ABPA Holdings Limited

Investor Report – 31 December 2017

Important Notice

This Investor Report is distributed by Associated British Ports Holdings Limited ("ABPH") (as New Holdco Group Agent) on behalf of ABPA Holdings Limited ("ABPAH"), ABP Acquisitions UK Limited ("ABPA") and Associated British Ports ("ABP") (together the "Covenantors") pursuant to the Common Terms Agreement dated 14 December 2011 and as amended from time to time (the "CTA").

This Investor Report contains forward looking statements that reflect the current judgment of the management of the Covenantors regarding conditions that it expects to exist in the future. Forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management's assumptions rely on its operational analysis and expectations for the operating performance of each of the Covenantors' assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Covenantors' auditors.

Basis of preparation

This Investor Report is being distributed pursuant to the terms of the CTA, Schedule 2, Part 1. Unless otherwise specified this Investor Report comments on the historic financial performance of ABPAH and its subsidiaries ("New Holdco Group" or "Group") for the year ending 31 December 2017. Defined terms used in this document have the same meanings as set out in the Master Definitions Agreement dated 14 December 2011 and as amended from time to time (the "MDA") unless otherwise stated.

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1. Group Highlights

Year ended 31 December	2017 £m	2016 £m	Change from 2016
Revenue	**543.5**	523.3	3.9%
Operating costs[1]	**(291.4)**	(266.3)	-9.4%
Underlying operating profit[2]	**252.1**	257.0	-1.9%
Consolidated EBITDA[3] pre exceptional costs	**323.0**	314.6	2.7%
Consolidated EBITDA[3]	**314.5**	306.7	2.5%
Consolidated EBITDA[3] margin pre exceptional costs	**59.4%**	60.1%	-0.7%
Cash generated by operations	**335.7**	299.0	12.3%
Total tonnage (mt)[4]	**86.1**	89.0	-3.3%
Passenger volumes (000s)	**2,993.5**	3,012.5	-0.6%
Consolidated Net Borrowings[5]	**2,090.8**	2,129.5	+1.8%

[1]Operating costs include profit/loss on sale of fixed assets and exclude depreciation/amortisation of fair value uplift of assets acquired in a business combination, increase/decrease in fair value of investment property, net unrealised gain/loss on fuel derivatives and exceptional items.

[2] Underlying operating profit is defined as operating profit before movement in fair value of investment properties, depreciation/amortisation of fair value uplift of assets acquired in a business combination, net unrealised gain/loss on fuel derivatives and exceptional items.

[3] Consolidated EBITDA (earnings before interest, tax, depreciation and amortisation and after excluding certain items) is calculated in accordance with the definitions set out in the MDA (details set out in section 2.3.4).

[4] Excluding volumes where the group generates conservancy income only.

[5] Consolidated Net Borrowings (the nominal net debt for covenant purposes, excluding subordinated loans, accrued interest, deferred borrowing costs, foreign exchange gains and losses, cash deposits that are not held with an Acceptable Bank, restricted cash and the value of letters of credit for which ABP is held liable) is calculated in accordance with the definitions set out in the MDA (details set out in section 2.3.8).

Historic Covenanted Financial Ratios

At 31 December	2017	2016
Ratio of Adjusted Consolidated EBITDA to Net Interest Payable	**2.17x**	2.23x
Ratio of Consolidated Net Borrowings to Consolidated EBITDA*	**6.65x**	6.94x
*Ratio of Consolidated Net Borrowings to Consolidated EBITDA pre exceptional costs[6]	**6.47x**	6.77x

[6] Not a covenanted ratio

The operating performance for the year ended 31 December 2017 reflects the following:

- The group's operating performance continues to be underpinned by a highly diversified cargo base, long term contracts with a broad mix of customers and a significant level of guaranteed revenue.
- Revenue increased by 3.9% to £543.5m (2016: £523.3m) principally due to container revenue, which increased by 9.7% to £62.1m (2016: £56.6m) due to strong growth on the Humber and DPWS at Southampton, new revenues in relation to new facilities for Siemens at Green Port Hull, which increased by 58.9% to £14.7m (2016: £9.3m) and increased biomass revenues, which increased by 6.8% to £51.5m (2016: £48.2m). The increase in revenue was partially offset by reduced volume and revenue from grain. This was due to the unusually strong export volumes in 2016, the resulting low stock volumes available for export in the first half of 2017 and the slow start to exports from the 2017 harvest.
- Underlying operating profit decreased by 1.9% to £252.1m (2016: £257.0m) mostly due to increased depreciation from large projects completed in 2016.
- Consolidated EBITDA pre exceptional costs increased by 2.6% to £323.0m (2016: £314.6m) mostly to Green Port Hull and container volumes.
- Consolidated EBITDA margin pre exceptional costs remained robust at 59.4%, down from 60.1% in the prior year. The reduction in the margin is mostly due to an increase in bonus accrual reflecting the growth in EBITDA.
- Total tonnage decreased by 3.3% to 86.1mt (2016: 89.0mt) mostly due to lower volumes for grain, ESI coal, biomass and steel production related commodities.

2. Business Update

2.1. Business Developments

The group's strategy is aimed at retaining and improving the group's position as the largest and leading port operator in the United Kingdom ("UK") and is formulated around a largely "landlord" business model. The group prioritises strategic opportunities in sectors and locations with good prospects for growth and focuses on delivering growth in its operating performance primarily by investment in infrastructure and equipment in partnership with quality customers. Where land available at ports exceeds present and future requirements, the group pursues alternative non-port uses, development or disposal.

The last 12 months represented a stabilisation of the group's performance following the re-balancing of the business due to the unprecedented drop in coal volumes in 2016. Notwithstanding lower commodity volumes in 2017 and the slower growth in the UK economy, the group was still able to deliver an increase in revenue and EBITDA, demonstrating the group's resilience in being able to endure difficult trading conditions.

Like other port companies handling trade with countries both within and outside the European Union ('EU'), ABP could be impacted by the broader economic consequences of the UK's vote to leave the EU. During 2016, less than half of the volume of trade passing through ABP's major ports was with countries that are members of the EU and the Single Market, of which the UK is presently also a member. However, since the vote to leave, the group has not yet encountered any material adverse impacts that might be directly attributable to Brexit.

ABP is engaged in wider industry efforts to minimise any negative impacts of Brexit and maximise potential opportunities. This includes an industry-wide drive to help ensure the Government secures the best possible access to the EU Single Market and agrees trade deals with countries outside the EU as quickly as possible. Additionally, ABP is working closely with the Government to enable frictionless trade after the UK plans to leave the Customs Union. ABP is also seeking to shape a future regulatory environment that is capable of maximising ABP's and the port industry's ability to grow, supporting growth in the wider economy.

Management continues to monitor developments in all markets and develop plans to address changes that have the potential to affect ABP's future performance.

2.2. Completed, Ongoing and Prospective Major Investments

The group completed a number of major investments during the year and continues to pursue a number of major investments which have the potential to contribute significant profitable growth during the coming years. Further information is provided below.

Green Port Hull ("GPH")

GPH is a collaboration between ABP, Hull City and East Riding Council and partner organisations aimed at transforming Hull into a world-class centre for renewable energy. GPH is located at the Port of Hull adjacent to the major east coast offshore wind development zones, making it perfectly placed to capitalise on the continued growth of the UK's world-leading offshore wind industry. The GPH development involved the construction of an offshore wind turbine blade manufacturing, project construction, assembly and service facility at Alexandra Dock. The new facilities were developed for Siemens Wind Power, which has now merged with Spanish wind turbine manufacturer Gamesa to create a leading global wind power company named Siemens Gamesa Renewable Energy. As of November 2017 the combined business had 83GW of installed capacity in over 90 countries worldwide and had €21bn of orders.

The facility at GPH was completed in January 2017 following a total joint investment by Siemens Wind Power and ABP of £310m (£160m and £150m respectively). All work on the site has concluded and the facility is now operated by Siemens Gamesa Renewable Energy.

The facility supports the development of the UK's growing offshore wind energy sector and commenced its first exports in January 2017 for the 402MW Dudgeon Offshore Wind Farm, followed by exports to Race Bank (573MW), Galloper (353MW), Beatrice (573MW) and Walney Extension Phase 2 (329MW). GPH will also serve Hornsea Project One which is currently under construction and once operational will be the largest offshore wind farm in the world.

Southampton Fresh Produce Terminal

In August 2016, ABP announced an investment of £8.3m to upgrade Southampton's Fresh Produce Terminal underpinned by a new 20-year contract with Solent Stevedores. The improvements to the terminal, completed in February 2017, include two new mobile cranes, improved storage, and new energy efficient lighting. Solent Stevedores is also investing in providing additional equipment to enhance fresh produce handling capacity. The works to upgrade the terminal's refrigerated storage areas provide an expanded cool store temperature range and more chilled storage capacity. The improved facility now enables Solent Stevedores to handle a wider range of chilled fruit and other high-value products all year round in Southampton, in addition to the long-standing trade in handling tomato imports from the Canary Islands.

Car Storage Facilities

As the UK's leading vehicle-handling port, handling around 900,000 import and export vehicles a year, Southampton continues to invest in facilities to support this important trade.

In addition to the five multi-story car parks ("MSCPs") already established at the port of Southampton, ABP completed its investment in the sixth and seventh MSCPs during 2017, providing an additional 3,170 car export and 4,378 car import spaces. The additional car storage capacity is being used to accommodate the changing needs of ABP's key partners, including Renault, BMW and Jaguar Land Rover.

Future investment could see the eighth and ninth MSCPs built at Southampton, bringing the port's total automotive storage capacity to 55,000 vehicles.

In addition to the Southampton facilities, around 800,000 vehicles a year are handled by ABP's ports on the Humber. In August 2016 ABP sought to enhance its Humber automotive offering by purchasing a 103 acre site at Grimsby with the intention of transforming it, on a phased basis, into a major new storage and distribution facility capable of accommodating up to 15,200 import and export vehicles.

During the third quarter of 2017, the company secured planning permission to develop 25 acres of the site for car storage and is in advanced negotiations with a customer to operate the new facility. The company continues to progress commercial discussions with a number of new and existing customers keen to utilise the new capacity.

Humber Container Terminals

ABP operates two major container terminals on opposite sides of the Humber estuary, at Hull and Immingham. ABP continues its investment programme to more than double the capacity of both Humber container terminals to around 550,000 units per annum. The upgrade is necessary to meet increasing demand, with the total volume of containers handled on the Humber having risen 39% from 2013 to 2016.

Nearly £30m has recently been invested in improving facilities at Hull Container Terminal ("HCT") including the purchase of four new Liebherr ship-to-shore cranes, two of which were delivered in June 2016, with the remaining two delivered in the first quarter of 2018. The investment will allow two vessels to be loaded or discharged simultaneously. The additional capacity will enable the terminal to support additional Lift On-Lift Off operators planning to offer services into Hull.

There are plans for further major investment in new equipment and technology at Immingham Container Terminal ("ICT") over the next three years to meet future growth targets. This is designed in part to increase landside capacity in order to accommodate larger vessels and to attract container business currently constrained by lack of capacity. It will also facilitate the provision of new roads, sheds and open storage areas and potentially the provision of a new deep sea car berth and new container berth. Preparatory work has already commenced on site investigations, development of options and outline design work on ICT and the port's road infrastructure.

ABP's investment strategy has already resulted in an existing customer, a leading shortsea and feeder container logistics company, expanding their operations with ABP. In June 2017, the customer confirmed that their second Polish/Baltic sailing into the Humber would call at the Port of Hull. This additional short sea service, which started at the end of June, has since moved to Immingham to complement their existing weekly call into the port.

As well as increasing capacity, the improvements to the terminals demonstrate ABP's commitment to customer service, with improved quayside handling times and reduced waiting times for hauliers.

Port Master Planning

Southampton is the UK's biggest export port with over £40bn of UK-manufactured goods exported each year. It is also the largest port by market share for trade vehicles and cruise turnaround and is home to the UK's second largest and most efficient container terminal.

Land at the port is intensively used and in recent years action has been undertaken to maximise the use of the available land footprint, such as the development of multi-storey car parks for vehicle storage and the relocation of non-port users to off-port sites.

At the end of 2016 the group published a draft master plan for the Port of Southampton which sets out the next phase of the port's development needed to maintain and enhance its role as an international deep-sea gateway. The draft master plan contemplates, over the next three to four years, undertaking feasibility studies and research into how the port can be expanded and bringing forward proposals that are considered necessary as a result. Proposals for future port capacity will include options relating to use of the port's strategic land reserve of almost 800 acres, known locally as Dibden Bay, for mixed use port operations and green energy generation.

During 2017, ABP commenced a wider Master Planning initiative with a pilot exercise at Barrow. Following this exercise, consultants Turley were appointed and master planning commenced at Swansea, Port Talbot and ABP's East Anglian ports: Lowestoft, Kings Lynn and Ipswich. Preparation is underway to commence a master planning exercise at Hull starting in the first quarter of 2018.

Cruise Facilities

Having completed a programme of cruise terminal upgrades, the group is engaging with its cruise line customers to ensure that it continues to meet their changing needs and can accommodate planned new vessel classes. The group considers it likely that future investment will be required in the medium term to support such requirements and to facilitate growth in passenger volumes.

Swansea Bay Tidal Lagoon

Swansea Bay Tidal Lagoon is a proposed 320MW tidal lagoon power plant designed to harness the tidal energy resource in Swansea Bay, South Wales, which has the second highest tidal range in the world. The project was granted a Development Consent Order in June 2015 and, if built, will be the world's first tidal lagoon power plant. The scheme, which consists of 16 hydro turbines and a six mile breakwater wall, has attracted equity investors including Prudential and InfraRed Capital Partners.

ABP has an agreement in place with the developer Tidal Lagoon (Swansea Bay) Plc ("TLSB") for the lease of land and foreshore to support the scheme's development. Parent company Tidal Lagoon Power Limited ("TLP") is aiming to build a total of six tidal lagoons which could meet up to 8% of the UK's electricity demand, enough to power around 30% of UK homes, as well as potential overseas projects. The Swansea Bay scheme is the most highly developed UK tidal lagoon proposal. In the event the scheme is approved and construction proceeds, there are likely to be opportunities to handle construction related cargo through the Port of Swansea.

The UK Government is currently considering the outcome of an independent review completed in January 2017 before deciding whether to award the Swansea Bay Tidal Lagoon project a renewable energy subsidy. If a suitable subsidy is agreed, Tidal Lagoon Power Limited has stated that the project could be completed within four years.

The Welsh Government has also offered to provide substantial funding support for the development of Swansea Bay Tidal Lagoon with the project cost estimated to be around £1.3bn.

Business Transformation Programme

As part of the group's strategic ambition to put customers first and to continually improve the operations and services it provides, ABP launched a group-wide change programme in 2015, tasked with the transformation of the group's business processes and IT hardware and software, including the implementation of SAP.

In early 2017 the group completed the high-level process and system designs for "back office" functions including finance, procurement and property. The project team is well advanced with the design and build of new processes based on SAP technology to support these functions. Subject to successful testing and business readiness, these processes and systems will be deployed in 2018. In respect of marine, operations, asset management and planning, the evaluation of implementation options for these functions is ongoing.

Further, in 2017 the group established a multi-functional shared services centre – Port Business Services ("PBS") in Hull. Starting with general accounting services, PBS will support the whole of ABP with a portfolio of services that will expand over time. The programme is also steadily delivering incremental process and technology improvements, such as a modern, top-of-the-range tide and weather solution. The Business Transformation Programme will continue over the next two to three years with the full involvement of ABP's stakeholders throughout the business.

New Nuclear Power Plant Opportunities

The government has identified eight sites in England and Wales that are suitable to build new nuclear power stations totalling up to 16GW by 2030. The government's most recent energy projections also forecast that by 2035 nuclear power could provide almost 40% of the UK's electricity generation. EDF Energy's Hinkley Point C new nuclear plant is already under construction and is expected to begin operations around 2025. Developers are also proposing building new nuclear power stations at other designated sites including Moorside in Cumbria, Sizewell in Suffolk, Bradwell in Essex and Wylfa Newydd in Anglesey, North Wales. The large scale of new nuclear construction, coupled with the proximity of ABP's ports to key sites and our proven experience in delivering world-class major infrastructure, means the group is well placed to benefit from this second phase of nuclear development in the UK.

2.3. Performance of the Business

The following section should be read in conjunction with the consolidated audited Annual Report and Accounts of ABPAH, which is available from the Investor Relations section of the group's corporate website (www.abpinvestor-relations.co.uk).

The table below summarises the consolidated results for the period ended 31 December 2017.

Income statement	**2017 £m**	**2016 £m**	**Change from 2016**
Revenue	**543.5**	523.3	3.9%
Operating costs	**(291.4)**	(266.3)	-9.4%
Underlying operating profit	**252.1**	257.0	-1.9%
Depreciation and amortisation of fair value uplift of assets acquired in a business combination	**(20.6)**	(29.6)	30.4%
Increase/(decrease) in fair value of investment properties	**54.1**	(36.9)	246.6%
Net unrealised (loss)/gain on fuel derivatives	**(0.1)**	4.0	-102.5%
Exceptional costs	**(8.5)**	(7.9)	-7.6%
Group operating profit	**277.0**	186.6	48.4%
Net finance costs	**(382.4)**	(659.3)	42.0%
Loss before taxation	**(105.4)**	(472.7)	77.7%
Taxation (charge)/credit	**(0.6)**	48.4	-101.2%
Loss for the period	**(106.0)**	(424.3)	75.0%
Cash generated by operations	**335.7**	299.0	12.3%
Capital expenditure - cash	**143.6**	215.7	-33.4%

2.3.1. Volumes and Revenues

Cargo volumes handled by the group’s ports (excluding Southampton conservancy only volumes) decreased by 3.3% to 86.1m tonnes in 2017 (2016: 89.0m tonnes) primarily driven by a decrease in other dry bulks (excluding ESI coal and biomass) by 10.2% to 22.8m tonnes (2016: 25.4m tonnes), partially offset by minor increases across other cargo volumes. The decrease in other dry bulks was principally due to a decrease in grain volumes and coal and iron ore imports used for steel production. The decrease in grain was largely due to low levels of stock held in store at the end of 2016, combined with a higher quality harvest, driving reduced quantities available for export in 2017. Coal and iron ore imports used for steel production decreased in 2017 due in part to a decrease in volume at Immingham Bulk Terminal following an unplanned outage at a customer site.

Group revenue increased by 3.9% to £543.5m (2016: £523.3m) primarily driven by an increase in unitised revenue (roll on - roll off, vehicles and containers) of 6.2% to £134.4m (2016: £126.5m), break bulks of 8.3% to £67.9m (2016: £62.7m) and biomass of 6.8% to £51.5m (2016: £48.2m). The increase in unitised revenue was principally driven by a new vehicle contract secured at Southampton in 2017, the discontinuation of container discounts at Southampton and increased container volumes at the Humber. An increase in wind turbine activity following the completion of Green Port Hull during the year was the main contributor to the increase in break bulks, whilst the increase in biomass was primarily driven by a higher level of guaranteed tonnage on the Humber. This was partially offset by a decrease in revenues for coal and iron ore used in steel production and grain as a result of the decline in volumes as outlined above.

The tables that follow provide analysis of the changes in the group's volumes and revenue by cargo category compared with 2016.

Volumes	**2017 million tonnes**	**2016 million tonnes**	**Change from 2016**
ESI coal	**3.0**	3.3	-9.1%
Biomass	**4.5**	4.9	-8.2%
Other dry bulks	**22.8**	25.4	-10.2%
Break bulks	**6.4**	6.2	+3.2%
Liquid bulks*	**21.9**	22.2	-1.4%
Ro-ro	**10.1**	9.8	+3.1%
Import/export vehicles	**3.0**	3.1	-3.2%
Containers	**14.4**	14.1	+2.1%
Total tonnage	**86.1**	89.0	-3.3%

* Excludes Southampton volumes where ABP generates conservancy income only

Passenger volumes	**2017 000's**	**2016 000's**	**Change from 2016**
Cruise passengers	1,796.6	1,762.5	+1.9%
Ferry passengers	1,196.9	1,250.0	-4.2%
Total	**2,993.5**	**3,012.5**	-0.6%

Ports and transport revenue	**2017 £m**	**2016 £m**	**Change from 2016**
ESI coal	18.4	18.9	-2.6%
Biomass	51.5	48.2	+6.8%
Other dry bulks	75.5	76.8	-1.7%
Break bulks	67.9	62.7	+8.3%
Liquid bulks	47.9	45.9	+4.4%
Ro-ro	28.0	27.6	+1.4%
Import/export vehicles	44.3	42.3	+4.7%
Containers	62.1	56.6	+9.7%
Total commodity revenue	**395.6**	**379.0**	+4.4%
Cruise & ferry	34.9	33.6	+3.9%
Pilotage & conservancy	56.0	54.7	+2.4%
Property income	20.4	21.2	-3.8%
Other	36.6	34.8	+5.2%
Total non commodity revenue	**147.9**	**144.3**	+2.5%
Total ports and transport revenue	**543.5**	**523.3**	+3.9%

Significant changes for individual commodity volumes and revenue included the following:

- **ESI coal**: volumes decreased by 9.1%, principally reflecting the continued decline in the use of coal in the electricity supply industry. Despite the 9.1% reduction in coal volumes, revenue only declined by 2.6% as revenue is protected by a higher level of guaranteed tonnage on the Humber.

- **Biomass**: volumes decreased by 8.2%, however revenue increased by 6.8% primarily as 2016's revenue was reduced by an adjustment relating to shortfall revenue recognised in a prior period, and 2017 revenue is protected by take or pay arrangements.
- **Other dry bulks**: volumes decreased by 10.2% and revenue decreased by 1.7% mainly due to lower grain volumes across most regions and lower coal and iron ore volumes used for steel production. The decrease in grain volumes was largely due to the low levels of stock held in store at the end of 2016, combined with a higher quality harvest, driving reduced quantities available for exports in 2017. This is partly offset by strong results for animal feed, minerals, fertiliser and cement/clinker. The lower coal and iron ore imports used for steel production were due in part to a decrease in volume at Immingham Bulk Terminal following an unplanned outage at a customer site.
- **Break bulks**: volumes increased by 3.2% and revenue increased by 8.3% reflecting an increase in scrap metal volumes and revenue and an increase in wind turbine revenue from Green Port Hull.
- **Liquid bulks**: volumes decreased by 1.4% predominantly due to adverse volumes across Immingham Oil Terminal partly offset by volumes from new business elsewhere on the Humber. Despite the overall net fall in volumes, revenue increased by 4.4% mainly due to an advantageous change in the size of vessels calling on the Humber, the recognition of backdated income from longstanding rent reviews with a major customer at Hull and the impact of guaranteed minimum volumes for Immingham Oil Terminal.
- **Ro-ro**: tonnage increased by 3.1% and revenue increased by 1.4%, with the increases driven by strong results at Immingham. Revenue increased slightly less than volumes due to the loss of a customer at a Short Sea Port, the income from which was not volume related.
- **Import/export vehicles**: volumes decreased by 3.2% and revenue increased by 4.7% reflecting reduced throughput but increased car storage income largely at the Port of Southampton.

- **Containers**: volumes increased by 2.1% with higher volumes on the Humber due to strong growth at the Immingham and Hull Container Terminals, partly offset by lower volumes at Southampton. Revenue increased by 9.7% reflecting the strong volumes on the Humber, higher revenue from the Hull Container Terminal followings the transfer of the operation in-house from 3rd party control, and increased pricing at Southampton.
- **Cruise**: the Port of Southampton remains the UK's number one cruise port. Revenue increased by 4.8% to £26.4m (2016: £25.2m) reflecting growing passenger numbers which increased by 1.9% and the number of cruise calls increased by 8.2% to 489 (2016: 452).
- **Ferry**: the majority of the group's ferry volumes relate to the North Sea routes operating from the Port of Hull, and services from Plymouth to France and Spain. Revenue increased by 1.6% to £8.7m in 2017 (2016: £8.6m).
- **Pilotage and conservancy**: revenue increased by 2.4% to £56.0m (2016: £54.7m).
- **Property income**: revenue in 2017 decreased by 3.8% to £20.4m (2016: £21.2m) reflecting lower rental income from Marchwood Industrial Estate in Southampton due to vacant properties, with the remainder of the variance spread across the group.
- **Other**: increased by 5.2% principally driven by the income from the lease surrender by a customer in South Wales.

2.3.2. Operating Costs

Ports and transport operating costs increased by 9.4% to £291.4m (2016: £266.3m). The table below provides an analysis of the group's operating costs compared with 2016:

Cost Category	2017 £m	2016 £m	Change from 2016*
Labour	**134.6**	121.9	-10.4%
Maintenance	**16.1**	16.1	0%
Fuel	**8.2**	7.4	-10.8%
Dredging	**2.1**	2.2	+4.5%
Utilities	**8.3**	7.6	-9.2%
Other operating and administrative costs	**51.9**	52.8	+1.7%
Total costs excluding fixed asset related items	**221.2**	208.0	-6.3%
Depreciation[1]	**67.6**	55.7	-21.4%
Amortisation[2]	**2.9**	3.3	+12.1%
Profit on write off of intangibles and disposal of property, plant and equipment and investment property	**(0.3)**	(0.7)	-57.1%
Total operating costs	**291.4**	266.3	-9.4%

*Increases in cost are shown as negative variances to ensure consistency with other reporting.
[1] Depreciation excludes acquisition related adjustments included in administrative expenses
[2] Amortisation excludes acquisition related adjustments included in administrative expenses

- **Labour costs:** includes the staff costs of the group's operational, engineering, pilotage, administrative and management departments and third party staff. Labour costs increased by 10.4% mostly due to higher bonus accruals, RPI driven annual wage increases and higher labour costs associated with growth activity in particular increased volumes at ICT and new operations at HCT. Also contributing to the increase are higher IAS19 pension costs and the release of a pension provision in 2016.

- **Maintenance:** represents operational expenditure required to repair, service and maintain the group's operating assets including quayside, plant and machinery, vessels and investment property. Maintenance costs are in line with 2016.

- **Fuel:** predominantly represents fuel required to operate the group's fleet of pilot launches and dredgers. Also included is the cost of fuel sold to third parties at Hams Hall. Fuel costs increased by 10.8%, mostly due to higher average fuel prices, increased pilotage and dredging activities and an increase in the sale of fuel at Hams Hall.

- **Dredging:** represents third party dredging costs. Costs decreased by 4.5% from £2.2m to £2.1m. Dredging is managed by the group on behalf of a major customer.
- **Utilities:** costs increased by 9.2% mostly due to the installation of a new meter at Hull which resulted in an adjustment to the billing.
- **Other operating and administrative costs:** includes operating costs such as lease rentals, security and cleaning, foreign exchange gains and losses and overheads such as IT, legal and professional fees, business rates, insurance and bad debt provisions. Other operating and administrative costs decreased by 1.7%.

2.3.3. Other Profit and Loss Items

- **Depreciation and amortisation of fair value uplift of assets acquired in a business combination:** the amounts include adjustments for the fair value uplifts recorded in 2006 when Associated British Ports Holdings Limited was acquired by ABP Acquisitions UK Limited.
- **Movement in fair value of investment properties**: the increase in fair value of investment properties of £54.1m (2016: decrease of £36.9m) was largely driven by improvements in expectations of the level or quality of future earnings at a number of key properties, including the Southampton Container Terminal £22.8m, Port Talbot Tidal Harbour Jetty £7.1m, DFDS at Immingham £5.3m and Valero Energy at Cardiff £5.3m.
- **Net unrealised (loss)/gain on fuel derivatives**: the group has entered into fuel derivatives to hedge the cost of its fuel used principally to power its fleet of dredgers and support vessels. The group recorded an unrealised loss on the valuation of its fuel hedges of £0.1m (2016: gain of £4.0m).
- **Exceptional costs:** the exceptional cost of £8.5m (2016: £7.9m) within operating profit principally represents restructuring costs in connection with the Business Transformation Programme.

- **Net finance costs:** net finance costs amounted to £382.4m (2016: £659.3m). The decrease is mainly due to a decrease of £125.0m in interest costs to £253.1m from £378.1m on the fully subordinated and unsecured loans from the company's immediate parent undertaking ABP SubHoldings UK Limited ("ABPS"). This was due to the £1.0bn forgiveness of intercompany loan and related interest accrued in January 2017 and the reduction in the coupon rate to 9% from 12% in March 2017. In addition the decrease in net finance costs reflects the increase of £122.2m in net foreign exchange gains on borrowings and accrued interest on derivatives to £34.0m from £88.2m loss, due to a stronger Sterling/US dollar exchange rates and the decrease of £37.3m net unrealised loss on swaps held to hedge the group's exposure to interest rate and foreign currency movements to £21.2m from £58.5m.

  The net finance costs mentioned above are excluded from Net Interest Payable for covenant purposes. Included in both net finance costs and net interest payable for covenant purposes are interest costs of £92.0m (2016: £92.8m) in relation to the group's external senior secured debt; interest costs of £73.8m (2016: £69.4m) and interest income of £19.3m (2016: £16.7m) on derivatives.

The table below summarises the reconciliation between net finance costs and Net Interest Payable as defined for covenant purposes:

Net Interest Payable	**2017 £m**	**2016 £m**
Net finance costs	**382.4**	659.3
Adjusted for:		
Amortised costs	**(2.0)**	(2.0)
Net interest payable on loans from parent undertaking	**(244.7)**	(370.2)
Net unrealised loss on derivatives at fair value through profit and loss	**(21.2)**	(58.5)
Non-cash finance costs in relation to pension scheme assets and liabilities	**(2.8)**	(0.7)
Non-cash finance costs in relation to discounted assets and liabilities	**(0.5)**	(2.2)
Net foreign exchange gain/(loss)	**34.0**	(88.2)
Net Interest Payable	**145.2**	137.5

- **Taxation:** The overall net tax for the period ended 31 December 2017 amounted to a charge of £0.6m (2016: credit £48.4m). This reflected a deferred tax charge of £0.3m (2016: credit £45.8m) and a current tax charge of £0.3m (2016: credit £2.6m).

2.3.4. Reconciliation between Operating Profit and Consolidated EBITDA

Consolidated EBITDA	2017 £m	2016 £m
Operating Profit	**277.0**	186.6
Amortisation	**18.4**	26.9
Depreciation	**72.7**	61.7
(Increase)/decrease in fair value of investment properties	**(54.1)**	36.9
Net unrealised foreign exchange loss/(gain)	**0.7**	(0.7)
Net unrealised loss/(gain) on fuel derivatives	**0.1**	(4.0)
Profit on write off of intangibles and disposal of property, plant and equipment and investment property	**(0.3)**	(0.7)
Consolidated EBITDA	**314.5**	306.7
Exceptional items	**8.5**	7.9
Consolidated EBITDA pre exceptional costs	**323.0**	314.6

2.3.5. Adjusted Profit Before Tax

Adjusted profit before tax as set out in the table below decreased by 0.6% to £84.5m (2016: £85.0m).

Adjusted Profit Before Tax (year ended 31 December)	2017 £m	2016 £m
Loss before taxation	**(105.4)**	(472.7)
(Increase)/decrease in fair value of investment properties	**(54.1)**	36.9
Net foreign exchange (gain)/loss	**(34.0)**	88.2
Net interest charge on net defined benefit liabilities	**2.8**	0.7
Net interest payable on loans from parent undertaking	**244.7**	370.2
Net unrealised loss on derivatives at fair value through profit and loss	**21.2**	58.5
Net unrealised loss/(gain) on fuel derivatives	**0.1**	(4.0)
Net unrealised foreign exchange (loss)/gain	**0.7**	(0.7)
Exceptional items	**8.5**	7.9
Adjusted Profit Before Tax	**84.5**	85.0

2.3.6. Cash Flows

The group continued to benefit from strong conversion of operating profits to cash. Cash generated by operations amounted to £335.7m (2016: £299.0m).

Cash flows summary	2017 £m	2016 £m
Cash flows from operating activities		
Cash generated by operations	**335.7**	299.0
Interest paid	**(199.5)**	(175.3)
Interest received	**30.3**	28.1
Net cash inflow from operating activities	**166.5**	151.8
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**0.2**	7.5
Proceeds from sale of investment property	**0.8**	-
Purchase of intangible assets	**(22.2)**	(24.2)
Purchase of property, plant and equipment	**(105.8)**	(127.3)
Purchase of investment property	**(15.6)**	(64.2)
Withdrawal from/(payments into) money market deposits	**15.0**	(15.0)
Net cash outflow from investing activities	**(127.6)**	(223.2)
Cash flows from financing activities		
Repayment of borrowings	**-**	(15.0)
Repayment of obligations under finance leases	**(0.7)**	(0.6)
Net cash outflow from financing activities	**(0.7)**	(15.6)
Change in cash and cash equivalents during the period	**38.2**	(87.0)
Cash and cash equivalents at 1 January	**46.8**	133.8
Cash and cash equivalents at period end	**85.0**	46.8

2.3.7. Capital Expenditure - Cash

Total capital expenditure cash flow for the year decreased to £143.6m (2016: £215.7m). There are three elements to the group's capital expenditure: infrastructure replacement to maintain the operating capability of the group's assets; revenue earning/enhancing capital projects and land acquisitions. Replacement expenditure during 2017 amounted to £53.1m (2016: £61.9m) and included expenditure of £4.9m on replacement cranes at HIT and £2.5m on lock gates at Newport. Revenue earning/enhancing expenditure during 2017 decreased by £61.3m to £86.2m (2016: £147.5m) mostly due to the completion of the Green Port Hull project in 2016. In 2017 revenue earning/enhancing expenditure was associated with the construction of the 6^{th} and 7th MSCP at Southampton Eastern Docks £21.7m, £21.5m in relation to the BTP and £9.0m for the third container crane at HCT. Land acquisitions during 2017 amounted to £4.3m (2016: £6.3m) and included the purchase of land at Yarlbrough on the Humber for car storage. Further details of recent progress on the group's major projects can be found in section 2.2 Completed, Ongoing and Prospective Major Projects.

2.3.8. Consolidated Net Borrowings

Consolidated Net Borrowings as defined for covenant purposes decreased by £38.7m to £2,090.8m (December 2016: £2,129.5m)

Consolidated Net Borrowings	**Due date**	**2017 £m**	**2016 £m**
Term and revolving facilities	2023 – 2029	**209.0**	209.0
Private placements – GBP floating rate	2024 – 2033	**460.0**	460.0
Private placements – GBP fixed rate	2023 – 2035	**365.0**	365.0
Private placements – USD fixed rate	2022 – 2029	**285.9**	285.9
Public loans – GBP & USD floating rate	2021 – 2033	**183.9**	183.9
Public loans – GBP & EUR fixed rate	2023 – 2042	**668.6**	668.6
Finance leases		**2.0**	2.3
Net cash (including restricted cash)		**(85.0)**	(46.8)
Net Borrowings		**2,089.4**	2,127.9
Letters of credit		**1.4**	-
Restricted cash		**-**	1.6
Consolidated Net Borrowings		**2,090.8**	2,129.5

2.3.9. Reconciliation of Statutory Net Borrowings to Consolidated Net Borrowings

	2017 £m	2016 £m
Current borrowings	**505.7**	17.0
Non-current borrowings	**4,554.3**	5,843.3
Current receivables (Interest receivable on derivatives)	**(6.3)**	(6.8)
Cash and cash equivalents	**(85.0)**	(46.8)
Statutory net borrowings	**4,968.7**	5,806.7
Adjusted for:		
Unsecured subordinated loan notes	**(722.8)**	(1,062.2)
Unsecured subordinated junior debt facility	**(416.0)**	(416.0)
Deferred borrowing costs	**-**	0.1
Amounts due to parent undertaking	**(1,138.8)**	(1,478.1)
Interest accrual - Unsecured subordinated loan notes	**(1,601.7)**	(2,056.6)
Interest accrual - Unsecured subordinated junior debt facility	**(73.1)**	(46.6)
Interest due to parent undertaking	**(1,674.8)**	(2,103.2)
Accrued interest due on term and revolving facilities	**(0.2)**	(0.2)
Accrued interest due on private placement notes	**(11.2)**	(11.8)
Accrued interest due on public loan notes	**(3.7)**	(3.7)
Accrued interest due on derivatives	**(1.2)**	(1.0)
Accrued interest receivable on derivatives	**6.3**	6.8
Accrued interest	**(10.0)**	(9.9)
Deferred borrowing costs	**18.2**	20.3
Letters of credit	**1.4**	-
Cash balances held subject to security interest	**-**	1.6
Exclude the impact of the foreign currency movements on the USD and EUR loans	**(73.9)**	(107.9)
Consolidated Net Borrowings	**2,090.8**	2,129.5

2.4. Significant Announcements/Publications

Details of the group's ultimate controlling parties can be found in note 28 of the 2017 Annual Report and Accounts of ABPA Holdings Limited.

Other than as disclosed above and on the Media Centre and Investor Relations section of the group's corporate website (www.abpinvestor-relations.co.uk), there have been no significant announcements or publications by or relating to ABPAH Group.

Associated British Ports Holdings Limited. Registered in England and Wales with Registered Office at 25 Bedford Street, London WC2E 9ES and Registered Number 1612178.

2.5. Significant Board/Management Changes

The following Board changes took place during the year and up to the date of this report:

(i) Associated British Ports:

- 29 March 2017 - IH Schofield resigned as a director and CC Garton was appointed as Director, Asset Management
- 4 July 2017 - MBW McCartain, was appointed as Director, Marine and Compliance
- 30 March 2018 - CC Garton resigned as a director

(ii) Associated British Ports Holdings Limited:

- 17 February 2017 - P Stylianides resigned as alternate director to H Drissi Kaitouni
- 28 February 2017- RJW Walvis resigned as Chairman and director
- 4 July 2017 - PMG Nolan was appointed as Chairman and director
- 30 November 2017 - JJ McManus resigned as a director and EPM Machiels was appointed in his place. The appointment of KE Bradbury as alternate director to JJ McManus ceased on the resignation of JJ McManus. KE Bradbury was then appointed by EPM Machiels as his alternate director with effect from 30 November 2017
- 24 January 2018 - G Pestrak was appointed as alternate director to H Drissi Kaitouni

(iii) ABP Acquisitions UK Limited:

- 17 February 2017 - P Stylianides resigned as alternate director to H Drissi Kaitouni
- 30 November 2017 - JJ McManus resigned as a director and EPM Machiels was appointed in his place. KE Bradbury and PA Busslinger ceased to be alternate directors to JJ McManus on his resignation. KE Bradbury was then appointed by EPM Machiels as his alternate director with effect from 30 November 2017
- 24 January 2018 - G Pestrak was appointed as alternate director to H Drissi Kaitouni

(iv) ABPA Holdings Limited:

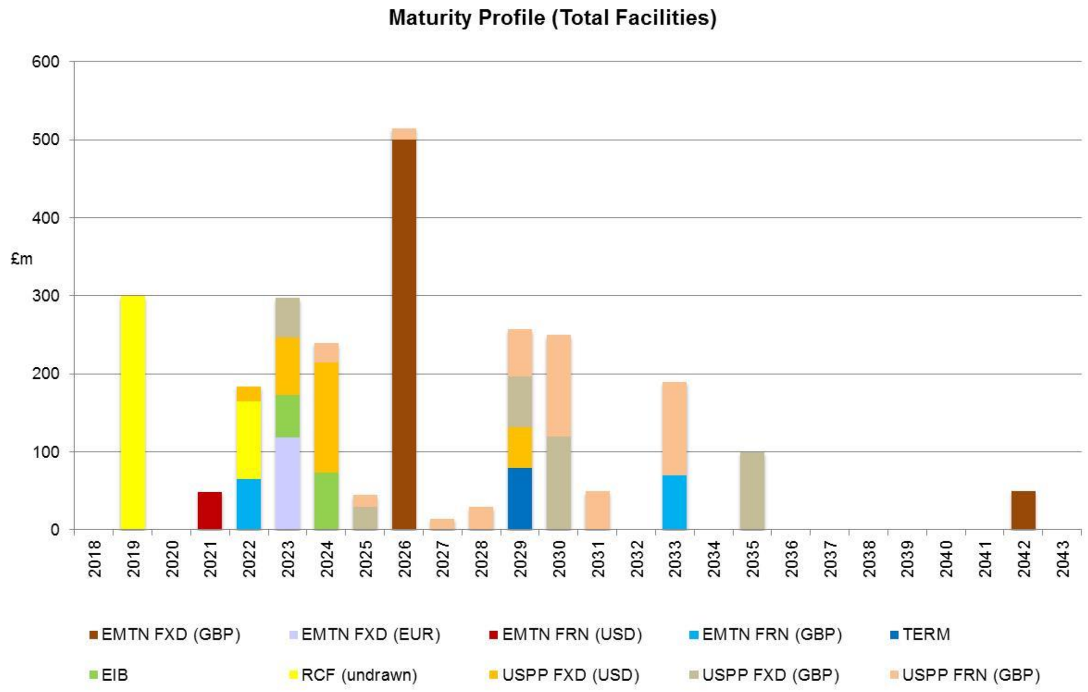
- 17 February 2017 - P Stylianides resigned as alternate director to H Drissi Kaitouni
- 30 November 2017 - JJ McManus resigned as a director and was replaced by EPM Machiels. KE Bradbury and PA Busslinger ceased to be alternate directors to JJ McManus on his resignation and KE Bradbury was appointed by EPM Machiels as his alternate director with effect from 30 November 2017
- 24 January 2018 - the following appointments were made in order to replicate the Board composition of Associated British Ports Holdings Limited:

Bull, GSM (Chief Financial Officer)	as director
Cooper, JNS (Chief Executive)	as director
Nolan PMG	as director
Busslinger, PA	as director
Coghlan, JB	as director
Hicks, SN	as director
Hogg, CM	as director
Morea, JV	as director
Rishton, J	as director
Butcher, P	as alternate to CM Hogg
Hofbauer, PF	as alternate to JB Coghlan
Pestrak, G	as alternate to H Drissi Kaitouni

On 15 September 2017 it was announced that James Cooper, Chief Executive of the group was intending to stand down during 2018. A process to identify a successor is in progress.

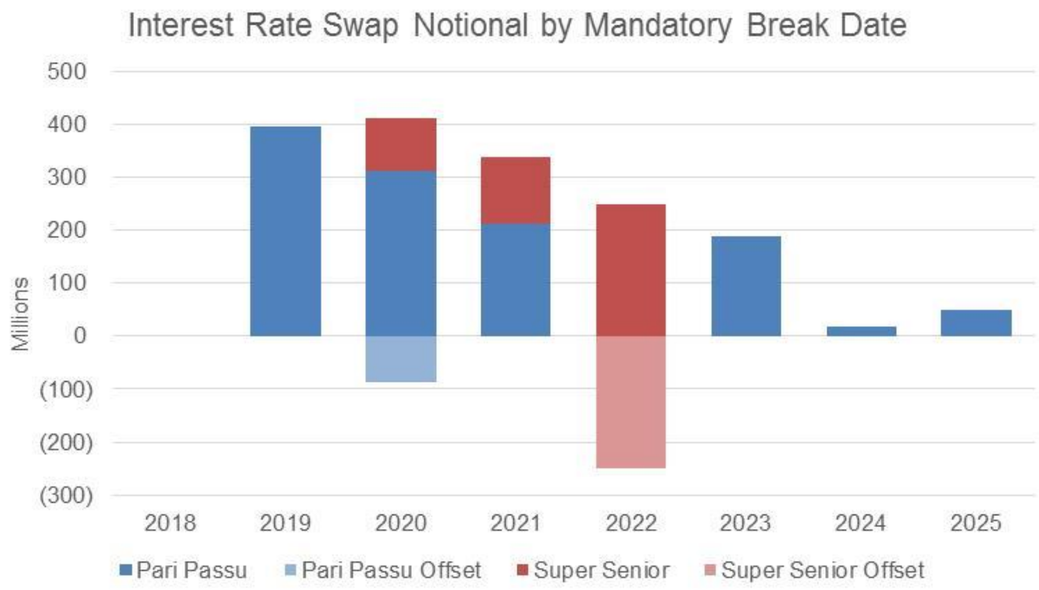
3. Financing and Hedging Position

The 364 day liquidity facilities of £155.0m were renewed in August 2017. The chart below shows the profile of the group's externally sourced facilities (excluding the liquidity facilities) as at 31 December 2017:



As at 31 December 2017, the group's hedging ratio was just over 100%, with a net £1.31bn of floating to fixed interest rate swaps hedging £1.26bn of floating rate exposure. The hedging position continues to be compliant with the group's hedging policy of maintaining between 75% and 110% of its senior debt fixed for a minimum seven-year period.

The following graph shows the mandatory swap breaks profile (net swap notional) as at 31 December 2017:



More detailed debt information can be found on the Investor Relations section of the group's corporate website (www.abpinvestor-relations.co.uk).

4. Restricted Payments

The group's distribution policy is to maintain a leverage ratio in the medium term at or close to 6.75 times EBITDA, to provide headroom broadly equivalent to 10% of EBITDA to the Trigger Event level. The group made Restricted Payments totalling £20.9 million during the year to 31 December 2017.

5. Covenant Ratios and Compliance

At 31 December	2017 £m	2018* £m	2019* £m	2020* £m
Adjusted Consolidated EBITDA	314.5	320.3	361.2	396.1
Net Interest Payable	145.2	146.1	151.5	170.1
Ratio of Adjusted Consolidated EBITDA to Net Interest Payable	2.17x	2.19x	2.38x	2.33x
Consolidated Net Borrowings	2,090.8	2,215.3	2,487.4	2,748.1
Consolidated EBITDA	314.5	324.5	368.5	407.0
Ratio of Consolidated Net Borrowings to Consolidated EBITDA	6.65x	6.83x	6.75x	6.75x

* Forward-looking ratio calculations and projections are based on the most recent ITA Information provided to and certified by the Independent Technical Advisor.

N.B.

Ratio of Consolidated Net Borrowings to Consolidated EBITDA pre exceptional costs	6.47x	6.62x	6.75x	6.75x

We confirm that in respect of this investor report dated 31 December 2017, by reference to the most recent Financial Statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1, (Information Covenants) of Schedule 2 (New Holdco Group Covenants) of the Common Terms Agreement:

(a) the Historic Adjusted Consolidated EBITDA is or is estimated to be equal to or more than 1.75 times Historic Net Interest Payable for the Relevant Calculation Period;

(b) the Projected Adjusted Consolidated EBITDA is or is estimated to be equal to or more than 1.75 times Projected Net Interest Payable for the Relevant Calculation Period;

(c) the ratio of Historic Consolidated Net Borrowings to Historic Consolidated EBITDA is or is estimated to be equal to or less than 7.50 as at the Relevant Calculation Date; and

(d) the ratio of Projected Consolidated Net Borrowings to Projected Consolidated EBITDA is or is estimated to be equal to or less than 7.50 as at the Relevant Calculation Date, (together the "Ratios").

We confirm that each of the above Ratios has been calculated in respect of the Relevant Calculation Period or as at the Relevant Calculation Date for which it is required to be calculated under the Common Terms Agreement.

We confirm that historic ratios have been calculated using, and are consistent and have been updated by reference to the most recently available financial information required to be provided by the Covenantors under Schedule 2 (New Holdco Group Covenants) of the Common Terms Agreement.

We confirm that all forward looking financial ratio calculations and projections:

(i) have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;

(ii) are consistent and updated by reference to the most recently available financial information required to be produced by the Covenantors under Schedule 2 (New Holdco Group Covenants) of the Common Terms Agreement; and

(iii) are consistent with the Accounting Standards (insofar as such Accounting Standards reasonably apply to such calculations and projections).

(iv) are based on the most recent ITA Information provided to and certified by the Independent Technical Advisor in accordance with Schedule 2 (New Holdco Group Covenants) of the Common Terms Agreement.

We also confirm that:

(a) no Default or Trigger Event has occurred and is continuing, or if a Default or Trigger Event has occurred and is continuing, steps (which shall be specified) are being taken to remedy such Default or Trigger Event;

(b) the New Holdco Group is in compliance with the Hedging Policy; and

(c) this Investor Report is accurate in all material respects;

Yours faithfully,

Sebastian Bull
Chief Financial Officer
For and on behalf of
ABPH as New Holdco Group Agent