ABP MEZZANINE HOLDCO UK LIMITED

(Company Number 05920216)

ANNUAL REPORT AND ACCOUNTS 2017

ABP MEZZANINE HOLDCO UK LIMITED

ANNUAL REPORT AND ACCOUNTS 2017

Contents **Page**

Strategic report	1
Directors' report	3
Statement of directors' responsibilities	5
Independent auditor's report	6
Income statement and statement of comprehensive income	10
Balance sheet	11
Statement of cash flows	12
Statement of changes in equity	12
Notes to the financial statements	13

Strategic report

The directors present their strategic report for the year ended 31 December 2017.

Principal activity and strategy

The principal activity and strategy of the company (number 05920216) is to source and provide debt financing required to support the activities of its fellow group undertakings in the group headed by its immediate parent undertaking, ABP (Jersey) Limited ("ABPJ"). The ABPJ group's principal operating subsidiary undertaking is Associated British Ports.

The company continues to hold unsecured subordinated loan notes bearing interest at 10.0% per annum with a maturity date of December 2018 (the "loan notes" or "shareholder loans"). The loan notes are listed on The International Stock Exchange (formerly known as the "Channel Islands Securities Exchange") and are held by the shareholders of the company's immediate parent undertaking, ABPJ. These borrowings are matched by an equivalent receivable from ABP Bonds UK Limited ("ABPB"), a fellow subsidiary undertaking of ABPJ.

Important events of the year

During the year interest continued to be accrued on the shareholder loans and other smaller related party balances as set out in note 11. In 2017, £20.9m (2016: £nil) non-cash interest was received from ABPB and £20.9m (2016: £nil) non-cash interest was paid to the shareholders.

On 15 September 2017, it was announced that James Cooper was intending to stand down as Chief Executive and director of Associated British Ports Holdings Limited, the company's fellow group undertaking, during 2018. A process to identify a possible successor is in progress.

Performance

The result for the year was £nil (2016: £nil). The company recognised finance costs of £47.4m on its shareholder loans, exactly offset by finance income of £47.4m on loans receivable from its fellow group undertaking ABPB.

The primary driver of performance is the ability of the wider group's main trading group headed by, ABPA Holdings Limited ("ABPAH"), to generate cash flows, as indicated by the following:

ABPA Holdings Limited	2017 £m	2016 £m
Consolidated EBITDA[1]	**314.5**	306.7
Cash generated by operations	**335.7**	299.0

[1] Consolidated EBITDA (earnings before interest, tax, depreciation and amortisation) is calculated in accordance with the definitions set out in the group's credit facilities and after excluding certain item (see reconciliation of operating profit to consolidated EBITDA in the strategic report of ABPAH, the company's fellow group undertaking)

Position at the end of the year

At 31 December 2017, the company had net assets of £0.6m (2016: £0.6m).

Principal risks and uncertainties

The company has limited risk because it interacts only with fellow group undertakings and the shareholders of ABPJ as part of the financing structure of the group owned by ABPJ. The nature of the interactions is set out in notes 4, 6, 7 and 11 to the accounts. Within the interactions the principal risks are the timing of interest receipts and payments and repayment of principal at the end of the loan terms. Agreements are structured so that the company should not be exposed to these risks at any time other than ultimately by the ability of the underlying trading group to pay its debts. Further details on financial risk management are set out below and in note 8.

Strategic report (continued)

Financial risk management
The company's main financial risks are liquidity, credit and capital risks. Treasury matters for the company are controlled centrally by the group as set out in note 8.

Liquidity risk
Liquidity risk is managed by the wider group maintaining borrowing facilities at a level that is forecast to provide reasonable headroom in excess of the future needs of the group. Management monitors rolling forecasts of the group's liquidity reserve (comprised of undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows.

Credit risk
The company is exposed to credit related losses in the event of non-performance by counterparties to financial transactions. The company mitigates this risk by only transacting with related parties with security provided under intra-group borrowing arrangements. As such the exposure to credit risk is considered to be minimal.

Capital risk
The company keeps its funding structure under review in order to fulfil its principal activity of sourcing and providing debt financing to support the activities of its fellow group undertakings.

The company currently finances its business with loan notes listed on The International Stock Exchange held by its immediate parent undertaking's shareholders which are due in December 2018. Details of these loan notes and the shareholders' intentions regarding the upcoming maturity date can be found in notes 7 and 8 to the accounts.

Trading group risks and uncertainties
The company's future viability and risk management are ultimately dependent upon the performance of the wider trading group ultimately owned by ABP (Jersey) Limited and the ability of its UK-wide ports and transport operations to generate cash flows. Further details of these can be found in the Annual Report and Accounts of ABPA Holdings Limited.

Future outlook
The directors do not foresee any material changes in the principal activity of the company.

By Order of the Board

GPR Kay
Director

8 **March 2018**

Directors' report

The directors present their report and the audited accounts of the company (number 05920216) for the year ended 31 December 2017.

Registered office
The company's registered office is 25 Bedford Street, London, WC2E 9ES.

Dividends
The directors do not recommend the payment of a dividend (2016: £nil).

Directors
The directors of the company during the year and up to the date of these accounts were as follows:

Drissi Kaitouni, H		
Hay, A		
Kay, GPR		
Machiels, E		(appointed 30 November 2017)
McManus, JJ		(resigned 30 November 2017)
Bradbury, KE	(alternate to JJ McManus)	(appointment ceased on 30 November 2017 on resignation of JJ McManus)
Bradbury, KE	(alternate to E Machiels)	(appointed 30 November 2017)
Busslinger, PA	(alternate to JJ McManus)	(appointment ceased on 30 November 2017 on resignation of JJ McManus)
Butcher, P	(alternate to A Hay)	
Petrak, GS	(alternate to H Drissi Kaitouni)	(appointed 24 January 2018)
Stylianides, P	(alternate to H Drissi Kaitouni)	(resigned 17 February 2017)

Directors' indemnities
The company's immediate parent undertaking, ABP (Jersey) Limited ("ABPJ"), maintains directors' and officers' liability insurance and pension fund trustees' liability insurance which give appropriate cover for any legal action brought against the directors and officers of the company. In addition, the Articles of Association of the company permit the directors and officers of the company to be indemnified in respect of liabilities incurred as a result of their office.

Qualifying third party indemnity provisions (as defined by s.234 of the Companies Act 2006) for the benefit of directors and officers were in force for all directors and officers during the year and remain in force in relation to certain losses and liabilities which directors and officers may incur (or have incurred) in connection with their duties, powers or office.

Matters disclosed in the strategic report
The directors consider the following matters of strategic importance and have chosen to disclose these in the strategic report:

- Financial risk management objectives and policies and details of the company's exposure to liquidity, interest rate, foreign exchange, credit and capital risk and other risk disclosures
- Indication of likely future developments in the business

Auditor re-appointment
In accordance with s.487 of the Companies Act 2006, the auditor is deemed to have been re-appointed and Ernst & Young LLP will therefore continue as auditor to the company.

Directors' report (continued)

Audit information

The directors of the company at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and the company's auditor, each of these directors confirms that:

- so far as he is aware, there is no relevant audit information (that is, information needed by the company's auditor in connection with preparing his report) of which the company's auditor is unaware;
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information; and
- each director is aware that it is an offence to make a knowingly false statement.

By Order of the Board

GPR Kay
Director
25 Bedford Street
London, WC2E 9ES
8 **March 2018**

Statement of directors' responsibilities in respect of the preparation of the annual report and accounts

The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the company accounts in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law, the directors must not approve accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the company. In preparing those accounts, the directors are required to:

- present fairly the financial position, financial performance and cash flows of the company;
- select suitable accounting policies in accordance with *IAS 8: Accounting policies, changes in accounting estimates and errors,* and then apply them consistently;
- make judgements that are reasonable;
- 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 as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance; and
- state that the company has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy, at any time, the financial position of the company at that time, and to enable them to ensure that the company accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABP MEZZANINE HOLDCO UK LIMITED

Opinion

We have audited the financial statements of ABP Mezzanine Holdco UK Limited (the 'company') for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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 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.

Overview of our audit approach

Key audit matters	• Recoverability of intercompany balances
Materiality	• Overall materiality of £2.4m which represents 0.5% of the gross assets.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABP MEZZANINE HOLDCO UK LIMITED (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of amounts due from group undertakings The company has amounts of £489.7m (2016: £463.2m) due from group undertakings. The principal and interest on which is the source from which the company meets its financing obligations. The primary driver of recoverability of these amounts is the ability of the wider Associated British Ports group to generate cash flows.	• We obtained the group's four year earnings forecast and longer term growth assumptions. • We challenged the key assumptions underlying the forecasts, being discount rates and growth rates, in the context of our knowledge of the business, the historic performance and the position of the business at the year end. • We considered managements estimate of the value of the group indicated by those forecast earnings. We considered sensitivities, in particular the discount rate and long term growth rates. • We assessed the historical accuracy of managements' earnings projections against actual outcomes.	We concluded that the wider group is reasonably forecast to be sufficiently cash generative to support the recoverability of the amounts due from group undertakings.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABP MEZZANINE HOLDCO UK LIMITED (continued)

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Our materiality is set at £2.4m (2016: £2.3m) which represents 0.5% of the gross assets of the company.

During the course of our audit, we reassessed initial materiality and concluded it was still appropriate.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality of £2.4m, namely £1.8m (2016: £1.7m). We have set performance materiality at this percentage due to the expected level of misstatements, both corrected and uncorrected.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the group Audit Committee that we would report to them on a group basis. Consequently we reported all uncorrected audit differences in excess of £0.1m (2016: £0.1m), which is set at 5% of group planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 4, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABP MEZZANINE HOLDCO UK LIMITED (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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 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 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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

Lloyd Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
12 March 2018

Income statement for the year ended 31 December

	Note	2017 £m	2016 £m
Administrative expenses	2	-	-
Finance costs	4	**(47.4)**	(43.1)
Finance income	4	**47.4**	43.1
Result before taxation		-	-
Taxation	5	-	-
Result for the year		-	-

All results are derived from continuing operations in the United Kingdom. The company's activities comprise a single operating segment in accordance with the principles in IFRS 8.

Statement of comprehensive income for the year ended 31 December

There was no other comprehensive income during the year or prior year. Total comprehensive income is represented by the result for the year.

Balance sheet as at 31 December

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Group receivables	6	-	462.6
		-	462.6
Current assets			
Group receivables	6	**489.7**	0.6
Cash and cash equivalents		-	-
		489.7	0.6
Total assets		**489.7**	463.2
Liabilities			
Current liabilities			
Borrowings	7	**(489.1)**	(3.9)
		(489.1)	(3.9)
Non-current liabilities			
Borrowings	7	-	(458.7)
		-	(458.7)
Total liabilities		**(489.1)**	(462.6)
Net assets		**0.6**	0.6
Shareholder's equity			
Share capital	9	-	-
Retained earnings		**0.6**	0.6
Total shareholder's equity		**0.6**	0.6

The financial statements were approved by the Board on 8 March 2018 and signed on its behalf by:

GPR Kay
Director

Statement of cash flows for the year ended 31 December

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash flows from operations	10	-	-
Net cash flow from operating activities		-	-
Change in cash and cash equivalents during the year		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

Statement of changes in equity for the year ended 31 December

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2016	-	0.6	0.6
Result for the year	-	-	-
At 31 December 2016	-	**0.6**	**0.6**
Result for the year	-	-	-
At 31 December 2017	-	**0.6**	**0.6**

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost basis.

The financial statements are presented in sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated. The financial statements provide comparative information in respect of the previous period.

Going concern basis
The company's future viability is ultimately dependent on the performance of the wider trading group owned by the company's fellow group undertaking, ABPA Holdings Limited ("ABPAH"), and group management's decisions on the flow of capital.

The directors have carried out a review, including consideration of appropriate forecasts and sensitivities, which indicates that the company will have adequate resources to continue to trade for the foreseeable future. The primary driver of performance is the ability of the ABPAH group to generate cash flows. For the year ended 31 December 2017 the ABPAH group had consolidated EBITDA, calculated in accordance with the group's credit facilities, as disclosed in the strategic report, of £314.5m and cash generated by operations of £335.7m. The group's strategic plan indicates that a strong performance is forecast to continue in the future.

The company has unsecured subordinated loan notes held by the shareholders of the company's immediate parent undertaking, ABP (Jersey) Limited ("ABPJ"), as set out in notes 7, 8 and 11. These loans are due in December 2018. The shareholders of ABPJ have confirmed that it is their intention to agree terms with the company to refinance the loans falling due in 2018 and/or the associated accrued interest in advance of the maturity date, extending the repayment date beyond one year from 16 December 2018, and accordingly, it is not their intention to recall the loans and/or associated accrued interest on the maturity date.

Given the nature, maturity dates and counterparties of these liabilities (as set out in notes 7 and 8), as well as the wider group's track record of its ability to refinance debt and generate cash flows, the directors are confident that the company has the ability to continue to meet its liabilities as they fall due for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and applied in accordance with the Companies Act 2006.

1.2 Changes in accounting policies

New standards and amendments adopted
In preparing these financial statements the company has implemented the following new amendment effective for the first time for the annual reporting period commencing 1 January 2017:

Notes to the financial statements

1. **Accounting policies** (continued)

1.2 **Changes in accounting policies** (continued)

New standards and amendments adopted (continued)

IAS 7 (Amendment) Disclosure initiative
The amendment requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The company adopted the amendment on the effective date of 1 January 2017. The application of this amendment detailing the cash and non-cash changes in liabilities arising from financing activities are set out in note 10.

New standards, amendments and interpretations issued but not yet effective
The IASB and IFRIC have issued a number of standards, amendments and interpretations with an effective date of implementation for accounting periods beginning after the start of the company's current financial year.

The directors do not anticipate that the adoption of these new standards, amendments and interpretations will have a material impact on the company's financial statements in the period of initial application.

The company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

1.3 **Critical estimates, judgements and assumptions**

The preparation of the company's financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

Recoverability of financial assets
Group receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The company's main transactions each year, which are controlled in conjunction with the rest of the group, relate to interest accrual, receipt and payment. Ultimate realisation of principal balances depends on the performance of ABPA Holdings Limited's ("ABPAH") underlying trading group and the ability of the UK-wide ports and transport operations to generate cash flows. For the year ended 31 December 2017 the ABPAH group had consolidated EBITDA, calculated in accordance with the group's credit facilities, as disclosed in the strategic report, of £314.5m and cash generated by operations of £335.7m. The group's strategic plan indicates that a strong performance is forecast to continue in the future. Further attention is drawn to the company's and group's approach to risk and capital management which is set out in the company's strategic report.

The directors believe that there are no other areas of the company's accounting policies involving a high degree of judgement or complexity nor are there any areas where assumptions and estimates are significant to the financial statements.

Notes to the financial statements

1. **Accounting policies** (continued)

1.4 Significant accounting policies

The directors consider the following to be the most important accounting policies in the context of the company's operations.

Financial instruments
Group receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is made when there is objective evidence that the company may not be able to collect all amounts recorded within the balance sheet. The costs of impairment of receivables are recorded within administrative expenses.

Borrowings are initially recognised at fair value, net of transaction costs (being incremental costs that are directly attributable to the inception of the borrowings) incurred and are subsequently held at amortised cost. Any difference between the amount initially recognised and the redemption amount is recognised in the income statement over the period of the loan, using the effective interest method.

1.5 Other accounting policies

Interest income
Interest on financial assets is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is included in finance income in the income statement.

Borrowing costs
Borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest that the company incurs in connection with the borrowing of funds.

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences, except to the extent that the deferred tax asset or liability arises from: (a) the initial recognition of goodwill; or (b) the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit.

Temporary differences are differences between the tax base value of assets and liabilities and their carrying amount as stated in the financial statements. These arise from differences between the valuation, recognition and amortisation bases used in tax computations compared with those used in the preparation of financial statements.

Deferred tax assets or liabilities are measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available to facilitate the realisation of such assets.

Notes to the financial statements

2. Administrative expenses

Remuneration received by Ernst & Young LLP is detailed below and has been borne by a fellow group undertaking.

	2017 £000	2016 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**11**	8

3. Directors and employees

The directors of ABP Mezzanine Holdco UK Limited were directors of a number of companies within the ABP (Jersey) Limited ("ABPJ") group. Their remuneration for the year ended 31 December 2017 is disclosed in the financial statements of ABPJ. The directors believe that their services to the company are incidental to their role for other group companies and therefore consider that they receive no remuneration in respect of qualifying services to this company (2016: £nil).

The company had no employees during the year (2016: nil).

4. Finance costs/(income)

	2017 £m	2016 £m
Interest on shareholder loans	**47.4**	43.1
Finance costs	**47.4**	43.1
Interest on amounts due from group undertaking	**(47.4)**	(43.1)
Finance income	**(47.4)**	(43.1)
Net finance income on financial assets and liabilities held at amortised cost	**-**	-

5. Taxation

Analysis of charge for the year	2017 £m	2016 £m
Current tax	**-**	-
Taxation	**-**	-

6. Group receivables

	2017 £m	2016 £m
Non-current		
Amounts due from group undertaking	**-**	416.0
Accrued interest on amounts due from group undertaking	**-**	46.6
Total non-current group receivables	**-**	462.6
Current		
Amounts due from group undertakings	**416.6**	0.6
Accrued interest on amounts due from group undertaking	**73.1**	-
Total current group receivables	**489.7**	0.6

Notes to the financial statements

6. **Group receivables** (continued)

Within current amounts due from group undertakings, £416.0m along with its associated accrued interest, represent a loan to ABP Bonds UK Limited ("ABPB"). ABPB has equivalent receivables from its immediate subsidiary undertaking, ABP SubHoldings UK Limited ("ABPS"), which in turn has equivalent receivables from its immediate subsidiary undertaking, ABPA Holdings Limited ("ABPAH"). ABPAH has borrowing agreements that restrict the amounts it can pay in cash in respect of interest due on its intra-group indebtedness. Amounts have been included in current and non-current based on the expected realisation of the asset.

Further, within current amounts due from group undertakings, £0.6m represents receivables from ABP Acquisitions UK Limited ("ABPA") and ABPB.

Further details of the amounts due from group undertaking are disclosed in note 11.

Group receivables are not overdue for repayment and are not considered to be impaired. Disclosure of the financial risks related to these financial instruments is set out in note 8.

The company does not hold any collateral as security. The company's receivables are denominated in sterling.

7. **Borrowings**

	2017 **£m**	**2016** **£m**
Current		
Shareholder loans	**416.0**	-
Interest due on shareholder loans	**73.1**	3.9
Total current borrowings	**489.1**	3.9
Non-current		
Shareholder loans	-	416.0
Interest due on shareholder loans	-	42.7
Total non-current borrowings	-	458.7

Shareholder loans relate to unsecured subordinated fixed rate notes the company has issued and listed on The International Stock Exchange (formerly known as the "Channel Islands Securities Exchange").

Interest on the shareholder loans is accrued and payable in cash semi-annually. Amounts of interest settled is dependent on amounts of interest income the company receives from its fellow group undertaking, ABPB, which in turn is dependent on the lending agreements of that company's immediate subsidiary undertaking, ABPS and its subsidiary undertakings, ABPAH, ABP Finance PLC and ABPA. Should insufficient funds be available under the agreement the company is permitted to defer payment until a subsequent interest payment date or the final redemption date. Any repayment of interest or capital from ABPB will trigger a mandatory repayment to the lender. Of the interest payable in 2017 £26.2m (2016: £42.7m) was deferred in line with the agreement. The total outstanding interest accrued as at 31 December 2017 of £73.1m (2016: £46.6m) is included as current (2016: £42.7m in non-current and £3.9m in current).

Disclosure of the financial risks related to these financial instruments is set out in note 8. More detail on the company's related party borrowings is set out in note 11.

There is no collateral held as security. The company's borrowings are denominated in sterling.

Notes to the financial statements

8. Financial instruments

The company's policies regarding financial instruments are set out in the accounting policies in note 1. Risk and numerical disclosure is set out below.

Fair value of financial instruments
The fair value of financial assets and liabilities are an estimate of the amount at which the instrument could be exchanged in a transaction between willing parties, other than in a forced or liquidation sale.

Below is a comparison, by class, of the carrying amounts and fair value of the company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair value:

		2017		2016
	Book value £m	**Fair value £m**	**Book value £m**	**Fair value £m**
Financial assets				
At amortised cost				
Amounts due from group undertaking	**489.1**	**489.1**	462.6	471.0
Financial liabilities				
At amortised cost				
Shareholder loans	**(489.1)**	**(489.1)**	(462.6)	(471.0)

The terms of the shareholder loans are set out in notes 7 and 11. The terms of the amounts due from group undertaking are set out in note 11.

The following methods and assumptions were used to estimate the fair values:

- The fair value of current group receivables and borrowings approximates to their carrying amounts due to the short-term maturities of these instruments.

Financial risk management
Treasury matters throughout the group of which the company is a member are controlled centrally and carried out in compliance with policies approved by the Board of Associated British Ports Holdings Limited ("ABPH"), a fellow group undertaking. The Board of ABPH monitors treasury matters and approves significant decisions. The treasury function's purpose is to identify, mitigate and hedge financial risks inherent in the group's business operations and capital structure. The company's main financial risks are liquidity, credit and capital risk. The wider group, owned by ABP (Jersey) Limited, aims to manage these risks to an acceptable level.

Liquidity risk
Liquidity risk is managed by the wider group maintaining borrowing facilities at a level that is forecast to provide reasonable headroom in excess of the future needs of the group. Management monitors rolling forecasts of the group's liquidity reserve (comprised of undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows.

Notes to the financial statements

8. **Financial instruments** (continued)

Financial risk management (continued)

The table below analyses the company's financial liabilities carried at amortised cost, based on undiscounted contractual payments:

	2017 £m	2016 £m
Not later than one year	**536.4**	45.9
More than one year but not more than two years	**-**	506.4
Total payments	**536.4**	552.3

Credit risk
Given the counterparties of group receivables, as set out in note 6, and the security provided under the intra-group borrowing arrangements, the directors consider the company's exposure to credit risk to be minimal.

The maximum exposure to credit risk at the reporting date for group receivables is the carrying value of each class of receivable.

Capital risk
The company keeps its funding structure under review in order to fulfil its principal activity of sourcing and providing debt financing to support the activities of its fellow group undertakings.

The company currently finances its business with loan notes listed on The International Stock Exchange held by its immediate parent undertaking's shareholders.

The company holds a limited number of long term loan balances with a fellow group undertaking and the shareholders of its immediate parent undertaking, ABP (Jersey) Limited ("ABPJ"). These balances were created as part of the acquisition of Associated British Ports Holdings Limited and subsequent refinancing of the ABPJ group. The company's main transactions each year, which are controlled in conjunction with the rest of the group, relate to interest accrual, receipt and payment.

Ultimate realisation of principal balances due in December 2018 depends on the performance of the ABPA Holdings Limited ("ABPAH") underlying trading group and the ability of the UK-wide ports and transport operations to generate cash flows. The shareholders of ABPJ have confirmed that it is their intention to agree terms with the company to refinance the loans falling due in 2018 and/or the associated accrued interest in advance of the maturity date, extending the repayment date beyond one year from 16 December 2018, and accordingly, it is not their intention to recall the loans and/or associated accrued interest on the maturity date.

Further attention is drawn to the company's and wider group's approach to risk and capital management, which is set out in the company's strategic report.

Notes to the financial statements

9. Share capital

	2017 £m	2016 £m
Issued and fully paid		
2 (2016: 2) ordinary shares of £0.01 each	-	-

10. Cash flows from operations

Reconciliation of result before taxation to cash flows from operations:	2017 £m	2016 £m
Result before taxation	-	-
Finance costs	**47.4**	43.1
Finance income	**(47.4)**	(43.1)
Operating cash flows before movements in working capital	-	-
Cash flows from operations	-	-

The table below shows the cash and non-cash changes in liabilities arising from financing activities:

2017	At 1 January £m	Cash flows £m	Non-cash changes £m	At 31 December £m
Non-current shareholder loans	(458.7)	-	458.7	-
Current shareholder loans	-	-	(484.9)	(484.9)
Total	**(458.7)**	-	**(26.2)**	**(484.9)**

11. Related party transactions

On 16 December 2011 the company issued and listed on The International Stock Exchange £423.0m of fixed rate subordinated unsecured loan notes due 16 December 2018, £7.0m of which has been repaid. The loan notes, which are denominated in amounts of £1 each, are held by the shareholders of ABP (Jersey) Limited, the company's immediate parent undertaking.

Total shareholder loans are as follows:

Facility Type	Due date	Fixed rate per annum	2017 £m	2016 £m
Shareholder loans				
Unsecured fixed rate notes	2018	10.0%	**416.0**	416.0
Accrued interest			**73.1**	46.6
			489.1	462.6

Notes to the financial statements

11. Related party transactions (continued)

Total	2017 £m	2016 £m
Capital amount of loan notes at start of year	**416.0**	416.0
Capital amount of loan notes at end of year	**416.0**	416.0
Interest accrued at start of year	**46.6**	3.5
Interest charged during year	**47.4**	43.1
Non-cash interest settled	**(20.9)**	-
Accrued interest at end of year	**73.1**	46.6

Details of the notes held by each related party and related transactions are shown below:

Borealis (Luxembourg) S.C.A/Borealis Finance Trust	2017 £m	2016 £m
Capital amount of loan notes at start of year	**91.9**	91.9
Capital amount of loan notes at end of year	**91.9**	91.9
Interest accrued at start of year	**10.3**	0.8
Interest charged during year	**10.4**	9.5
Non-cash interest settled	**(4.6)**	-
Accrued interest at end of year	**16.1**	10.3

Borealis Ark Holdings B.V.	2017 £m	2016 £m
Capital amount of loan notes at start of year	**32.9**	32.9
Capital amount of loan notes at end of year	**32.9**	32.9
Interest accrued at start of year	**3.7**	0.3
Interest charged during year	**3.8**	3.4
Non-cash interest settled	**(1.7)**	-
Accrued interest at end of year	**5.8**	3.7

Canada Pension Plan Investment Board	2017 £m	2016 £m
Capital amount of loan notes at start of year	**140.9**	140.9
Capital amount of loan notes at end of year	**140.9**	140.9
Interest accrued at start of year	**15.8**	1.2
Interest charged during year	**16.1**	14.6
Non-cash interest settled	**(7.1)**	-
Accrued interest at end of year	**24.8**	15.8

Notes to the financial statements

11. Related party transactions (continued)

Cheyne Walk Investment Pte Limited	2017 £m	2016 £m
Capital amount of loan notes at start of year	**83.2**	83.2
Capital amount of loan notes at end of year	**83.2**	83.2
Interest accrued at start of year	**9.3**	0.7
Interest charged during year	**9.5**	8.6
Non-cash interest settled	**(4.2)**	-
Accrued interest at end of year	**14.6**	9.3

Kuwait Investment Authority	2017 £m	2016 £m
Capital amount of loan notes at start of year	**41.6**	41.6
Capital amount of loan notes at end of year	**41.6**	41.6
Interest accrued at start of year	**4.7**	0.3
Interest charged during year	**4.7**	4.4
Non-cash interest settled	**(2.1)**	-
Accrued interest at end of year	**7.3**	4.7

Anchorage Ports LLP	2017 £m	2016 £m
Capital amount of loan notes at start of year	**25.5**	25.5
Capital amount of loan notes at end of year	**25.5**	25.5
Interest accrued at start of year	**2.8**	0.2
Interest charged during year	**2.9**	2.6
Non-cash interest settled	**(1.2)**	-
Accrued interest at end of year	**4.5**	2.8

The company has also entered into related party transactions and/or holds balances with the following related parties:

Name	Relationship
ABP Bonds UK Limited	Fellow group undertaking
ABP Acquisitions UK Limited	Fellow group undertaking

The company has the following loan receivable with the related party:

Name	Due date	Fixed rate per annum	2017 £m	2016 £m
ABP Bonds UK Limited	2018	10.0%	**416.0**	416.0
Interest accrued			**73.1**	46.6
			489.1	462.6

Notes to the financial statements

11. Related party transactions (continued)

The following table shows the loan transactions that have been entered into by the company with ABP Bonds UK Limited ("ABPB"), together with period end balances, for the relevant financial year:

ABP Bonds UK Limited	2017 £m	2016 £m
Intercompany receivable at start of the year	**462.6**	419.5
Interest charged	**47.4**	43.1
Non-cash movement intercompany receivable	**(20.9)**	-
Intercompany receivable at end of the year	**489.1**	462.6

The company also has current accounts with related parties. The following table shows the transactions that have been entered into by the company with related parties, together with period end balances, for the relevant financial year:

ABP Acquisitions UK Limited	2017 £m	2016 £m
Intercompany receivable at start of the year	**0.5**	0.5
Interest charged – 7.0% per annum (2016: 7.0%)	**-**	-
Intercompany receivable at end of the year	**0.5**	0.5

The company has also entered into transactions during the year of less than £0.1m with ABPB. The outstanding balance as at 31 December 2017 was less than £0.1m.

12. Ultimate parent undertaking and controlling parties

The company is a limited liability company registered in England and Wales.

Its immediate and ultimate parent undertaking and controlling party is ABP (Jersey) Limited ("ABPJ"), a limited liability company registered in Jersey. ABPJ produces consolidated financial statements that comply with IFRS and are available from its registered office at 44 Esplanade, St Helier, Jersey, JE4 9WG. The consolidated financial statements of ABPJ are the smallest and largest group in which the company is included.

Notes to the financial statements

12. **Ultimate parent undertaking and controlling parties** (continued)

ABP (Jersey) Limited ("ABPJ") is owned by a consortium of investors as shown below:

	% of A Ordinary shares	**% of B Ordinary shares**	**% of Preference shares**
Borealis ABP Holdings B.V. (owned by OMERS Administration Corporation)	22.10	22.10	22.09
Borealis Ark Holdings B.V. (owned by OMERS Administration Corporation)	7.90	7.90	7.91
Canada Pension Plan Investment Board	30.00	33.88	33.88
9348654 Canada Inc.	3.88	-	-
Cheyne Walk Investment Pte Limited (owned by GIC (Ventures) Pte Limited)	20.00	20.00	20.00
Kuwait Investment Authority	10.00	10.00	10.00
Anchorage Ports LLP (owned by Hermes GPE Infrastructure Fund LP, Hermes Infrastructure (SAP I) LP and Hermes Infrastructure (Alaska) LP)	6.12	6.12	6.12
	100.00	**100.00**	**100.00**