

FORTH PORTS PLC

AGM date: Friday 6 May 2005, 11.00
Proxy deadline: Wednesday 4 May 2005, 11.00
AGM location: Board Room, The Caledonian Hilton Hotel, Princes Street, Edinburgh
Index: Midcap250 **Sector:** Transport

C O R P O R A T E G O V E R N A N C E S E R V I C E

	PROPOSALS	G+ VOTING ADVICE
1	Receive the reports and accounts Adequate environmental policy and reporting and health and safety policy disclosed, but no formal employment policy statement or equal opportunities policy publicly disclosed. Normally we would advise opposition, but in recognition that these policies exist we advise abstention. Next year we would wish to see these disclosed in the annual report. Meets other guidelines.	Abstain
2	Declare a final dividend Directors propose a final dividend of 26.6p, which together with the interim dividend of 13.3p makes for a total dividend of 39.9p (2003: 36.3p). Dividend is covered by earnings.	For
3	Re-elect Mr C.G. Hammond Chief Executive. One year rolling contract.	For
4	Re-elect Mr T.P. Smith Executive Director. One year rolling contract.	For
5	Re-elect Mr P.D. Glading Executive Director. One year rolling contract.	For
6	Receive the remuneration report Overall disclosure is generally adequate, though factors specific to the company in pay determination are lacking. Precise targets under all performance related elements of the pay package have been disclosed. Both upper and lower vesting point of the TSR measure under the LTIP are considered acceptable given the maximum awards available and in light of the relatively low level of executive salaries as compared to the sector average. Two concurrent performance criteria are used. All executives have one year rolling contracts in all circumstances though there is no statement of mitigation. PIRC rating: BBB	For
7	Re-appoint the auditors and fix their remuneration PricewaterhouseCoopers LLP proposed. Non-audit fees amounted to GBP 101,000 during the year under review, which, in our view, does not raise independence concerns.	For
8	Allot shares with pre-emption rights Authority sought limited to an aggregate nominal amount of GBP 6.2m, being approximately 27% of the issued share capital. Meets recommended limits.	For
9*	Disapplication of pre-emption rights Authority sought limited to an aggregate nominal value of GBP 1.14m, being 5% of the issued ordinary share capital. Meets institutional investors' guidelines.	For
10*	Re-purchase own shares Authority sought limited to 6,838,000 ordinary shares, being 15% of the issued share capital. No share buy backs took place during the year.	For

* Special Resolution

Governance

Combined code compliance

- The board considers that the company complied with the Code throughout the year under review with the exception of: provision A.3.2 (half the board should be independent), provision C.3.1 (Audit committee member with recent and relevant financial experience and the chairman of the Company should not be an Audit committee member) and provision B.2.1 (the Chairman is the chairman of the Remuneration committee). Explanations provided.
- Additionally, PIRC believes that the Company has not complied with the A.4.4 provision of the Code.

Directors

- The chairman has been classified as a Higgsian chairman and referred to as neither executive nor non-executive in this report.
- After the AGM the board will consist of the chairman, four executives and three non-executive directors, all of whom are considered independent under PIRC guidelines.
- The board chairman also chairs all three committees. The Company states it is the board's intention for Mr Collins to hand over chairmanship of the Remuneration and Audit committees this year.
- The audit and remuneration committees are 75% independent in our view.
- The chief executive sits on the nomination committee, which is considered to be 60% independent.

Remuneration

- Directors' pay policy does not go beyond "attract, retain and motivate" and there are no details setting out how pay is linked to the objectives of the company.
- However, precise targets for awards made under the annual bonus scheme during the year have been stated with an according sliding scale.
- Two concurrent performance measures are used under the LTIP. Both upper and lower vesting point of the TSR measure under the LTIP are considered acceptable given the maximum awards available and the level of executive salaries as compared to the sector average.
- All executives have one year rolling contracts in all circumstances though there is no statement of mitigation.

Audit and reporting

- The non-audit fees of GBP 101,000 during the year under review do not raise independence concerns.

Corporate social responsibility (CSR)

Environment

- The company recognises that its activities depend directly upon natural resources, and aims to promote sustainability and to ensure that the company's operations consider their environmental impacts. The company does not list its environmental objectives.
- No board or senior-level responsibility for environmental issues has been identified.
- The company reports oil spills that occurred during the year and how they were handled.
- The Finnish Terminal at the Tilbury site has maintained ISO 14001 certification and other sites will be identified for ISO 14001 compatible environmental management systems.

Employment and Human Rights

- The company provides detailed information outlining its position in employment, including employee involvement, industrial relations and training and development, but does not publicly disclose a formal employee policy statement. Health and safety and freedom of association policies are disclosed. An equal opportunities policy exists, but it is not publicly disclosed.
- Board level responsibility for human resources lies with the Personnel Director, Sandy Morrison.
- A group wide Communication and Consultation Forum has been in place for two years. However, there is no evidence of regular employee surveys.
- The company's Scottish Operations had a full external audit by the British Safety Council in 2004, which awarded the company three out of five stars.

Customers

- There is a group-wide policy on customer service.
- There is no disclosure regarding any quality or customer satisfaction programmes.

Community

- Forth Ports works to be a responsible citizen in the communities in which it operates, and to promote benefit and sustainability for social and environmental groups. There is no publicly disclosed policy on bribery and corruption.
- No board or senior management level responsibility for community issues is identified.
- The company donated GBP 22,000 in 2004.

Issue Alert

- No significant issues have come to our attention to date (15/04/05).

Compliance with ABI Guidelines on SEE disclosure

- As last year, it is PIRC's view that the company met four out of eight criteria.

(m) Year end 31 December	2004	2003	2002
Turnover	162.20	156.30	139.60
Profit before tax	50.50	53.20	45.40
Profit attributable to shareholders	33.10	37.10	31.90
Retained profit	14.90	20.60	17.00
Earnings per share (p)	72.60	81.40	71.00
Shareholders' funds	261.40	233.90	199.40
Dividend per ordinary share (p)	39.90	36.30	33.00

FINANCIAL ADVISERS & CONTACTS

Company Secretary	Morag McNeill (0131 555 8700)
Company Address	1 Prince of Wales Dock, Leith, Edinburgh EH6 7DX
Registrars	Lloyds TSB Registrars, Edinburgh
Brokers	Dresdner Kleinwort Wasserstein
Advisers	Dresdner Kleinwort Wasserstein
Auditors	PricewaterhouseCoopers LLP
Solicitors	McGrigors
Bankers	Bank of Scotland
Remuneration advisers	Hay Group, Adams Associates

1. DIRECTORS

1.1 Board of Directors

PIRC assesses a non-executive director's independence according to PIRC's Shareholder Guidelines. Comments represent PIRC's analysis based on information in the report and accounts. A = audit committee, R = remuneration committee, N = nomination committee, * = committee chairman.

Board changes during year: Graham Webster retired from the board as a non-executive director at the last AGM. Sandy Morrison will retire as an executive director at the forthcoming AGM. William Harkness was appointed Senior Independent Director in May 2004.

NAME	POSITION	CTTE	AGE	DATE APPT	SHARES <i>Options</i> [LTIP]	CONTRACT	OTHER DIRECTORSHIPS/ POSITIONS	COMMENT
Christopher Collins	Chairman	A* R* N*	65	2000	10,000		Hanson plc [Ch]; Old Mutual plc [NED]; The Go-Ahead Group plc [NED]; Alfred McAlpine plc [NED]	
Charles Hammond	Chief Executive	N	43	1992	58,686 31,520 [61,256]	One year rolling	Ex-McGrigor Donald; ex-company secretary	He became Chief Executive in 2001. PIRC notes that McGrigors (formerly McGrigor Donald) are the company's solicitors.
Wilson Murray	Finance Director		54	1986	138,500 11,520 [39,895]	One year rolling	Ex-Deloitte Haskins & Sells; ex-Price Waterhouse	
Terry Smith	Executive Director		58	1992	109,722 10,880 [35,323]	One year rolling	Chartered Institute of Building [fellow]; ex-GA Properties Ltd [Dir]	
Perry Glading	Executive Director		46	2001	750 1,520 [34,360]	One year rolling	Port Skills and Safety Limited [Board member]	Joined the group in 1999.

William Harkness	Non-Executive Director	A R N	61	1998	9,500		Ex-The Weir Group plc [Dir]	Independent by the company, independent by PIRC.
Struan Robertson	Non-Executive Director	A R N	55	2003	1,500		WS Atkins PLC [SID]; Henderson TR Pacific Investment Trust plc [NED]; International Power plc [NED]; ex-Wates Group Limited [CE]; ex-BP	Independent by the company, independent by PIRC.
Gerry Brown	Non-Executive Director	A R N	60	2003	2,064		Quintiles Europe [Ch]; Upol Ltd [Ch]; Keller plc [NED]; Vantec Corporation [NED]; C H Jones [NED]; ex-NFC/Exel Logistics; ex-TDG; ex-Tibbett & Britten	Independent by the company, independent by PIRC.

PIRC assesses a non-executive director's independence according to PIRC's Shareholder Guidelines.

1.2 Board composition (after AGM)

Directors	Number	% of board
Executive directors	4	50
Independent NEDs	3	38
'Connected' NEDs	0	0
Other	1	12
Total	8	100

Number of board meetings in year: 5

Number of NED-only meetings in year: 2

1.3 Board committees (after AGM)

	Number of members	% ind directors	Number of meetings
Audit	4	75	4
Remuneration	4	75	5
Nomination	5	60	1

1.4 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: DIRECTORS	ANALYSIS
There should be a clear division of responsibilities at the head of the company <i>a) There is a separate chairman and chief executive</i> <i>b) The chairman has not previously been chief executive</i> <i>c) There is a senior independent director</i>	Yes Yes Yes
The board should contain sufficient numbers of independent non-executives <i>d) There are at least three non-executives on the board</i> <i>e) At least a third of the board is independent by PIRC guidelines</i> <i>f) At least 50% of the board excluding the chairman is independent</i>	Yes Yes No
All directors should be accountable to shareholders by facing regular re-election <i>g) All directors are required to seek regular election</i> <i>h) All directors face election every year</i>	Yes No
There should be an independent and transparent appointments and review process <i>l) Nomination committee composition complies with PIRC guidelines</i> <i>j) Recruitment practices for new directors are transparent</i> <i>k) Process for succession planning is disclosed</i> <i>l) Process for regular board and individual appraisals and outcome is disclosed</i> <i>m) Individual director's attendance at board and committee meetings is disclosed</i> <i>n) There is evidence that training needs for the board are regularly reviewed and acted upon</i>	No Yes Yes Yes Yes No

1.5 Comment

- c) Mr Harkness was appointed senior independent director.
- f) The Company reports this as an area of no-compliance with the Combined Code. The Company intends to appoint one no-executive director during the year to replace Mr Webster, which together with the retirement of Mr Morrison will result in compliance with the Code's requirement.
- l) The chief executive sits on the nomination committee.
- j) During the year the Nomination committee engaged the services of Hanson Green, independent search consultants, to bring forward a list of suitable candidates for the vacant position of non-executive director with particular reference to the Company's requirement for this director to have recent and relevant financial experience. The Company reports that the search is close to a conclusion.
- l) The board and committee performance evaluation was undertaken by means of a Board Performance Evaluation Questionnaire for board and its Nomination committee and separate Committee Performance Evaluation Questionnaires for Audit and Remuneration committees. The committee questionnaires considered fulfilment of terms of reference, necessary skills and resources of members, evaluation of supporting processes for the committee and an overall view of its effectiveness. The results were compiled and addressed by the chairman and advised to the board. Some major changes were implemented as a result of this review. An evaluation of the individual directors' performance was undertaken by the chairman. The chairman's performance was evaluated by the non-executive directors led by the senior independent director. The views of executive directors were sought as well.
- n) The company states that 'the company secretary is responsible for ensuring that the directors are fully aware of their duties and responsibilities as directors and that they receive appropriate training' but does not disclose evidence in support of this in the annual report. The induction programme for newly appointed directors is in place.

2. DIRECTORS' REMUNERATION

2.1 Board remuneration

	2004		2003		2002
Non-executive directors		%		%	
Fees	188,423	35.9	138,681	0.9	137,500
Others	0	0.0	0	0.0	0
Non-executives' total	188,423	35.9	138,681	0.9	137,500
Executive directors					
Salaries	913,785	10.6	826,510	5.9	780,738
Annual Bonus	0	-100.0	214,893	28.2	167,570
Other Performance Related	0	0.0	0	0.0	0
Other Emoluments	91,272	10.5	82,608	8.8	75,930
Executives' total cash	1,005,057	-10.6	1,124,011	9.7	1,024,238
Defined benefit schemes	907,640	-27.0	1,243,520	4.8	1,186,660
Share Option Gains	0	-100.0	747,400	100.0	0
LTIP Gains	0	0.0	0	0.0	0
Compensation Payments	0	0.0	0	0.0	0
TOTAL EXECUTIVES	1,912,697	-38.6	3,114,931	40.9	2,210,898

Highest Paid Director	2004 (C G Hammond)		2003 (C G Hammond)		2002 (C G Hammond)
Salary	275,544	12.5	245,000	7.8	227,232
Annual Bonus	0	-100.0	63,700	13.2	56,250
Other Performance-Related	0	0.0	0	0.0	0
Other Emoluments	20,712	3.6	19,992	10.2	18,135
Total cash	296,256	-9.9	328,692	9.0	301,617
Share option gains	0	-100.0	186,850	100.0	0
LTIP gains	0	0.0	0	0.0	0
Pension increase	310,840	-40.1	518,980	58.6	327,220
TOTAL	607,096	-41.3	1,034,522	64.5	628,837

Average Executive Director (annualised)	2004 of 5.00		2003 of 5.00		2002 of 5.00
Salary	182,757	10.6	165,302	5.9	156,148
Total Emoluments	201,011	-10.6	224,802	9.7	204,848

- The figure for defined benefit scheme payments is based on the increase in accrued pension multiplied by 20 to represent its capital value.

Comparative salary ranking

Highest paid director:	13th out of 14
Average executive:	14th out of 14
Comparator used:	FTSE Midcap Transport

2.2 Executives' incentive bonus structure

Scheme	Maximum award	Performance condition	Comment
Performance Bonus Scheme	50% of salary	EPS growth of 4% yields 15% of salary rising to 50% if 10% growth achieved.	No bonuses were awarded during the year under review.
LTIP (2002)	75% of salary based on share price at 1st April in relevant performance period	First condition: real EPS growth of 2% per annum over the three year period. Second condition: TSR versus comparator group of 66 named companies in the FTSE 200-300 index over a three year performance period. 25% vest for median performance. Full vesting at upper quartile. A pro-rata scale operates between the two points.	Grants under this scheme begin to vest in April 2005. 3 executives were granted awards with a face value at date of grant of 75% of salary and Mr Glading of 72% of salary.

2.3 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. It is based on disclosure in the report and accounts. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: REMUNERATION	ANALYSIS
Executive remuneration should be determined by a formal and independent procedure <i>1) Remuneration committee exists comprising wholly independent directors</i> <i>2) Remuneration committee receives independent advice</i>	No Yes
There should be full and transparent disclosure of remuneration <i>3) All elements of each directors' cash remuneration is disclosed</i> <i>4) All share incentive awards are fully disclosed with award dates and prices</i> <i>5) Expected values are disclosed for all share incentive awards for each director</i> <i>6) Pension contributions and entitlements are fully disclosed</i> <i>7) Pay policy aims are fully explained in terms of the company's objectives</i> <i>8) Pay elsewhere in the company is considered in determining directors' pay</i> <i>9) The intended balance of the pay package is fully described</i> <i>10) There is information on the composition of the NEDS' remuneration and how it is determined</i> <i>11) Duration of contracts and company liabilities on termination are given</i> <i>12) Compensation payments or significant changes in policy are fully explained</i> <i>13) Future performance conditions and/or past targets for annual bonuses paid stated</i> <i>14) Maximum potential awards under annual bonus is stated</i> <i>15) Performance conditions for long term incentives are disclosed</i> <i>16) Maximum awards for long term incentive schemes disclosed</i> <i>17) Vesting scale for long term incentive schemes is clear</i>	Yes Yes No Yes No No Yes Yes Yes n/a Yes Yes Yes Yes Yes Yes
Longer term incentives should provide rewards scaled towards superior performance <i>18) Maximum vesting targets are challenging relative to performance required</i> <i>19) Minimum vesting targets are challenging relative to performance required</i> <i>20) Vesting scales are sufficiently broad and geared towards better performance</i> <i>21) There are at least two performance criteria one of which uses a comparator group or index</i>	Yes Yes No Yes
Remuneration structure as a whole should not be excessive <i>22) Total potential rewards under all incentive schemes are not excessive</i> <i>23) Average salaries are broadly in line with sector</i> <i>24) Directors are required to build up a significant shareholding</i> <i>25) Share incentive schemes conform with dilution guidelines</i> <i>26) Schemes available to enable all employees to benefit from business success</i> <i>27) Other remuneration practices do not raise concerns</i>	Yes Yes No Yes No Yes
Contracts policy should balance potential costs to the company with directors' interests <i>28) No current directors have rolling contracts in excess of one year</i> <i>29) Statement on application of mitigation made</i> <i>30) Contracts do not provide for liquidated damages in excess of one year's salary in any circumstances</i> <i>31) Future bonuses are not taken into account in determining compensation</i>	Yes No Yes Yes

2.4 Comment

Background data

Brokers consensus on future performance (Source: FT.Com)

Base EPS: 71.40p

Year 2: 84.20p (+17.93%)

Average growth per annum over two years: +8.96%

Average real growth per annum over two years (assumes RPI@2.5%): +6.46%

Disclosure

Figures

All components of the directors' pay packages are described with the exception of base salaries. The composition of executive directors' remuneration between base salary and performance related elements has been disclosed. Expected value calculations for outstanding share awards under the now closed ESOS or LTIP have not been disclosed.

Policy

Directors' pay policy does not go beyond "attract, retain and motivate" and there are no details setting out how pay is linked to the objectives of the company. Non-executive remuneration is determined by executives with advice from external consultants. There is no disclosure to indicate whether pay elsewhere in the company is considered in determining directors' remuneration. Contracts policy is clear but there is no mitigation statement. The Company has not explained the change in the performance targets attached to the annual bonus scheme.

Performance targets

Precise targets for awards made under the annual bonus scheme during the year have been stated. Maximum awards and performance conditions of the LTIP have been disclosed and there is full disclosure of the comparator group companies used under the TSR measure. Vesting scales are clear.

Disclosure rating: B

Balance of incentive and reward

Long term incentives

Both upper and lower vesting point of the TSR measure under the LTIP are considered acceptable given the maximum awards available and the level of executive salaries as compared to the sector average. Vesting scale is not sufficiently broad and geared towards better performance. We welcome the use of two concurrent performance criteria, although EPS target is not challenging given the brokers' forecasts.

Excessiveness

Combined schemes are not considered excessive by PIRC with maximum awards worth 125% of salary. Salaries are towards the lower end of the Midcap Transport sector. PIRC would welcome the introduction of director shareholding requirements to be built up over a fixed period. There is no evidence of schemes available for employees to benefit from the business success at no additional cost.

Incentive/reward rating: B

Contracts

All executives have one year rolling contracts in all circumstances. All future appointments will be made under a one year rolling contract unless there are exceptional circumstances. No statement of mitigation has been provided. Termination payments are based on salary plus benefits only.

Contracts rating: B

Overall rating for remuneration report: BBB

3. AUDIT & REPORTING

3.1 Auditor's remuneration

Auditors: PricewaterhouseCoopers LLP
 Date appointed:
 Audit partner: n/d
 Responsible since:

	2004	2003	2002
Statutory audit fee	0.30	0.22	0.20
Non-audit work undertaken by the auditors			
Audit-related, mandatory or regulatory			
Tax compliance			
Other tax services	0.10		0.08
Acquisition-related			
Other services			0.10
Total non-audit fees	0.10	0.00	0.18

During 2003, the company used four different firms of professional advisers to advise on accounting, corporation tax, VAT and other financial matters. The non-audit fees of GBP 101,000 included GBP 53,000 for tax advice and GBP 48,000 for IFRS accounting advice.

3.2 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: AUDIT	ANALYSIS
The system of internal controls should be fully described <i>a) The statement on internal controls meets Turnbull minimum requirement</i> <i>b) The board reports on issues of non-financial risk</i>	Yes Yes
The auditors should be independent of the company and management <i>c) No directors have a significant connection with the auditors</i> <i>d) Audit firm is subject to regular fixed-term rotation</i>	Yes No
Non-audit fees should be disclosed and should not potentially affect independence <i>e) UK and global non-audit fees disclosed</i> <i>f) An adequate break-down of the nature of non-audit fees is provided</i> <i>g) Level of non-audit fees do not raise independence concerns</i>	Yes Yes Yes
Independent audit committee demonstrates accountability and expertise <i>h) A fully independent audit committee exists comprising at least three members</i> <i>I) Audit committee includes at least one member with significant financial experience</i> <i>j) Audit committee reports on its activities</i> <i>k) Audit committee's policy on awarding non-audit work is fully described</i>	No Yes Yes Yes

3.3 Comment

- b) Management of environmental risks is described in the annual report.
- h) The board chairman is the chairman of the Audit committee. The Company recognizes this to be non-compliance with the Combined Code and intends to appoint a new chairman of the committee this year. The Company states that the new non-executive director, when appointed to the board, will be appointed to the audit committee.
- l) Christopher Collins and William Harkness, members of the audit committee, are chartered accountants, although the company states that it is its intention to 'appoint a new non-executive director, in due course, who will have the necessary recent and relevant financial experience as strictly defined in the Smith report'.
- k) The Company's policy on awarding non-audit work is fully described. Any accounting support, in addition to audit related services, should be considered on competitive basis. In cases where knowledge of the Group's tax position is important the Group may use its auditors or their associates, but it does not preclude the group from using other tax consulting firms. All significant consulting projects, including due diligence work, should be subject to competitive tender. Any such work between GBP 5,000 and GBP 49,999 to be carried out by the auditors requires prior approval of the Finance Director, while if the fee proposal is in excess of GBP 50,000 it should be pre-approved by the chairman of the Audit committee.

4. SHARE CAPITAL & SHAREHOLDER RELATIONS

4.1 Share structure

Share class	50.00p ords
Authorised (m)	29.00
Issued (m)	22.80

Significant changes in issued capital: None

4.2 Disclosed ordinary shareholdings

(as at 21 March 2005)

Directors' interests	0.72%
Standard Life Investments Management	8.80%
F&C Asset Management Plc	7.90%
Schroder Investment Management (UK)	6.30%
Insight Investment Management Limited	5.70%
Threadneedle Asset Management Limited	5.00%
Legal & General Investment Management (UK)	3.60%

4.3 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: SHAREHOLDERS	ANALYSIS
Shareholders have an opportunity to vote on dividend policy <i>a) Declared dividend or policy is put to the vote</i>	Yes
Shareholders should have adequate information and access to all directors <i>b) Sufficient biographical information on all directors is disclosed</i> <i>c) Justification for new director appointments is provided</i> <i>d) Meetings between NEDs and shareholders are reported</i>	Yes Yes No
All ordinary shares should have equal rights <i>e) Each ordinary share has equal voting rights</i> <i>f) There is no controlling shareholder</i> <i>g) No persons have the right to designate directors to the board</i>	Yes Yes Yes
Voting by shareholders should be democratic and transparent <i>h) All voting is conducted by poll on the basis of one share one vote</i> <i>l) The levels of proxy votes have been disclosed on request</i>	No Yes

4.4 Comment

- d) In 2004 the chairman met with two of the Company's shareholders. As part of the governance process, other major shareholders were offered the opportunity to meet the chairman should they so wish. The senior independent director is also available for meetings if requested.

5. CORPORATE SOCIAL RESPONSIBILITY

5.1 Environmental Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: ENVIRONMENT	ANALYSIS
There should be a comprehensive, published policy a) <i>Group-wide environmental policy published</i> b) <i>Company sets out objectives addressing main environmental impacts</i>	Yes No
There should be clear lines of accountability and management c) <i>Board director with environmental responsibility</i> d) <i>Senior management with environmental responsibility</i>	No Yes
Procedures for stakeholder engagement should be evident e) <i>Environmental standards required of suppliers</i> f) <i>Evidence of structured consultation process to gauge stakeholder views</i>	Yes Yes
Companies should report fully on performance g) <i>Target setting disclosed</i> h) <i>Performance evaluated against targets</i>	n/d n/d
Audits, external standards and independent verification should be used I) <i>Formal procedures in place for monitoring performance and evaluating outcomes</i> j) <i>Environmental reporting is externally verified</i>	Yes No

5.2 Comment

- a) The company recognises that its activities depend on the use of the natural environment. It aims to promote sustainability, and to ensure that all operations consider their impact on the local and global environment.
- d) Day-to-day responsibility for the control and monitoring of environmental risk to the business is delegated to Group officers and senior managers, in particular to the Harbour Masters and Port Managers.
- e) The company considers the potential impacts on the local environment when purchasing equipment, plant, stores and suppliers, but there is no evidence that environmental procurement standards are in place.
- f) All facilities are on or close to sensitive conservation sites. The Group contributes to the Forth & Tay Estuary Forums and the Thames Marine Consultation Committee. Each of these bodies represent links to other regulators, local authorities, community and conservation groups.
- g) Previous targets were identified for 2003, but no new targets are disclosed.
- h) Performance is not evaluated against specific targets, nor does the company quantify its energy and water use, carbon dioxide emissions or waste. DEFRA has stated that all listed companies should be able to report on these indicators.
- I) The Finnish Terminal in the Port of Tilbury retained ISO 14001 accreditation. Other facilities in Tilbury are working towards compliance and the company intends to identify potential sites in its Scottish operations for ISO 14001 compatible environmental management systems.

5.3 Performance Indicators - Environment

	Unit of measurement	Most recently reported data
CO2 equivalent emissions	n/d	
Energy consumption	n/d	
Water consumption	n/d	
Waste	n/d	

5.4 Employment and Human Rights Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: EMPLOYMENT AND HUMAN RIGHTS	ANALYSIS
There should be a comprehensive published policy <i>a) Group-wide employment policy published</i> <i>b) Health and safety policy disclosed</i> <i>c) Policy on diversity/equal employment opportunities disclosed</i> <i>d) Policy on freedom of association and collective bargaining disclosed</i> <i>e) Policy commitment made to international human rights standards</i>	No Yes No Yes No
There should be clear lines of accountability and management <i>f) Board director with responsibility for human resource issues identified</i> <i>g) Senior management with responsibility for human resource issues</i>	Yes n/d
Procedures for stakeholder engagement should be evident <i>h) Works councils or similar strategic-level procedures for information and consultation</i> <i>l) Company undertakes regular employee satisfaction surveys</i>	Yes n/d
Companies should report fully on performance <i>j) Employment performance indicators are disclosed</i> <i>k) Target setting disclosed</i>	Yes Yes
Audits, external standards and independent verification should be used <i>l) Performance evaluated against targets</i> <i>m) Company, or part of it, is accredited against recognised management standards</i>	Yes Yes

5.5 Comment

- a) The annual report provides detailed information about the company's industrial relations, employee involvement, training and development and health and safety. We note the company has advised us in correspondence that "The company recognises that its employees are one of its most important assets". We consider the company should include such information in the annual report.
- c) There is an equal opportunities policy in place. PIRC considers this should be publicly disclosed for the benefit of all investors.

- d) The company worked with trade unions to review and amend grievance and discipline procedures, and equal opportunities. The company has unionised employees.
- f) Sandy Morrison is Personnel Director. He will be retiring at the May 2005 Annual General Meeting.
- j) Indicators include reportable three day lost time incidents (RIDDORS, major injuries, training costs per employee, labour stability and age profile.
- k) The company aimed to reduce RIDDORS by ten per cent and major injuries by 20 per cent. Both targets were achieved.
- m) The company's Scottish operations had a full external audit of its Safety Management System in 2004 by the British Safety Council. The audit highlighted a substantial improvement, and the company was awarded three out of five stars compared to no stars in 2001. We note the company's inclusion in an SRI index, which is based on high standards and practices in human resources, business ethics and the environment.

5.6 Community Investment Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: COMMUNITY INVESTMENT	ANALYSIS
There should be a comprehensive published policy <i>a) Group-wide community policy published</i> <i>b) Company has a formal, publicly available policy statement addressing bribery and corruption</i> <i>c) Company refers directly to the importance of engagement with stakeholders</i>	Yes No No
There should be clear lines of accountability and management <i>d) Board director with responsibility for community issues identified</i> <i>e) Senior management with responsibility for community issues</i> <i>f) There is a business ethics programme addressing bribery and corruption</i>	No No n/d
Procedures for stakeholder engagement should be evident <i>g) There is evidence that the company is forming partnerships with external bodies</i> <i>h) There is evidence that the company uses feedback to develop appropriate procedures</i> <i>l) Information is provided on beneficiaries of community investment</i>	Yes No No
Companies should report fully on performance <i>j) There is a clearly defined, pre-determined level of corporate giving</i>	No
Audits, external standards and independent verification should be used <i>k) Evidence of a formal monitoring system and internal reporting procedure</i> <i>l) Company reporting is in accordance with GRI or has had external review</i>	No No

5.7 Comment

- a) The company recognises that corporate giving should involve more than finance, and it aims to promote sustainability and generate benefits for social and environmental groups in conducting its activities. It states that it is working hard to be a responsible citizen in the communities in which it operates.
- c) The company's Property Division engages with communities to ensure development proposals are

understood by the communities, but the importance of this type of engagement is not directly referred to.

- g) The company contributes to a number of conservation bodies and consultation committees, and company personnel sit on the boards of charities. The company also supports organisations by providing office accommodation or meeting rooms.

5.8 Performance indicators - Community Investment

	Unit of measurement	Most recently reported data
Cash donations (UK)	GBP	22,000.00
Cash donations (Global)	GBP	22,000.00
Other company giving (in kind)		n/d
Political donations (Europe)		0.00
Political donations (outside EU)		0.00

5.9 Customers Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: CUSTOMERS	ANALYSIS
There should be a comprehensive published policy <i>a) Group-wide customer service or consumer relations policy published</i> <i>b) Company refers directly to the importance of engagement with stakeholders</i>	Yes No
There should be clear lines of accountability and management <i>c) Board director with responsibility for quality or customer service issues identified</i> <i>d) Senior management with responsibility for quality or customer service</i>	No n/d
Procedures for stakeholder engagement should be evident <i>e) Structured consultation process with stakeholders for quality or customer service</i> <i>f) There is evidence that the company uses feedback to develop appropriate procedures</i>	n/d No
Companies should report fully on performance <i>g) Performance indicators used to report quality or customer related issues</i> <i>h) Targets set for quality or customer satisfaction</i>	No n/d
The company should use a formal monitoring system and external standards <i>l) A quality or customer satisfaction programme is in place</i> <i>j) Company or part of it, is accredited against recognised management standards</i>	No n/d

5.10 Comment

- a) The company sets out its strategy as ‘to provide high levels of handling and logistics related services to customers who are looking to move goods cost effectively and efficiently’. It also notes that ‘business improvement processes are helping to deliver greater efficiency, productivity and customer satisfaction.’
- D) The company implemented the marine model of the Integrated Port Operating System in Scotland in 2004. The import module of the new system will be implemented in 2005. The company expects that the system will improve levels of service performance to customers. It is unclear whether this system measures quality of operations.

5.12 Compliance with ABI guidelines

This provides our interpretation of compliance with standards of best practice as set out in ABI guidelines regarding disclosure on social, environmental and ethical (SEE) matters in annual reports.

N.B. Only information in the company’s annual report is taken into account in interpreting guidelines 1.1 to 1.4.

	Compliance with ABI Guidelines	
1.1	The board takes regular account of the significance of SEE matters to the business	No
1.2	SEE-related risks and opportunities for company value are identified and assessed	Yes
1.3	Adequate information has been received and SEE matters included in directors’ training	No
1.4	The board has ensured that there are effective systems in place for managing SEE risks	Yes
2.1	Information is provided on the impact of SEE-related risks and opportunities on value	No
2.2	Policies and procedures for managing risks arising are described	Yes
2.3	Information is provided on compliance with policies and procedures for managing risks	Yes
2.4	Procedures for verification of SEE disclosure are described	No

5.13 Comment

- 1.2) The company identified the economic benefit of its CSR management, which enhances long-term returns for shareholders.
- 1.4) Each year the board prepares and reviews a Risk Control and Monitoring Analysis Matrix, which includes the assessment, control and monitoring of the impact to the business of perceived environmental risks.
- 2.2) All commercial port facilities are required to comply with the International Ship and Port Facility Security Code, all of the company’s ports have oil spill contingency and major incident plans, and regular audits of health and safety performance are undertaken.

APPENDIX: COMPLIANCE WITH COMBINED CODE OF BEST PRACTICE 2004

Under the Listing Rules, UK companies are required to make the following disclosures. This table is PIRC's assessment of the company's statements

Listing rule compliance	
a) 12.43A (a) There is a statement of how the company has applied the Combined Code's principles	Yes
b) 12.43A (b) There is a compliance statement; specifying the Code provisions with which the company has not complied, if any.	Yes
c) 12.43A (b) The board considers that the company complied with the Code in full for the whole period	No
d) Is Combined Code Compliance Statement complete?	No

Comment

- c) The board considers that the company complied with the Code throughout the year under review with the exception of: provision A.3.2 (half the board should be independent), provision C.3.1 (Audit committee member with recent and relevant financial experience and the chairman of the Company should not be an Audit committee member) and provision B.2.1 (the Chairman is the chairman of the Remuneration committee). Explanations provided.
- d) Additionally, PIRC believes that the Company has not complied with the A.4.4 provision of the Code.

The following tables provide PIRC's interpretation of the company's compliance with certain provisions of the Combined Code. PIRC's assessment reflects our interpretation as at the end of the company's financial reporting period. Our view may differ from the assessments of the board or the auditors. Code numbers refer to the Combined Code as announced to the Listing Rules. n/d = not disclosed, n/a = not applicable to this company.

Separation of powers	
a) A.2.1 The roles of chairman and chief executive should not be exercised by the same individual.	Yes
b) A.2.2 A chief executive should not go on to be chairman of the same company.	Yes
c) A.2.2 The chairman should on appointment meet the Codes independence criteria	n/a
d) A.3.3 There is a senior independent director appointed	Yes

Board Balance	
a) A.3.2 At least half the board, excluding the chairman, should comprise NEDs independent in the board's view	No
b) A.3.2 A smaller company should have at least two independent NEDs	n/a

Comment

- a) The Board considers that, for its size, the composition of the board reflects a substantial degree of independence. In addition, the board intends to appoint a new non-executive director this year to ensure compliance with the Code.

Committees	
a) A.4.1 There should be a nomination committee	Yes
b) B.2.1 The board should establish a remuneration committee	Yes
c) C.3.1 The board should establish an audit committee	Yes

Composition of committees	
a) A.4.1 A majority of members of the nomination committee should be independent NEDs	Yes
b) A.4.1 The chairman or an independent NED should chair the nomination committee	Yes
c) B.2.1 Remuneration committee members should all be independent NEDs	No
d) C.3.1 Audit committee members should all be independent NEDs	No
e) C.3.1 At least one member of the audit committee has recent and relevant financial experience.	Yes

Comment

- e) Two members of the Audit committee are chartered accountants. The Company intends to appoint a new non-executive director with recent and relevant financial experience to serve on the Audit committee.

Other board matters	
a) A.1.3 The chairman should hold meetings with the NEDs without the executives present.	Yes
b) A 1.3 NEDs should annually appraise the chairman's performance	Yes
c) A.7.1 All directors face re-election at intervals of no more than three years.	Yes
d) A.7.2 NEDs may serve longer than nine years subject to annual re-election.	n/a
e) A.7.2 NEDs should be appointed for specified terms	Yes

Comment

- d) The board has adopted the principle that non-executive directors should normally serve two three year terms and that any term beyond six years should be subject to particularly rigorous review. In any event, no non-executive director should serve longer than nine years.

Remuneration matters	
a) B.1.6 Notice periods should be (or should reduce to) one year or less.	Yes
b) B.1.2 Executive share options should not be offered at a discount	Yes
c) B.1.3 Remuneration for NEDs should not include share options.	Yes
d) B.2.4 Shareholders approve new share schemes and significant changes	Yes

Audit & Reporting	
a) C.1.1 There should be statements of directors and auditors respective responsibilities for the accounts	Yes
b) C.1.2 There should be a statement on going concern	Yes
c) C.2.1 There should be a statement on internal controls	Yes
d) C.3.4 The audit committee should review “whistleblowing” arrangements	Yes
e) C.3.5 There has been a review of the effectiveness of the internal audit activities	Yes
f) C.3.5 Absence of internal audit has been reviewed	n/a

Shareholder Relations	
a) D.2.2 Separate AGM resolutions for substantially separate issues	Yes
b) D.2.2 There is a resolution at the AGM relating to the report and accounts	Yes
c) D.2.4 At least 20 working days notice of the AGM should be given	Yes

Board and Committee Information	
a) A.7.1 Sufficient biographical details should be provided for directors facing election	Yes
b) A.1.2 Attendance records published for individual members of the Board	Yes
c) A.1.2 Attendance records published for individual members of the Nomination committee	Yes
d) A.1.2 Attendance records published for individual members of the Remuneration committee	Yes
e) A.1.2 Attendance records published for individual members of the Audit committee	Yes
f) A.4.1 Terms of Reference made available for the Nomination Committee	Yes
g) B.2.1 Terms of Reference made available for the Remuneration Committee	Yes
h) B.2.1 Terms of Reference made available for the Remuneration Consultants	n/d
I) C.3.3 Terms of Reference made available for the Audit Committee	Yes

Comment

- f) The Company disclosed the summarised terms of reference in the annual report. PIRC believes, however, that full version of the terms of reference should be made available on the Company’s website.
- g) The Company disclosed the summarised terms of reference in the annual report. PIRC believes, however, that full version of the terms of reference should be made available on the Company’s website.
- h) The Company makes a statement in the annual report that neither of its remuneration consultants has any other connections with the Company.
- I) The Company disclosed the summarised terms of reference in the annual report. PIRC believes, however, that full version of the terms of reference should be made available on the Company’s website.

Board or Committee Reports on	
a) A.6.1 Board process on performance evaluation	Yes
b) A.4.3 Chairman's other significant commitments and any changes	Yes
c) A.4.6 Work of nomination committee	Yes
d) B.1.4 Work of remuneration committee	Yes
e) B.1.4 Fees received by executives serving as NEDs elsewhere	n/a
f) C.3.3 Work of audit committee	Yes
g) C.3.7 How audit independence is safeguarded	Yes
h) D.1.2 Steps taken in understanding of the views of major shareholders	Yes

Comment

- e) Mr Glading was appointed to the board of Port Skills and Safety Limited in December 2004.

Other disclosure issues	
a) A.1.1 The board should meet sufficiently regularly	Yes
b) A.3.1 The board should identify each NED it considers to be independent	Yes
c) A.4.4 NED terms of appointment are made available	No

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