long term large institutional investors such as pension funds and life assurance companies that ABP is credit worthy. The strong credit quality of ABP was evidenced in 2011 when it successfully issued £500m in public bonds to these institutional investors.
- E2 As a rated public issuer of debt, the rating agencies carry out independent annual reviews of ABP's operational and financial performance and publish

these rating opinions. A small selection of publically rated issuers who share that same rating as ABP are listed below for comparison.

<b>Company</b>	<b>Fitch LT Rating</b>	<b>Moody's LT Rating</b>	<b>Market Capitalisation £m (unless stated)</b>
Stagecoach Group	BBB	Baa2	1,602
Kingfisher PLC	BBB	Baa2	6,661
BAE Systems PLC	BBB+	Baa2	10,695
National Grid PLC	BBB	Baa1	25,558
British Land	BBB+	-	4,790
BT Group PLC	BBB	-	17,718
Imperial Tobacco	BBB	Baa3	23,973
Marks & Spencer	BBB	-	6,185
Next PLC	BBB	Baa2	5,856
France Telecom	BBB+	A3	Eur 21,700
SAB Miller PLC	BBB+	Baa1	43,000
Anglo American PLC	BBB+	Baa1	24,600

E3 The investment grade ratings and public and private issuances by ABP demonstrates that ABP credit is attractive to institutional investors.