ABPA Holdings Limited

Investor Report – 30 June 2018

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 six months ending 30 June 2018. 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

Six month ended 30 June (unaudited)	2018 H1 £m	2017 H1 £m	Change from 2017
Revenue	**287.6**	268.8	7.0%
Operating costs[1]	**(158.3)**	(144.5)	-9.6%
Underlying operating profit[2]	**129.3**	124.3	4.0%
Consolidated EBITDA[3] pre exceptional costs	**167.2**	158.5	5.5%
Consolidated EBITDA[3]	**166.0**	156.4	6.1%
Consolidated EBITDA[3] margin pre exceptional costs	**58.1%**	59.0%	-0.9%
Cash generated by operations	**143.1**	175.6	-18.5%
Total tonnage (mt)[4]	**42.7**	42.4	0.7%
Passenger volumes (000s)	**1,316.8**	1,237.0	6.5%
Consolidated Net Borrowings[5]	**2,130.3**	2,087.9	2.0%

[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 2.4.4).

[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 the group is held liable) is calculated in accordance with the definitions set out in the MDA (details set out in section 2.4.8).

Historic Covenanted Financial Ratios

At 30 June (unaudited)	2018	2017
Ratio of Adjusted Consolidated EBITDA to Net Interest Payable	**2.15x**	2.19x
Ratio of Consolidated Net Borrowings to Consolidated EBITDA	**6.55x**	6.69x
Ratio of Consolidated Net Borrowings to Consolidated EBITDA pre exceptional costs[6]	**6.41x**	6.57x

[6] Not a covenanted ratio

The above ratios are calculated on a 12 month rolling basis at each half year.

The operating performance for the six months ended 30 June 2018 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 7.0% to £287.6m (2017: £268.8m) principally due to the acquisition of W.E. Dowds Shipping at the beginning of February 2018, contributing £4.3m to the revenue variance for break bulks which has increased by 16.7% to £38.5m (2017: £33.0m). Also included in break bulks is the phasing of the Barrow dredge, a major customer contract with high operating costs resulting in high revenue recharges to the customer, which has contributed further to the increased revenue. Pilotage & conservancy revenue has increased by 7.7% to £30.9m (2017: £28.7m) mostly due to an increase in chargeable traffic on the Humber. Vehicle import/export revenue has increased by 7.4% to £24.7m (2017: £23.0m) due to increased car storage revenue at Southampton. Container revenue increased by 5.6% to £32.1m (2017: £30.4m) due to increased prices at Southampton. Cruise & ferry revenue has increased by 8.5% to £17.9m (2017: £16.5m) mostly due to higher passenger numbers and additional parking charges at Southampton for cruise. ESI Coal revenue has increased by 14.9% to £10.0m (2017: £8.7m) due to strong volumes driven by the unusually long and cold winter. The acquisition of Eling Wharf, a 41 acre industrial site in Southampton and income from the settlement relating to liquidated damages for Immingham Renewable Fuels Terminal ("IRFT") have also contributed to the positive variance.
- Underlying operating profit increased by 4.0% to £129.3m (2017: £124.3m) mostly due to increased revenue mentioned above partly offset by increased labour costs, dredging costs due to the timing of the Barrow dredge and increased depreciation from large projects completed in 2017.
- Consolidated EBITDA pre exceptional costs increased by 5.5% to £167.2m (2017: £158.5m) mostly due to strong performance for vehicles, containers, cruise, HES and coal and Humber rates rebates offset by weaker results for wind.

- Consolidated EBITDA margin pre exceptional costs remained robust at 58.1%, down from 59.0% in the prior year. The reduction in the margin is mostly due to the acquisition of W.E. Dowds and the timing of the Barrow dredge which are both relatively low margin activities. The increase in bonus accrual reflecting the growth in EBITDA has contributed further to the reduction in consolidated EBITDA margin.
- Total tonnage has remained steady, increasing by 0.7% to 42.7mt (2017: 42.4mt) mostly due to stronger ESI coal volumes resulting from the unusually long and cold winter.

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.

ABP's H1 2018 performance has been encouraging and although commodity volumes are broadly in line with last year, the group has managed to deliver an increase in revenue and EBITDA.

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. Based on 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. Since the vote to leave, the group has not yet encountered any material adverse impacts that might be directly attributable to Brexit.

Over the six months to 30th June 2018, ABP has continued to focus on maximising the opportunities and minimising the risks that may come from Brexit. We have continued to engage with the UK Government at the highest level to ensure trade flow remains smooth whatever the ultimate outcome of the negotiations on a Brexit deal between the UK and EU. One example is the creation by ABP of the UK Trade Resilience Forum, bringing together the UK Government and key representatives from the supply chain, including leading UK retailers and manufacturers, logistics firms and shipping lines. We have also worked with European ports who share ABP's commitment to facilitating the efficient movement of cargo when the UK leaves the EU.

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 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.

Car Storage Facilities

The Port of Southampton is the UK's hub for automotive trade with 11 shipping lines undertaking over 100 calls to 52 ports in 40 countries every month.

As part of the ongoing strategy to strengthen the Port's position as a global hub for the automotive sector, construction of an eighth multi-storey car park will commence in September 2018. The £15m investment to be built on the Eastern Dock will provide storage for a further 3,000 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.

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 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 passing through ABP's Humber ports having risen 58% from 2013 to 2017.

Nearly £30m has 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 allows up to three vessels to be loaded or discharged simultaneously. The additional capacity will enable the terminal to support additional Lift On-Lift Off ("Lo-Lo") operators planning to offer services into Hull.

Further major investment has been approved to upgrade Immingham Container Terminal ("ICT") through the supply of new equipment and technology over the next three years to meet future growth targets. The investment covers various aspects, including improvements to safety and terminal efficiency, in addition to unlocking further landside capacity allowing for growth from 2017's record 182,000 containers to 272,000 containers by 2024.

ABP's investment strategy in Lo-Lo has already stimulated both change and growth in services on the Humber. One service, which previously called into ICT twice a week, has transferred into HCT in order to consolidate all of the customer's activities in one port. Another one of ABP's customers, a leading shortsea and feeder container logistics company, started a second Baltic/Polish call into ICT following a trial in 2017. HCT has seen the start-up of a new short sea service calling three times per week from Ghent in addition to a three times per week service from Amsterdam. Since the investment, HCT's vessel calls have risen from 5 per week in 2017 to 13 per week in 2018.

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.

Cruise Facilities

The group is engaging with its cruise line partners to ensure that it continues to meet their evolving needs and can accommodate planned new build vessels. 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, which saw a record breaking 2 million cruise passengers visiting the Port of Southampton in 2017. ABP is currently looking to redevelop the facilities to cater for the continued growth in demand from the cruise industry.

Port Master Planning

ABP is continuing its master planning initiatives with the objective of driving up the quality of outputs, improving strategic alignment to the future direction of the business, and reducing costs.

In Southampton, following on from the published draft master plan, a leading maritime consultancy company is looking at a number of market studies including forecasting, land allocation and master planning of all land holdings in the Southampton portfolio.

In Lowestoft, the master plan robustly supports the potential of the port for future growth, particularly in the offshore wind operations and maintenance sector, and is expected to be relevant in determining the potential impact, on the port, of Suffolk County Council's application to build a new bridge which, if approved, will cross ABP's land and statutory harbour area at the port.

Master planning has commenced in Hull, and is expected to be complete by the end of 2018/early 2019. Immingham will follow, with an anticipated completion of Q3 2019.

Further master planning work will be undertaken at Fleetwood, Ipswich and Swansea.

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. The business transformation programme has made significant progress and will underpin our ability to deliver new, flexible and innovative solutions for our customers well into the future.

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, which is currently underway, and business readiness, these processes and systems will be deployed early in 2019. In respect of marine, operations, asset management and planning, the evaluation of implementation options for these functions are ongoing.

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 with generation capacity of 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 government and developers are still progressing consent, technical and procurement work streams. The large scale of new nuclear construction, coupled with the proximity of ABP's ports to key proposed development sites and our proven experience in supporting major infrastructure projects, means the group is well placed to benefit from this second phase of nuclear development in the UK.

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 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 for the lease of land and foreshore to support the scheme's development.

In June 2018 the government announced that it will not be supporting the Swansea Bay Tidal Lagoon through the Contract for Difference mechanism. Parent company Tidal Lagoon Power Limited are continuing to review options for alternative funding mechanisms, however the project is now much less likely to proceed.

2.3. Acquisitions

ABP's strategy includes building and growing the business through acquiring complimentary businesses. Further information on acquisitions made in 2018 is provided below.

Eling Wharf

Strong demand for trade through Southampton led to the acquisition of Eling Wharf in January 2018. The 41 acre site, which sits adjacent to the A35 and is predominantly used for storage, is home to 24 tenants running a variety of businesses.

ABP plans to improve the look and feel of the site, with a view to tackling more deep-seated challenges that are a legacy of the land's industrial use.

WE Dowds

In February 2018 ABP acquired 100% of the issued share capital of W.E. Dowds (Shipping) Limited ("Dowds group").

Established in 1960, Dowds group is among the UK's leading family-owned port operations businesses. The company operates a total of 10 separate warehouses with a combined area of over 50,000 sq m based at ABP Newport, South Wales.

The deal builds on Dowds group's excellent track record serving the UK steel market, enabling the business to grow. The transaction will also help secure further growth for the Port of Newport.

2.4. Performance of the Business

The following section should be read in conjunction with the unaudited interim report 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 six months period ended 30 June 2018.

Income statement (six months ended 30 June)	2018 H1 £m	2017 H1 £m	Change from 2017
Revenue	**287.6**	268.8	7.0%
Operating costs	**(158.3)**	(144.5)	-9.6%
Underlying operating profit	**129.3**	124.3	4.0%
Depreciation and amortisation of fair value uplift of assets acquired in a business combination	**(8.6)**	(9.3)	7.5%
Net unrealised gain/(loss) on fuel derivatives	**0.8**	(1.5)	153.3%
Exceptional costs	**(1.2)**	(2.1)	42.9%
Group operating profit	**120.3**	111.4	8.0%
Net finance costs	**(131.2)**	(144.0)	8.9%
Loss before taxation	**(10.9)**	(32.6)	66.6%
Taxation charge	**(31.1)**	(12.6)	-146.8%
Loss for the period	**(42.0)**	(45.2)	7.1%

Cash generated by operations	**143.1**	175.6	-18.5%
Capital expenditure - cash	**(82.2)**	(75.6)	-8.7%

2.4.1. Volumes and Revenues

Cargo volumes handled by the group's ports (excluding Southampton conservancy only volumes) increased by 0.7% to 42.7m tonnes in 2018 (2017: 42.4m tonnes) primarily driven by an increase in ESI coal volumes by 40.0% to 2.1m tonnes (2017: 1.5m tonnes) and an increase in liquid bulk volumes by 2.8% to 10.9m tonnes (2017: 10.6m tonnes). The increases have been partially offset by a decrease in biomass volumes of 16.7% to 2.0m tonnes (2017: 2.4m tonnes), mostly at IRFT and Hull. Grain volumes have remained consistently weak and are in line with last year.

Group revenue increased by 7.0% to £287.6m (2017: £268.8m) primarily driven by non-volume related activities. The largest was an increase in break bulks revenue by 16.7% to £38.5m (2017: £33.0m) resulting from WE Dowds acquisition in 2018 and the phasing of the Barrow dredge partly offset by lower Siemens wind revenue. Contributing further is increased pilotage and conservancy revenue due to activity on the Humber.

Cruise revenue increased by 10.3% to £13.9m (2017: £12.6m) as a result of higher passenger numbers at Southampton. Unitised revenue (Ro/Ro, vehicles and containers) has increased by 5.9% to £71.4m (2017: £67.4m). The increase in unitised revenue was principally driven by increased car storage at Southampton in 2018 and the increase in prices for containers at Southampton largely driven by the introduction of a surcharge in respect of the channel approach dredge, ESI coal revenue increased by 14.9% to £10.0m (2017: £8.7m) due to the unusually long winter and Biomass revenue increased by 2.1% to £24.5m (2017: £24.0m).

The tables that follow provide analysis of the changes in the group's volumes and revenue by cargo category compared with 2017.

Volumes (six months ended 30 June)	**2018 H1 million tonnes**	**2017 H1 million tonnes**	**Change from 2017**
ESI coal	**2.1**	1.5	40.0%
Biomass	**2.0**	2.4	-16.7%
Other dry bulks	**11.1**	11.1	0.0%
Break bulks	**3.1**	3.3	-6.1%
Liquid bulks*	**10.9**	10.6	2.8%
Ro-ro	**5.1**	5.1	0.0%
Import/export vehicles	**1.5**	1.5	0.0%
Containers	**6.9**	6.9	0.0%
Total tonnage	**42.7**	42.4	0.7%

* Excludes Southampton volumes where ABP generates conservancy income only

Passenger volumes (six months ended 30 June)	**2018 H1 000's**	**2017 H1 000's**	**Change from 2017**
Cruise passengers	795.3	731.3	8.8%
Ferry passengers	521.5	505.7	3.1%
Total	**1,316.8**	**1,237.0**	6.5%

Ports and transport revenue (six months ended 30 June)	**2018 H1 £m**	**2017 H1 £m**	**Change from 2017**
ESI coal	10.0	8.7	14.9%
Biomass	24.5	24.0	2.1%
Other dry bulks	38.3	38.1	0.5%
Break bulks	38.5	33.0	16.7%
Liquid bulks	24.4	23.9	2.1%
Ro-ro	14.6	14.0	4.3%
Import/export vehicles	24.7	23.0	7.4%
Containers	32.1	30.4	5.6%
Total commodity revenue	**207.1**	**195.1**	6.2%
Cruise & ferry	17.9	16.5	8.5%
Pilotage & conservancy	30.9	28.7	7.7%
Property income	11.4	10.0	14.0%
Other	20.3	18.5	9.7%
Total non commodity revenue	**80.5**	**73.7**	9.2%
Total ports and transport revenue	**287.6**	**268.8**	7.0%

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

- **ESI coal**: volumes increased by 40.0%, principally reflecting the unusually long and cold winter. Despite the 40.0% increase in coal volumes, revenue increased by only 14.9% partly due to shortfall revenue in 2017, a shortfall clawback provision exercised by a customer in the period and lower open storage income in 2018.

- **Biomass**: volumes decreased by 16.7%, however revenue increased by 2.1% primarily as a result of the benefit of the annual price increase, and the lower level of revenue recognised under take or pay arrangements in the early periods of 2017.
- **Other dry bulks**: despite volumes being in line, revenue increased by 0.5%. Higher volumes and revenue for minerals, non-ESI coal and fertilizer is partly offset by lower volumes and revenue for animal feed, aggregates and cement/clinker. Lower volumes for iron ore brings the total other dry bulks volumes in line however there is no corresponding negative impact on revenue as it is offset by a price increase for property rental income for dry bulk customers. Revenue from grain is mostly in line as volumes remain consistently weak.
- **Break bulks**: volumes decreased by 6.1% but revenue increased by 16.7%, mostly explained by the W.E. Dowds acquisition which has resulted in higher steel revenue for similar volumes. The phasing of the Barrow dredge has resulted in increased revenue without any volume impact. Strong steel volumes at Cardiff, mostly from new business in 2018, and strong timber volumes at Ayr and Troon have led to futher increases in revenue. These revenue upsides have been partly offset by reduced revenue from wind. This is driven by the absence of additional unrepeated payments received from Siemens in 2017 and the fact that the Siemens export programme generated higher ships dues in early 2017. The relatively small decrease in volume is driven by other break bulks.
- **Liquid bulks**: volumes increased by 2.8% and revenue increased by 2.1% mainly due to higher volumes at Immingham Oil Terminal.
- **Ro-Ro**: tonnage was in line and revenue increased by 4.3%, with the increases driven by strong results at Immingham.
- **Import/export vehicles**: volumes are in line and revenue increased by 7.4% reflecting increased car storage revenue at Southampton as a result of new storage capacity coming online towards the end of 2017.
- **Containers**: volumes are in line however revenue increased by 5.6%, mostly at Southampton, due to increased pricing, Southampton Channel Approach Dredge charges, and an end to discounts in February 2017.

- **Cruise**: the Port of Southampton remains the UK's number one cruise port. Cruise revenue increased by 10.3% to £13.9m (2017: £12.6m) reflecting growing passenger numbers which increased by 8.8% and an increase in the number of cruise calls by 5.8% to 218 (2017: 206). Increased parking charges have contributed further to the positive revenue variance.
- **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 2.6% to £4.0m in 2018 (2017: £3.9m).
- **Pilotage and conservancy**: revenue increased by 7.7%, mostly due to an increase in chargeable traffic at HES for HST ("Humber Sea Terminal") on the Humber.
- **Property income**: revenue in 2018 increased by 14.0% reflecting rental income from Eling Wharf in Southampton which was acquired in January 2018, increased rental income from the Marchwood Industrial Estate in Southampton after lease renewals, and the introduction of a higher rate for a customer at Hull.
- **Other**: increased by 9.7% principally driven by the income from the settlement of liquidated damages for IRFT and an increase in train lifts and the sale of fuel at Hams Hall.

2.4.2. Operating Costs

Ports and transport operating costs increased by 9.6% to £158.3m (2017: £144.5m). The table below provides an analysis of the group's operating costs compared with 2017:

Cost Category (six months ended 30 June)	2018 H1 £m	2017 H1 £m	Change from 2017*
Labour	**71.1**	65.2	-9.0%
Maintenance	**8.9**	8.0	-11.3%
Fuel	**4.4**	4.2	-4.8%
Dredging	**2.6**	0.2	-1200%
Utilities	**4.6**	4.2	-9.5%
Other operating and administrative costs	**28.7**	29.1	1.4%
Total costs excluding fixed asset related items	**120.3**	110.9	-8.5%
Depreciation[1]	**36.5**	32.0	-14.1%
Amortisation[2]	**1.4**	1.3	-7.7%
Loss on write off of intangibles and disposal of property, plant and equipment and investment property	**0.1**	0.3	+66.7%
Total operating costs	**158.3**	144.5	-9.6%

*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 9.0% mostly due to higher bonus accruals, annual wage increases and administrative staff headcount increases.
- **Maintenance:** represents operational expenditure required to repair, service and maintain the group's operating assets including quayside, plant and machinery, vessels and investment property.
- **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 4.8%, mostly due to an increase in the sale of fuel at Hams Hall.
- **Dredging:** represents third party dredging costs. Costs increased from £0.2m to £2.6m due to increased dredging activities at Barrow.
- **Utilities:** costs increased by 9.5% mostly due to rate increases and increased activity.

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- **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 1.4%. Whilst the overall variance is relatively small there were some large variances that netted off against each other. The decrease in costs can mostly be explained by the recognition of business rates rebates driven by the decline in coal volumes at Immingham over the last few years, offset by higher costs as a result of the acquisition of W.E. Dowds and higher demurrage costs at Immingham.

2.4.3. Other Profit and Loss Items

- **Depreciation and amortisation of fair value uplift of assets acquired in a business combination:** the amounts include amortisation of the fair value uplifts recorded in 2006 when Associated British Ports Holdings Limited was acquired by ABP Acquisitions UK Limited.
- **Net unrealised gain/(loss) 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 gain on the valuation of its fuel hedges of £0.8m (2017: loss of £1.5m).
- **Exceptional costs:** the exceptional cost of £1.2m (2017: £2.1m) within operating profit principally represents restructuring costs in connection with the Business Transformation Programme.
- **Net finance costs:** net finance costs amounted to £131.2m (2017: £144.0m). The decrease is mainly due to £35.8m net unrealised gain on swaps held to hedge the group's exposure to interest rate and foreign currency movements partially off-set by net foreign exchange losses on borrowings, and accrued interest on derivatives of £9.6m (compared to a £19.4m gain in the prior period), due to a weaker Sterling/US dollar exchange rate.

  The net unrealised gain on swaps held to hedge the group's exposure to interest rates and the net foreign currency loss 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 £46.1m (2017: £45.9m) in relation to the group's external senior secured debt, interest costs of £36.2m (2017: £36.4m) and interest income of £9.1m (2017: £9.6m) on derivatives.

The table below summarises the reconciliation between net finance costs and net interest payable as defined for covenant purposes:

(six months ended 30 June)	2018 H1 £m	2017 H1 £m
Net finance costs	**131.2**	144.0
Adjusted for:		
Amortised costs	**(1.0)**	(1.0)
Net interest payable on loans from parent undertaking	**(123.0)**	(128.5)
Net unrealised gain on derivatives at fair value through profit and loss	**75.8**	40.0
Non-cash finance costs in relation to pension scheme assets and liabilities	**(0.7)**	(1.4)
Non-cash finance costs in relation to discounted assets and liabilities	**(0.3)**	(0.3)
Net foreign exchange (loss)/gain	**(9.6)**	19.4
Net Interest Payable	**72.4**	72.2

- **Taxation:** The overall net tax charge for the six month ended 30 June 2018 amounted to a charge of £31.1m (2017: £12.6m). This reflected a deferred tax charge of £20.7m (2017: £12.6m) and a current tax charge of £10.4m (2017: £nil).

2.4.4. Reconciliation between Operating Profit and Consolidated EBITDA

(six months ended 30 June)	2018 H1 £m	2017 H1 £m
Operating Profit	**120.3**	111.4
Amortisation	**7.8**	7.9
Depreciation	**38.7**	34.7
Net unrealised foreign exchange (gain)/loss	**(0.1)**	0.6
Net unrealised (gain)/loss on fuel derivatives	**(0.8)**	1.5
Loss on write off of intangibles and disposal of property, plant and equipment and investment property	**0.1**	0.3
Consolidated EBITDA	**166.0**	156.4
Exceptional items	**1.2**	2.1
Consolidated EBITDA pre exceptional costs	**167.2**	158.5

2.4.5. Adjusted Profit Before Tax

Adjusted profit before tax as set out in the table below increased by 11.4% to £46.9m (2017: £42.1m).

Adjusted Profit Before Tax (six month ended 30 June)	**2018 H1 £m**	**2017 H1 £m**
Loss before taxation	**(10.9)**	(32.6)
Net foreign exchange loss/(gain)	**9.6**	(19.4)
Net interest charge on net defined benefit liabilities	**0.7**	1.4
Net interest payable on loans from parent undertaking	**123.0**	128.5
Net unrealised gain on derivatives at fair value through profit and loss	**(75.8)**	(40.0)
Net unrealised (gain)/loss on fuel derivatives	**(0.8)**	1.5
Net unrealised foreign exchange (loss)/gain	**(0.1)**	0.6
Exceptional items	**1.2**	2.1
Adjusted Profit Before Tax	**46.9**	42.1

2.4.6. Cash Flows

The group continued to benefit from strong conversion of operating profits to cash. Cash generated by operations amounted to £143.1m (2017: £175.6m). The decrease in cash generated by operation of £32.5m is mostly due to a one off rent in advance payment received in 2017 for £33.0m.

The increase in cash interest paid reflects the resumption of interest payments relating to loans note from the parent which had been deferred in 2017.

Cash flows summary (six months ended 30 June)	**2018 H1 £m**	**2017 H1 £m**
Cash flows from operating activities		
Cash generated by operations	**143.1**	175.6
Interest paid	**(109.0)**	(88.7)
Interest received	**14.3**	15.1
Income tax paid	**(0.2)**	-
Net cash inflow from operating activities	**48.2**	102.0
Cash flows from investing activities		
Acquisition of subsidiary undertaking	**(5.6)**	-
Proceeds from sale of property, plant and equipment	**0.4**	0.5
Purchase of intangible assets	**(20.6)**	(11.1)
Purchase of property, plant and equipment	**(42.7)**	(57.0)
Purchase of investment property	**(18.9)**	(7.5)
Withdrawal from money market deposits	**-**	15.0
Net cash outflow from investing activities	**(87.4)**	(60.1)
Cash flows from financing activities		
Repayment of obligations under finance leases	**(0.3)**	(0.4)
Net cash outflow from financing activities	**(0.3)**	(0.4)
Change in cash and cash equivalents during the period	**(39.5)**	41.5
Cash and cash equivalents at 1 January	**85.0**	46.8
Cash and cash equivalents at period end	**45.5**	88.3

2.4.7. Capital Expenditure - Cash

Total capital expenditure cash flow for the six months ended 30 June 2018 increased to £82.2m (2017: £75.6m). 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 H1 2018 amounted to £17.4m (2017: £25.9m) and included expenditure of £2.0m on lock gates at Newport and £1.5m dry dock repairs on dredgers. Revenue earning/enhancing expenditure during H1 2018 amounted to £47.8m (2017: £49.6m) largely associated with the construction of Immingham Renewables Fuels Terminal (£6.1m) and the business transformation project (£20.1m). Land acquisitions during H1 2018 amounted to £17.0m (2017: £nil) and included the £14.7m purchase of land at Eling Wharf, Southampton.

Further details of recent progress on the group's major projects can be found in section 2.2 Completed, Ongoing and Prospective Major Projects.

2.4.8. Consolidated Net Borrowings

Consolidated Net Borrowings as defined for covenant purposes increased by £39.5m to £2,130.3m (December 2017: £2,090.8m)

Consolidated Net Borrowings	**Due date**	**30 June 2018 £m**	**31 December 2017 £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		**1.9**	2.0
Net cash (including restricted cash)		**(45.5)**	(85.0)
Net Borrowings		**2,128.8**	2,089.4
Letters of credit		**1.5**	1.4
Consolidated Net Borrowings		**2,130.3**	2,090.8

Reconciliation of Statutory Net Borrowings to Consolidated Net Borrowings

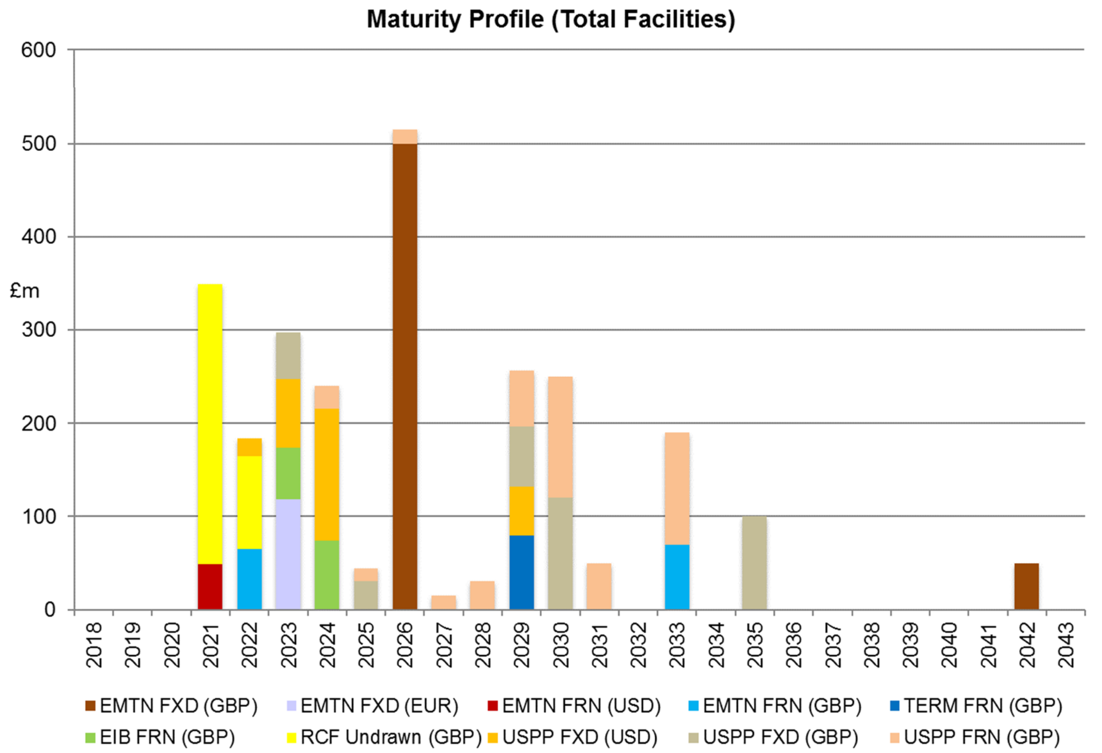
	30 June 2018 £m	31 December 2017 £m
Current borrowings	**509.4**	505.7
Non-current borrowings	**4,668.5**	4,554.3
Current receivables (Interest receivable on derivatives)	**(6.3)**	(6.3)
Cash and cash equivalents	**(45.5)**	(85.0)
Statutory net borrowings	**5,126.1**	4,968.7
Adjusted for:		
Unsecured subordinated loan notes	**(722.8)**	(722.8)
Unsecured subordinated junior debt facility	**(416.0)**	(416.0)
Amounts due to parent undertaking	**(1,138.8)**	(1,138.8)
Interest accrual - Unsecured subordinated loan notes	**(1,705.4)**	(1,601.7)
Interest accrual - Unsecured subordinated junior debt facility	**(76.4)**	(73.1)
Interest due to parent undertaking	**(1,781.8)**	(1,674.8)
Accrued interest due on term and revolving facilities	**(0.5)**	(0.2)
Accrued interest due on private placement notes	**(11.3)**	(11.2)
Accrued interest due on public loan notes	**(3.8)**	(3.7)
Accrued interest due on derivatives	**(1.1)**	(1.2)
Accrued interest receivable on derivatives	**6.3**	6.3
Accrued interest	**(10.4)**	(10.0)
Deferred borrowing costs	**17.2**	18.2
Letters of credit	**1.5**	1.4
Exclude the impact of the foreign currency movements on the USD and EUR loans	**(83.5)**	(73.9)
Consolidated Net Borrowings	**2,130.3**	2,090.8

3. Financing and Hedging Position

The 364 day liquidity facilities were renewed for a further year and the amount increased to £165.0m effective from August 2018.

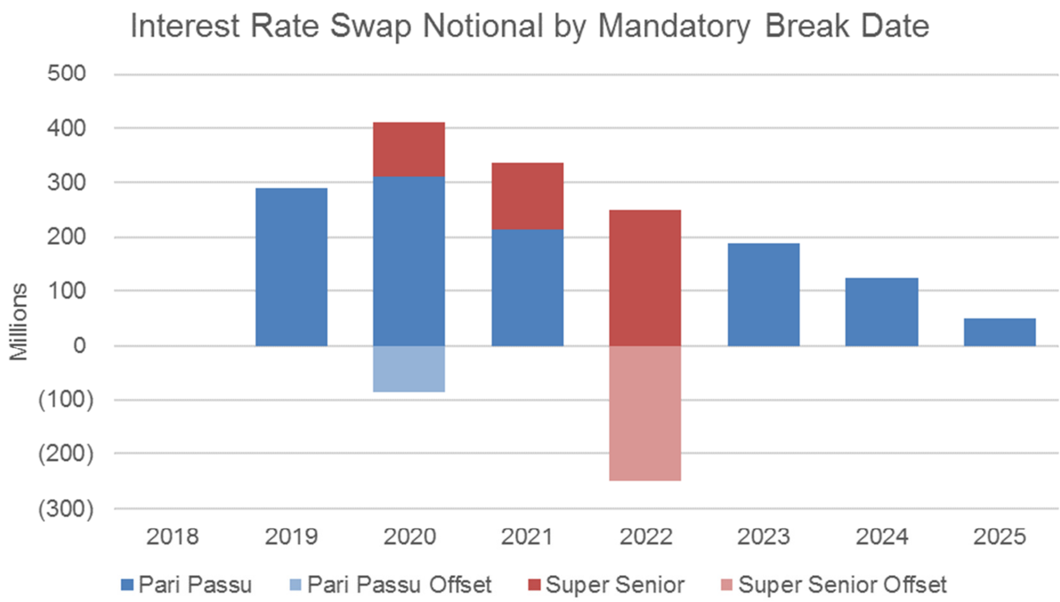
ABP Acquisitions UK Limited refinanced the existing £300 million syndicated revolving credit facility due to mature in 2019 with a new £300 million facility with maturity extended to 2021.

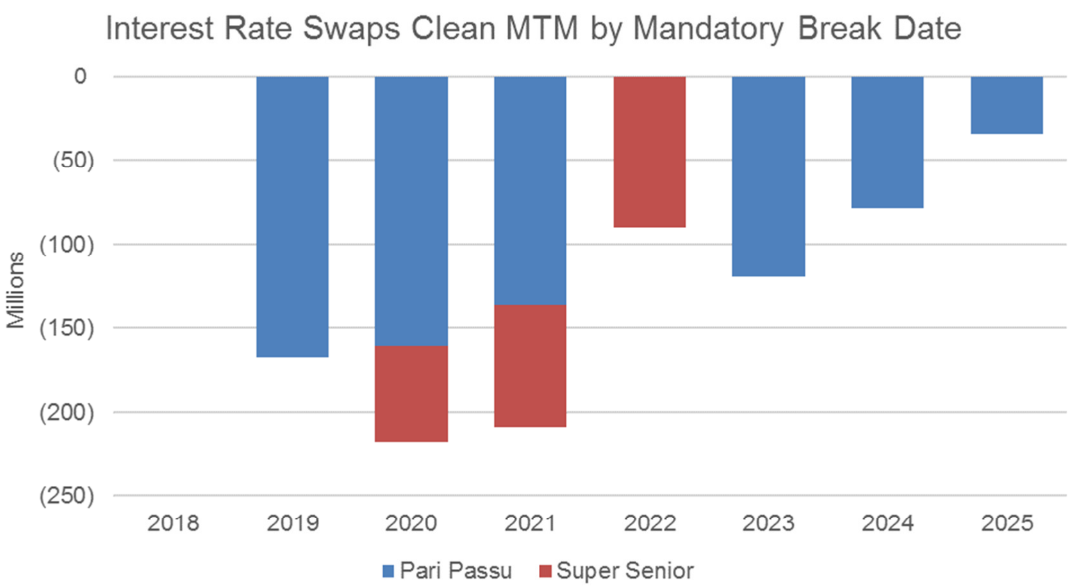
The chart below shows the profile of the group's externally sourced facilities (excluding the liquidity facilities but including the refinanced RCF) as at the date of this report:



As at 30 June 2018, 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 graphs shows the mandatory swap breaks profile by both notional amount and clean mark to market as at 30 June 2018:





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 £20.7 million during the six months to 30 June 2018.

5. Significant Announcements/Publications

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

6. Significant Board/Management Changes

The changes reflected below are subsequent to those disclosed in the 31 December 2017 Investor Report of ABPA Holdings Limited:

(i) Associated British Ports:

- 30 March 2018 - CC Garton resigned as a director
- 29 June 2018 – JNS Cooper stood down as Chief Executive and resigned as a director
- 13 August 2018 – HL Pedersen* appointed as Chief Executive and as a director

(ii) Associated British Ports Holdings Limited:

- 24 January 2018 - GS Pestrak was appointed as alternate director to H Drissi Kaitouni
- 17 May 2018 – CM Hogg resigned as a director. PG Butcher ceased as alternate director to CM Hogg on her resignation.
- 13 June 2018 – JA Bryce appointed as a director. PG Butcher was appointed as his alternate director.
- 29 June 2018 – JNS Cooper resigned as a director.
- 03 July 2018 – AM Hay resigned as director. PG Butcher ceased as alternate director to AM Hay on his resignation.

- 13 August 2018 - HL Pedersen* (new Chief Executive Officer) appointed as a director

(iii) ABP Acquisitions UK Limited:

- 24 January 2018 - GS Pestrak was appointed as alternate director to H Drissi Kaitouni
- 03 July 2018 – AM Hay resigned as a director. PG Butcher ceased to be alternate director to AM Hay on his resignation.
- 13 June 2018 – PMG Nolan was appointed as Director and Chairman

(iv) ABPA Holdings Limited:

- 24 January 2018 - the following appointments were made:

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, JF	as director
Butcher, PG	as alternate to CM Hogg
Hofbauer, PF	as alternate to JB Coghlan
Pestrak, GS	as alternate to H Drissi Kaitouni

- 17 May 2018 – CM Hogg resigned as a director. PG Butcher ceased as alternate director to CM Hogg on her resignation.
- 13 June 2018 – JA Bryce appointed as a director and PG Butcher was appointed as his alternate director.
- 29 June 2016 – JNS Cooper resigned as a director.
- 03 July 2018 – AM Hay resigned as a Director. PG Butcher ceased to be alternate Director to AM Hay on his resignation.
- 19 September 2018 - HL Pedersen* (new Chief Executive Officer) appointed as a director

** Henrik L. Pedersen became CEO of Associated British Ports in August 2018, having previously spent 20 years in the A.P. Moller – Maersk Group. Henrik has 10 years' experience as Chief Commercial Officer at APM Terminals, a worldwide leading container port operator. Prior to this Henrik held various roles with APM Terminals, including: Global CFO, Regional CEO Asia-Pacific Region and as head of new investments for Latin America, where he was responsible for securing new port projects in excess of USD 3bn. During his first 10 years with A.P. Moller – Maersk Group he worked for Maersk Line and the global logistics provider, DAMCO, in various finance roles in Denmark, USA and China.*

7. Covenant Ratios and Compliance

At 30 June	**2018 £m**	**2019* £m**	**2020* £m**	**2021* £m**
Adjusted Consolidated EBITDA	313.8	343.0	379.6	417.0
Net Interest Payable	145.4	148.4	160.5	176.5
Ratio of Adjusted Consolidated EBITDA to Net Interest Payable	2.15x	2.31x	2.36x	2.36x
Consolidated Net Borrowings	2,130.3	2,342.9	2,611.7	2,889.2
Consolidated EBITDA**	324.8	347.1	386.9	428.0
Ratio of Consolidated Net Borrowings to Consolidated EBITDA	6.55x	6.75x	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.

** In accordance with the definition in the Master Definitions Agreement, Consolidated EBITDA has been amended for the purpose of calculating the leverage ratio to include the acquisition of W.E.Dowds as if it had been wholly owned for the whole Calculation Period to 30 June 2018.

N.B.

Ratio of Consolidated Net Borrowings to Consolidated EBITDA pre exceptional costs	6.41x	6.56x	6.75x	6.75x

We confirm that in respect of this investor report dated 30 June 2018, 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