

ABP MEZZANINE HOLDCO UK LIMITED

(Company Number 05920216)

ANNUAL REPORT AND ACCOUNTS 2016

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Strategic report

The directors present their strategic report for the year ended 31 December 2016.

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 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”/“shareholder loans”). The loan notes are listed on the Channel Islands Securities Exchange and are held by shareholders of the company’s immediate parent, ABPJ. These borrowings are matched by an equivalent receivable from ABP Bonds UK Limited, a fellow subsidiary of ABPJ.

Performance

The result for the year was £nil (2015: £0.1m).

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

	2016	2015
	£m	£m
ABPA Holdings Limited		
Consolidated EBITDA ¹	306.7	317.6
Cash generated by operations	299.0	337.8

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)

Important events of the year

During the year interest continued to be accrued on the shareholder loans and other related party balances as set out in note 11. In 2016 no interest was paid.

Position at the end of the year

At 31 December 2016, the company had net assets of £0.6m (2015: £0.6m).

Principal risks and uncertainties

The company has limited risk because it interacts only with fellow group companies and the shareholders of its immediate parent company, 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.

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.

Strategic report (continued)*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 Channel Islands Securities Exchange held by its immediate parent undertaking's shareholders. Details of these loan notes can be found in notes 7 and 11.

Trading group risks and uncertainties

The company's future viability and risk management are ultimately dependent upon the performance of the wider trading group owned by the company's immediate parent undertaking ABP (Jersey) Limited and the ability of its UK-wide ports and transport operations to generate cash flows.

The principal risks and uncertainties of the wider group are summarised below:

- *Government energy policy* - The group generates significant income from the electricity supply industry. Government energy policy affects the demand from energy generators for the group's services. In particular, as a result of the requirement for coal-fired power stations to either fit emissions abatement technology or close down, some coal-fired power stations have opted to fit the required technology, convert to other fuel sources, have closed or plan to close.
- *Market and competition* - The ports market could become more competitive resulting in downwards price pressure from existing and new competitors or threat of customer loss, due to changes in the market the company serves and risks to the wider economy.
- *Asset maintenance and capital project management* - The efficient maintenance of the group's assets and the effective delivery of new assets (e.g. developing new port facilities) is required to prevent asset failure and safeguard the ongoing operation and development of the group's business.
- *Failure of third party infrastructure* - The failure of third party infrastructure such as the electrical supply or rail infrastructure to the group's ports could cause severe disruption to the group's operations.
- *Potential impacts from accidents, natural disasters and terrorist incidents* - Accidents (e.g. from the use of heavy machinery, related to workplace transport or handling of dangerous cargo), natural disasters, principally flooding, and acts of terrorism (both land and marine), all have the potential to negatively impact the group's ability to undertake its operations.
- *People* - Failure to attract, retain, motivate and manage capable employees across the business could limit the group's ability to deliver its strategy.
- *Brexit* - Like other port companies handling trade with countries both within and outside the European Union ("EU"), the group is sensitive to the broader economic consequences of the United Kingdom's ("UK") vote to leave the EU on 23 June 2016 (so-called 'Brexit'). Just under half of the volume of trade handled by the group is with countries that are members of the EU and the Single Market, of which the UK is presently also a member until it leaves the EU, which may be as soon as 2019.

Strategic report (continued)

- *Regulatory backdrop* - The UK ports industry is unregulated in so far as there is no government-appointed regulator to oversee the conduct of industry participants. The European Parliament's deliberations on the draft EU Port Services Regulation, concerning market access and charges levied for port services and infrastructure, have continued through 2016. The adoption of the EU Port Services Regulation is dependent on the timing and terms of the UK's post Brexit trading relationship with the EU.
- *Management of environmental matters* - The group and its customers operate a diverse range of operations across the group's 12,000 acres of land and seabed including heavy industrial operations. As such these could present a pollution risk or nuisance to neighbouring communities if not effectively managed.
- *Business Transformation Programme* - The group is currently undergoing a programme of system and process transformation aimed at delivering effective and efficient business systems and processes that support the group's strategy. There is a risk that the programme fails to deliver the anticipated benefits or that project costs exceed the budgeted amount.
- *Defined benefit pension liabilities* - The valuation and service costs associated with the defined benefit pension schemes in which the group participates can vary depending on market conditions. A deterioration in the funding levels of such schemes could lead to the need for additional contributions.
- *Financial risk management* - The group's main financial risks are liquidity, interest rate, foreign exchange, capital and credit risk. The group aims to manage these risks to an acceptable level. The group does not use financial instruments for speculative purposes.

Employee involvement and management of social and community issues

The company does not have any employees. Employee involvement and the management of social and community issues, gender diversity and ethnical diversity relating to the wider group owned by the company's immediate parent, ABP (Jersey) Limited, are described within the strategic report of the company's fellow group undertaking, 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



JJ McManus
Director

9 March 2017

Directors' report

The directors present their report and the audited accounts of the company (number 05920216) for the year ended 31 December 2016.

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 (2015: £nil).

Ownership

The company's immediate parent company, ABP (Jersey) Limited, with registered address 44 Esplanade, St Helier, Jersey, JE4 9WG, is owned (directly or through intermediaries, as set out in note 12 to the accounts) by Canada Pension Plan Investment Board (incorporated in Canada), 9348654 Canada Inc. (incorporated in Canada), OMERS Administration Corporation (incorporated in Canada), GIC (Ventures) Pte Limited (incorporated in Singapore), Kuwait Investment Authority (incorporated in Kuwait) and Hermes GPE Infrastructure Fund LP (incorporated in the UK), Hermes Infrastructure (SAP I) LP (incorporated in Guernsey) and Hermes Infrastructure (Alaska) LP (incorporated in Guernsey), acting by their manager Hermes GPE LLP (incorporated in the UK).

Directors

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

Bradbury, KE	(alternate to JJ McManus)	
Busslinger, PA	(alternate to JJ McManus)	
Butcher, P	(alternate to A Hay)	appointed on 28 June 2016
Drissi Kaitouni, H		
Hay, A		appointed on 28 June 2016
Kay, GPR		
McManus, JJ		
Stylianides, P	(alternate to H Drissi Kaitouni)	resigned 17 February 2017
Wall, RBP		resigned on 28 June 2016

An alternate director is a person, appointed by any director (the "appointor"), other than an alternate director, or by resolution of the board, to exercise that director's powers, and carry out that director's responsibilities, in relation to the taking of decisions by the directors in their absence.

An alternate director has the same rights in relation to any directors' meeting, all meetings of committees of directors of which their appointor is a member and directors' written resolution, as the alternate's appointor. Except as the company's articles specify otherwise, alternate directors are deemed for all purposes to be directors; are liable for their own acts and omissions; are subject to the same restrictions as their appointors and are not deemed to be agents of or for their appointors.

Where a director is also an alternate director they have an additional vote on behalf of their appointor who is not participating in a directors' meeting and would have been entitled to vote if they were participating in it. Whether a person acts solely as an alternate, or is a director also acting as an alternate director; for the purposes of determining whether a meeting quorum is present, they will count as one.

Directors' report (continued)

Directors' indemnities

The company's immediate parent undertaking, ABP (Jersey) Limited, 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 s234 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.

Annual general meeting

In accordance with s303 of the Companies Act 2006, the members have not required the directors to call an annual general meeting of the company.

Matters disclosed in the Strategic Report

The directors consider the following matters of strategic importance, otherwise required to be disclosed in the directors' report 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, credit and capital risk and other risk disclosures
- Employee involvement

Auditor re-appointment


In accordance with s487 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.

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 each director 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



JJ McManus
Director
25 Bedford Street
London, WC2E 9ES
9 March 2017

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

We have audited the financial statements of ABP Mezzanine Holdco UK Limited for the year ended 31 December 2016, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 12. 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.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

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

Opinion 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where 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.



Stephane Lagut (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

10 March 2017

Income statement for the year ended 31 December

	Note	2016 £m	2015 £m
Administrative expenses	2	-	-
Finance costs	4	(43.1)	(41.6)
Finance income	4	43.1	41.7
Result/profit before taxation		-	0.1
Taxation	5	-	-
Result/profit for the year		-	0.1

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/profit for the year.

Balance sheet as at 31 December

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Group receivables	6	462.6	416.0
		462.6	416.0
Current assets			
Group receivables	6	0.6	4.1
Cash and cash equivalents		-	-
		0.6	4.1
Total assets		463.2	420.1
Liabilities			
Current liabilities			
Borrowings	7	(3.9)	(3.5)
		(3.9)	(3.5)
Non-current liabilities			
Borrowings	7	(458.7)	(416.0)
		(458.7)	(416.0)
Total liabilities		(462.6)	(419.5)
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 2017 and signed on its behalf by:



JJ McManus
Director

Statement of cash flows for the year ended 31 December

	Note	2016 £m	2015 £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		-	-

Payments in the prior year on the company's borrowings, as disclosed in note 11, have been made by a fellow group undertaking and offset against group receivables.

Statement of changes in equity for the year ended 31 December

	Share capital £m	Retained earnings £m	Total £m
At 1 January 2015	-	0.5	0.5
Profit for the year	-	0.1	0.1
At 31 December 2015	-	0.6	0.6
Result for the year	-	-	-
At 31 December 2016	-	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 upon 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 2016 the ABPAH group had consolidated EBITDA, calculated in accordance with the group's credit facilities, as disclosed in the strategic report, of £306.7m and cash generated by operations of £299.0m. The group's five year 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, ABP (Jersey) Limited, as set out in notes 7, 8 and 11. These loans are due in 2018. The repayment date is currently expected to be extended within a reasonable time of the maturity date. It is expected that the company will extend the repayment date for amounts due from its fellow group company in line with the unsecured subordinated loan notes.

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

There were no new accounting standards, amendments and improvements effective for the first time for the annual reporting period commencing 1 January 2016 that had an impact on the company.

Notes to the financial statements

1. Accounting policies (continued)

1.2 Changes in accounting policies (continued)

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 following are expected to have an impact on the company:

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 required effective date of 1 January 2017. The application of this amendment may result in additional disclosure detailing the cash and non-cash changes in liabilities arising from financing activities.

IFRS 9 Financial instruments

IFRS 9 brings together the requirements for a) classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting and is effective for accounting periods beginning on or after 1 January 2018.

The company has performed a preliminary impact assessment of IFRS 9 based on currently available information (and may be subject to changes arising from further detailed analysis or additional information) and does not expect a significant impact on its balance sheet or equity on applying the classification and measurement and hedging requirements of IFRS 9. Due to the counterparties of the company's financial assets and the security provided under intra-group borrowing arrangements, the credit risk is considered minimal. As such the company does not expect a significant impact as a result of adopting the impairment methodology under IFRS 9, however it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, to determine the extent of the impact.

The directors do not anticipate that the adoption of the remaining 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 management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

Notes to the financial statements

1. Accounting policies (continued)

1.3 Critical estimates, judgements and assumptions (continued)

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 holds a limited number of long term loan balances with a fellow group company 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 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 2016 the ABPAH group had consolidated EBITDA, calculated in accordance with the group’s credit facilities, as disclosed in the strategic report, of £306.7m and cash generated by operations of £299.0m. The group’s five year 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.

Management 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.

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.

Notes to the financial statements

1. Accounting policies (continued)

1.5 Other accounting policies (continued)

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.

2. Administrative expenses

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

	2016 £000	2015 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	8	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 2016 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 (2015: £nil).

The company had no employees during the year (2015: nil).

Notes to the financial statements

4. Finance costs/(income)

	2016 £m	2015 £m
Interest on shareholder loans	43.1	41.6
Finance costs	43.1	41.6
Interest on amounts due from group undertaking	(43.1)	(41.7)
Finance income	(43.1)	(41.7)
Net finance income on financial assets and liabilities held at amortised cost	-	(0.1)

5. Taxation

	2016 £m	2015 £m
Analysis of charge for the year		
Current tax	-	-
Taxation	-	-

6. Group receivables

	2016 £m	2015 £m
Non-current		
Amounts due from group undertaking	416.0	416.0
Accrued interest on amounts due from group undertaking	46.6	-
Total non-current group receivables	462.6	416.0
Current		
Accrued interest on amounts due from group undertaking	-	3.5
Amounts due from group undertaking	0.6	0.6
Total current group receivables	0.6	4.1

Non-current amounts due from group undertaking, along with the non-current accrued interest, represent a loan to ABP Bonds UK Limited ("ABPB"). ABPB has equivalent receivables from its immediate subsidiary, ABP SubHoldings UK Limited, who in turn has equivalent receivables from its immediate subsidiary, 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.

Current amounts due from group undertaking represent receivables from ABP Acquisitions UK Limited 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.

Notes to the financial statements

7. Borrowings

	2016 £m	2015 £m
Current		
Interest due on shareholder loans	3.9	3.5
Total current borrowings	3.9	3.5
Non-current		
Interest due on shareholder loans	42.7	-
Shareholder loans	416.0	416.0
Total non-current borrowings	458.7	416.0

Shareholder loans relate to unsecured subordinated fixed rate notes the company has issued and listed on 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, ABP Bonds UK Limited ("ABPB"), which in turn is dependent on the lending agreements of that company's immediate subsidiary, ABP SubHoldings UK Limited and its subsidiaries, ABPA Holdings Limited, ABP Finance PLC and ABP Acquisitions UK Limited. 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. The accrued interest payable in 2016 of £42.7m was deferred in line with the agreement and has been included as non-current. The total outstanding interest accrued as at 31 December 2016 was £46.6m (2015: £3.5m).

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.

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 current transaction between willing parties, other than in a forced or liquidation sale.

Notes to the financial statements

8. Financial instruments (continued)

Fair value of financial instruments (continued)

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:

	2016		2015	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets				
At amortised cost				
Amounts due from group undertaking	462.6	471.0	419.5	419.5
Financial liabilities				
At amortised cost				
Shareholder loans	(462.6)	(471.0)	(419.5)	(419.5)

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

- The fair value of current amounts due from group undertakings approximates to their carrying amounts due to the short-term maturities of these instruments;
- The fair value of loans due from group undertaking has been based on a cash flow projection with reference to observed market returns and accords to Level 2 in the fair value hierarchy. In the prior year the fair value approximated carrying value as the loans are on equivalent terms to the shareholder loans, which had been recently transacted at par between willing market participants in an arm's length transaction, corresponding to Level 2 in the fair value hierarchy; and
- The fair value of shareholder loans has been based on a cash flow projection with reference to observed market returns and accords to Level 2 in the fair value hierarchy. In the prior year the fair value approximated carrying value as the loans had been recently transacted at par between willing market participants in an arm's length transaction, corresponding to Level 2 in the fair value hierarchy.

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 boards of Associated British Ports Holdings Limited ("ABPH"), a fellow group undertaking and ABP (Jersey) Limited ("ABPJ"), the company's immediate parent 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 ABPJ, 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:

	2016 £m	2015 £m
Not later than one year	45.9	41.7
More than one year but not more than two years	506.4	41.6
More than two years but not more than five years	-	459.2
Total payments	552.3	542.5

Interest on the shareholder loans deferred in 2016 may be deferred until the final redemption date and has therefore been included in the same category as the principal repayment in 2018. Subsequent interest is calculated on the principal as well as any deferred interest. Interest can only be deferred if the company has insufficient funds available, therefore in the maturity analysis interest has been included in the year in which the interest becomes payable, prior to repayment of the principal amount in 2018, with no compounding of interest.

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 Channel Islands Securities Exchange held by its immediate parent undertaking's shareholders.

The company holds a limited number of long term loan balances with a fellow group company 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, which are not due until 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. 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

	2016 £m	2015 £m
Authorised		
100,000 (2015: 100,000) ordinary shares of £0.01 each	-	-
Issued and fully paid		
2 (2015: 2) ordinary shares of £0.01 each	-	-

10. Cash flows from operations

	2016 £m	2015 £m
Reconciliation of result/profit before taxation to cash flows from operations:		
Result/profit before taxation	-	0.1
Finance costs	43.1	41.6
Finance income	(43.1)	(41.7)
Operating cash flows before movements in working capital	-	-
Cash flows from operations	-	-

11. Related party transactions

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

Total shareholder loans are as follows:

Facility Type	Due date	Fixed rate per annum	2016 £m	2015 £m
<i>Shareholder loans</i>				
Unsecured fixed rate notes	2018	10.0%	416.0	416.0
Accrued interest			46.6	3.5
			462.6	419.5

Total	2016 £m	2015 £m
Capital amount of loan notes at start of year	416.0	416.0
Amount issued during the year	-	-
Amount discharged during the year	-	-
Capital amount of loan notes at end of year	416.0	416.0
Accrued interest at year end	46.6	3.5
Interest charged during year	43.1	41.6

Notes to the financial statements

11. Related party transactions (continued)

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

Borealis (Luxembourg) S.C.A/Borealis Finance Trust	2016	2015
	£m	£m
Capital amount of loan notes at start of year	91.9	138.7
Amount transferred from Cheyne Walk Investment Pte Limited during the year	-	8.7
Amount transferred to Canada Pension Plan Investment Board during the year	-	(11.7)
Amount transferred to Kuwait Investment Authority during the year	-	(41.6)
Amount transferred to Anchorage Ports LLP during the year	-	(2.2)
Capital amount of loan notes at end of year	91.9	91.9
Accrued interest at year end	10.3	0.8
Interest charged during year	9.5	11.2

Borealis Ark Holdings B.V.	2016	2015
	£m	£m
Capital amount of loan notes at start of year	32.9	-
Amount transferred from Cheyne Walk Investment Pte Limited during the year	-	32.9
Capital amount of loan notes at end of year	32.9	32.9
Accrued interest at year end	3.7	0.3
Interest charged during year	3.4	1.9

Canada Pension Plan Investment Board	2016	2015
	£m	£m
Capital amount of loan notes at start of year	140.9	-
Amount transferred from Borealis Finance Trust during the year	-	11.7
Amount transferred from Cheyne Walk Investment Pte Limited during the year	-	11.7
Amount transferred from Anchorage Ports LLP during the year	-	117.5
Capital amount of loan notes at end of year	140.9	140.9
Accrued interest at year end	15.8	1.2
Interest charged during year	14.6	8.2

Cheyne Walk Investment Pte Limited	2016	2015
	£m	£m
Capital amount of loan notes at start of year	83.2	138.7
Amount transferred to Borealis Finance Trust during the year	-	(8.7)
Amount transferred to Borealis Ark Holdings B.V. during the year	-	(32.9)
Amount transferred to Canada Pension Plan Investment Board during the year	-	(11.7)
Amount transferred to Anchorage Ports LLP during the year	-	(2.2)
Capital amount of loan notes at end of year	83.2	83.2
Accrued interest at year end	9.3	0.7
Interest charged during year	8.6	10.6

Notes to the financial statements

11. Related party transactions (continued)

Kuwait Investment Authority	2016 £m	2015 £m
Capital amount of loan notes at start of year	41.6	-
Amount transferred from Borealis Finance Trust during the year	-	41.6
Capital amount of loan notes at end of year	41.6	41.6
Accrued interest at year end	4.7	0.3
Interest charged during year	4.4	2.4
Anchorage Ports LLP	2016 £m	2015 £m
Capital amount of loan notes at start of year	25.5	-
Amount transferred from GSIP I Mezzanine Global and International S.à.r.l. during the year	-	94.4
Amount transferred from Admiral Institutional S.à.r.l. during the year	-	2.6
Amount transferred from Infracapital ABP SLP LP during the year	-	41.6
Amount transferred from Borealis Finance Trust during the year	-	2.2
Amount transferred from Cheyne Walk Investment Pte Limited during the year	-	2.2
Amount transferred to Canada Pension Plan Investment Board during the year	-	(117.5)
Capital amount of loan notes at end of year	25.5	25.5
Accrued interest at year end	2.8	0.2
Interest charged during year	2.6	1.5
GSIP I Mezzanine Global and International S.à.r.l.	2016 £m	2015 £m
Capital amount of loan notes at start of year	-	94.4
Amount transferred to Anchorage Ports LLP during the year	-	(94.4)
Capital amount of loan notes at end of year	-	-
Accrued interest at year end	-	-
Interest charged during year	-	4.0
Admiral Institutional S.à.r.l.	2016 £m	2015 £m
Capital amount of loan notes at start of year	-	2.6
Amount transferred to Anchorage Ports LLP during the year	-	(2.6)
Capital amount of loan notes at end of year	-	-
Accrued interest at year end	-	-
Interest charged during year	-	0.1
Infracapital ABP SLP LP for and on behalf of Infracapital Partners LP	2016 £m	2015 £m
Capital amount of loan notes at start of year	-	41.6
Amount transferred to Anchorage Ports LLP during the year	-	(41.6)
Capital amount of loan notes at end of year	-	-
Accrued interest at year end	-	-
Interest charged during year	-	1.7

Notes to the financial statements

11. Related party transactions (continued)

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 a loan receivable from the following related party:

Name	Due date	Fixed rate per annum	2016 £m	2015 £m
ABP Bonds UK Limited	2018	10.0%	416.0	416.0
Interest accrued			46.6	3.5
			462.6	419.5

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	2016 £m	2015 £m
Intercompany receivable at start of the year	419.5	419.4
Interest charged	43.1	41.6
Non-cash movement in interest receivable	-	(41.5)
Intercompany receivable at end of the year	462.6	419.5

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	2016 £m	2015 £m
Intercompany receivable at start of the year	0.5	0.5
Interest charged – 7.0% per annum (2015: 8.1%)	-	-
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 2016 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"), which 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 is a limited liability company registered in Jersey. The company 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